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Application Proof of

Top Dynamic International Holdings Limited (the “Company”)

(a company incorporated in the Cayman Islands with limited liability)

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If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on the Company’s prospectus registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

IMPORTANT

If you are in any doubt about any of the contents of this [REDACTED], you should obtain independent professional advice.



TOP DYNAMIC

TOP DYNAMIC INTERNATIONAL HOLDINGS LIMITED

泰邦集團國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] : [REDACTED]
[REDACTED] : Not more than [REDACTED] per [REDACTED] and not less than [REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : HK\$[0.01] per Share
Stock code : [REDACTED]

Sole Sponsor, [REDACTED] and [REDACTED]



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A copy of this [REDACTED], having attached thereto the documents specified in the sub-section headed “Appendix V – Documents Delivered to the Registrar of Companies in Hong Kong and Documents Available for Inspection” of this [REDACTED], has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of this [REDACTED] or any of the other documents referred to above.

The [REDACTED] is expected to be fixed by agreement between the [REDACTED] (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around [REDACTED] and, in any event, not later than [REDACTED]. The [REDACTED] will not be more than [REDACTED] per [REDACTED] and is currently expected to be not less than [REDACTED] per [REDACTED]. If, for any reason, the [REDACTED] is not agreed by [REDACTED] between the [REDACTED] (for itself and on behalf of the Underwriters) and our Company, the [REDACTED] will not proceed. In the case of such event, a notice will be published on the website of the Stock Exchange at www.hkexnews.hk and our Company’s website at www.topdynamicintl.com.

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

Prospective investors of the [REDACTED] should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing given by the [REDACTED] (for itself and on behalf of the Underwriters) upon occurrence of any of the events set out in the sub-section headed “Underwriting – Underwriting Arrangements and Expenses – Grounds for Termination” of this [REDACTED], at any time prior to 8:00 a.m. (Hong Kong time) on the [REDACTED]. It is important that you refer to that section for further details.

[REDACTED]

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange website at www.hkexnews.hk in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

[REDACTED]

CONTENTS

This [REDACTED] is issued by our Company solely in connection with the [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the [REDACTED] offered by this [REDACTED] pursuant to the [REDACTED]. This [REDACTED] may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction other than Hong Kong or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] or the distribution of this [REDACTED] in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this [REDACTED] to make your investment decision.

Our Company, the Sole Sponsor, [REDACTED] and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this [REDACTED].

Any information or representation not made nor contained in this [REDACTED] must not be relied on by you as having been authorised by our Company, the Sole Sponsor, [REDACTED], the Underwriters, any of their respective directors, officers, employees, advisers, agents, representatives or affiliates of any of them or any other persons or parties involved in the [REDACTED].

The contents of our Company’s website at www.topdynamicintl.com do not form part of this [REDACTED].

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SUMMARY

This summary aims to give you an overview of the information contained in this [REDACTED]. As this is a summary, it does not contain all the information that may be important to you. You should read the whole [REDACTED] before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” of this [REDACTED]. You should read that section carefully before you decide to invest in the [REDACTED].

OVERVIEW

We are a discrete semiconductor manufacturing solution provider 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. In addition, upon the request of our customers, we assist them in sourcing from third-party suppliers, where applicable, of the semiconductors they require, usually integrated/bundled with our self-manufactured products. 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 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

SUMMARY

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.

COMPETITIVE LANDSCAPE

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

We principally compete with discrete semiconductor manufacturers who offer similar products. Our Directors consider our potential competitors include, but are not limited to, Jiangsu Changjiang Electronics Technology Co., Ltd., Yangzhou Yangjie Electronic Technology Co., Ltd. and Suzhou Good-Ark Electronics Co., Ltd.

Please refer to the sub-section headed “*Business – Competition*” of this [REDACTED] for further details of the competitive landscape of our business.

OUR COMPETITIVE STRENGTHS

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

- reputation as a high-quality manufacturer of discrete semiconductor packages;
- ability to provide value-added solution kits services and engineering solutions services;
- ability to provide high-quality customer service;
- equipped with technologically advanced production lines and strong technology expertise; and
- strong and stable management team with extensive industry experience.

For details of our competitive strengths, please refer to “*Business – Our Competitive Strengths*” of this [REDACTED].

OUR BUSINESS OBJECTIVES AND STRATEGIES

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

- continue to increase sales of our self-manufactured products and penetrate in markets with growth opportunities;
- continue to introduce technologically advanced products and diversify our presence in industries which we consider having high potential;
- continue to focus on value-added services to customers; and
- continue to attract and retain top talent in the industry.

For details of our business objectives and strategies, please refer to “*Business – Our Business Strategies*” of this [REDACTED].

SUMMARY

SELECTED FINANCIAL INFORMATION

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.

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

SUMMARY

Turnover by Business Segments

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)	% 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

Turnover by Geography

Our products are sold in the PRC, Hong Kong and certain overseas markets in Asia (other than the PRC and Hong Kong) and Europe. The following table sets out a breakdown of our turnover by geographic locations of our customers during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover
Geographic locations								
PRC	19,191	42.0	69,527	43.6	11,981	51.4	20,014	40.8
Asia (excluding PRC and Hong Kong) ⁽¹⁾	18,376	40.2	63,913	40.1	7,378	31.7	24,428	49.8
Hong Kong	7,193	15.8	14,876	9.3	1,610	6.9	2,497	5.1
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) These Asian markets (excluding the PRC and Hong Kong) are Korea, 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)	% 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.

SUMMARY

Selected Combined Statements of Financial Position

	As at 31 December		As at 31
			March
	2013	2014	2015
	<i>(HK'000)</i>	<i>(HK'000)</i>	<i>(HK'000)</i>
Non-current assets	23,850	56,075	55,740
Current assets	37,198	81,500	87,244
Current liabilities	(55,977)	(115,911)	(115,885)
Net current liabilities	(18,779)	(34,411)	(28,641)

Key Financial Ratios

The following table sets out the key financial ratios for our Group for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015:

	As at/For the year ended		As at/For
			the three
	2013	2014	months
	31 December	31 December	ended
	2013	2014	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%.

Please refer to the sub-section headed “*Financial Information – Key Financial Ratios*” of this [REDACTED] for further details.

SUMMARY

PRODUCTION FACILITIES AND CAPACITIES

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

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

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

Notes:

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

Please refer to the sub-section headed “*Business – Manufacturing and Facilities – Production Facilities and Capacities*” of this [REDACTED] for further details of our production facilities.

CUSTOMERS

Notwithstanding a short history of less than three years, we have had business dealings with over 80 customers located mainly in the PRC, Hong Kong, Korea, Thailand, Vietnam, Taiwan and Japan as at the Latest Practicable Date. Our customers usually include (i) traders customers which generally on-sell our products to others and/or (ii) manufacturers which use our products as components, and either manufacture end-products on an OEM/ODM basis for others or in their own brands. Our top five customers collectively accounted for approximately 68.5%, 42.1% and 36.2%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our largest customer for each of the same periods accounted for approximately 23.3%, 10.5% and 12.4%, respectively, of our total turnover. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Board of Directors, owns more than 5% of our issued capital, has any interest in any of our five largest customers for the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015. Please refer to the sub-section headed “*Business – Sales and Marketing – Customers*” of this [REDACTED] for further details of our customers.

SUMMARY

For each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, five of our customers were also our suppliers. Sales to such customers who were also suppliers attributed to approximately 36.2%, 15.5% and 13.7%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015. The amount of purchases from such customers who were also suppliers attributed to approximately 29.8%, 42.3% and 37.6%, respectively, of our total purchases for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our Directors confirmed that negotiations of the terms of our sales to and purchases from these customers were conducted on individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. The terms of transactions with such customers are similar to those transactions with our other customers and suppliers. Please refer to the sub-section headed “*Business – Sales and Marketing Customers – Overlapping customers and suppliers*” of this [REDACTED] for further details of our overlapping customers and suppliers.

PROCUREMENT AND SUPPLIERS

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

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

Please refer to the sub-section headed “*Business – Procurement and Suppliers – Raw Material and Suppliers*” of this [REDACTED] for further details of our suppliers.

USE OF PROCEEDS

Based on the [REDACTED] of [REDACTED] per [REDACTED] (being the mid-point of the stated range of the [REDACTED]), the net proceeds from the [REDACTED], after deducting underwriting commission and estimated expenses payable by our Company in connection thereto, are estimated to be approximately [REDACTED]. Our Company presently intends to apply such net proceeds from the [REDACTED] as follows:

- approximately [REDACTED] (or [REDACTED] of the net proceeds) for purchase of equipment and machinery for expansion of product line; and
- approximately [REDACTED] (or [REDACTED] of the net proceeds) as our general working capital.

In line with our business strategies, the proceeds from the [REDACTED] will [REDACTED] be used for purchase of equipment and machinery for expansion of our production capacity.

Please refer to the sub-section headed “*Future Plans and Use of Proceeds – Reasons for the [REDACTED] and Use of Proceeds*” of this [REDACTED] for further details.

SUMMARY

CONTROLLING SHAREHOLDERS’ INFORMATION

Immediately following completion of the [REDACTED] and [REDACTED] (without taking into account any Shares that to be issued upon exercise of options that may be granted under the Share Option Scheme), as each of Platinum Dynamic and Silver Dynamic, which is an investment holding company, the sole business of which is the holding of the Shares, will own [REDACTED] of our entire issued share capital, they are our Controlling Shareholders. As Mr. Chow Hin Keong and Mr. Chow Hin Kok, our executive Directors, respectively own the entire issued share capital of Platinum Dynamic and Silver Dynamic, they are also considered as our Controlling Shareholders. Please refer to the section headed “*Relationship with the Controlling Shareholders*” of this [REDACTED] for further details.

DIVIDENDS AND DISTRIBUTION POLICY

Our Board may declare dividends after taking into account our operations, earnings, financial position, liquidity requirements and other factors as it may deem relevant at such time. 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. 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. Please refer to the sub-section headed “*Financial Information – Dividend and Distribution*” of this [REDACTED] for further details.

RISK FACTORS

There are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to the semiconductor industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to the [REDACTED] and the Shares; and (v) risks relating to the statements made in this [REDACTED] and from other sources. The most significant risks are summarised below.

- Our business, results of operations and financial condition could be adversely affected by the global economic downturn and adverse market conditions.
- We depend on a small number of customers for a substantial portion of our turnover, and have not entered into long-term agreements with customers and cannot assure our sales volumes will remain consistent. Therefore, a loss of any one of these customers, or a significant decrease in orders from any of them, could adversely affect our business, results of operations and financial condition.
- Our failure to compete effectively in the quality of our products could result in loss of customers, which could adversely affect our business, results of operations and financial condition.
- Our short operating history makes it difficult to evaluate our business and prospects.
- Our production facilities are located on leased properties and therefore, we may be subject to relocation.
- If we are unable to offset increased labour costs, our business, results of operations and financial condition could be adversely affected.
- If we are unable to obtain additional packaging equipment or facilities in a timely manner and at a reasonable cost, our competitiveness and future profitability could be adversely affected.

SUMMARY

- Our production capacity may not correspond precisely to our production demands, and any significant increase in our idle or unutilised production capacity during any particular period may adversely affect our results of operations in that period.
- We will have difficulty in selling our products if customers do not incorporate our products into their product designs.
- We are dependent on a few major suppliers. If we are unable to obtain adequate supplies of raw materials in a timely manner and at reasonable prices, our turnover and profitability may decline.

A detailed discussion of the risk factors that we believe are particularly relevant to us is set out in the section headed “*Risk Factors*” of this [REDACTED]. You should read the whole section carefully before you decide to invest in the [REDACTED].

[REDACTED] STATISTICS

	Based on the [REDACTED] of [REDACTED] per Share	Based on the [REDACTED] of [REDACTED] per Share
Market capitalisation	[REDACTED]	[REDACTED]
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 ⁽¹⁾	[REDACTED]	[REDACTED]

Note:

- (1) 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 [REDACTED] Shares which were in issue (including Shares in issue as at the date of this [REDACTED] and those Shares which are expected to be issued pursuant to the [REDACTED] and the [REDACTED] but not taking into account any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme).

[REDACTED] EXPENSES

We incurred approximately [REDACTED] of [REDACTED] expenses which was recorded as expenses during the Track Record Period. We expect to incur the [REDACTED] expenses of approximately [REDACTED] prior to completion of the [REDACTED] (based on the mid-point of our indicative [REDACTED] range), of which approximately [REDACTED] will be recognised as expenses in our statements of profit or loss subsequent to the Track Record Period and approximately [REDACTED] will be capitalised after the [REDACTED]. Expenses in relation to the [REDACTED] 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 [REDACTED].

NON-COMPLIANCE

During the Track Record Period, we had an incident of historical non-compliance with applicable regulations with respect to social insurance and housing provident fund contribution. Our Directors are of the view that such incident of non-compliance has not and will not have a material adverse effect on our business, results of operations and financial condition. Please refer to the sub-section headed “*Business – Non-Compliance*” of this [REDACTED] for further details.

RECENT DEVELOPMENTS

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*”) up to the date of this [REDACTED].

DEFINITIONS

In this [REDACTED], unless the context otherwise requires, the following expressions have the following meanings:

“Affiliate”	any entity that, directly or indirectly, controls, is controlled by, or is under common control with, another entity. For purposes hereof, the term “control” shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of any entity, or the power to veto major policy decisions of any entity, whether through the ownership of voting securities, by agreement, or otherwise
“AQSIQ”	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)
“Articles” or “Articles of Association”	the articles of association of our Company adopted on [•] and as amended from time to time, a summary of which is set out in “ <i>Appendix III – Summary of the Constitution of our Company and Cayman Islands Companies Law</i> ” of this [REDACTED]
“associate(s)”	has the meaning as ascribed thereto under the GEM Listing Rules
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“business day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate, a method of assessing the average growth of a value over time
“[REDACTED]”	

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Celestial Capital” or “Sole Sponsor” or “[REDACTED]” or “[REDACTED]”	Celestial Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor to the [REDACTED] and the [REDACTED] of the [REDACTED]
“close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Companies Law”	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented and/or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented and/or otherwise modified from time to time as the context may require
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented and/or otherwise modified from time to time as the context may require

DEFINITIONS

“Company” or “our Company”	Top Dynamic International Holdings Limited 泰邦集團國際控股有限公司, a company incorporated as an exempted company with limited liability in the Cayman Islands on 10 September 2014, and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 8 December 2014
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and, unless the context otherwise requires, refers to Mr. Chow Hin Keong, Mr. Chow Hin Kok, Platinum Dynamic and Silver Dynamic
“Core Connected Person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Deed of Indemnity”	the deed of indemnity dated [•] and given by our Controlling Shareholders in favour of our Company (for itself and on behalf of its subsidiaries), details of which are set out in “ <i>Appendix IV – Statutory and General Information</i> ” of this [REDACTED]
“Deed of Non-Competition”	the deed of non-competition dated [•] given by our Controlling Shareholders in favour of our Company (for itself and on behalf of its subsidiaries), details of which are set out in the sub-section headed “ <i>Relationship with the Controlling Shareholders – Deed of Non Competition – Non-Competition Undertaking</i> ” of this [REDACTED]
“Deed of Undertaking”	the deed of undertaking dated 22 June 2015 given by SEL in favour of our Company (for itself and on behalf of its subsidiaries), which is described in more detail in the sub-section headed “ <i>History, Reorganisation and Group Structure – The Group’s Business Development</i> ” of this [REDACTED]
“Director(s)”	the director(s) of our Company

DEFINITIONS

“Dongguan Jia Jun” or “PRC subsidiary”	東莞市佳駿電子科技有限公司 (Dongguan Jia Jun Electronic Technology Company Limited*), a company established in the PRC with limited liability on 27 April 2013, and a wholly-owned subsidiary of our Company
“EIT”	the enterprise income tax of the PRC* (中華人民共和國企業所得稅)
“EIT Law”	the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), promulgated by NPC on 16 March 2007 and effective on 1 January 2008
“FIE(s)”	foreign invested enterprise(s)
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented and/or otherwise modified from time to time as the context may require
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries, or any of them or, where the context so requires, in respect of the period before our Company became the holding company, the present subsidiaries of our Company
“HK\$” or “HK dollar(s)” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) our Company and our connected persons
“INEDs”	the independent non-executive Directors
“Labour Contract Law”	the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), promulgated by the Standing Committee of the NPC on 29 June 2007 and effective on 1 January 2008, as amended on 28 December 2012
“Latest Practicable Date”	[REDACTED], 2015, being the latest practicable date prior to the printing of this [REDACTED] for ascertaining certain information in this [REDACTED]
“[REDACTED]”	
“[REDACTED]”	
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted on [•] (as amended from time to time)
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOHRSS”	the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)
“MOHURD”	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of the Board

DEFINITIONS

“NPC” or “National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“PBOC”	the People’s Bank of China (中國人民銀行)
“[REDACTED]”	
“[REDACTED]”	
“[REDACTED]”	
“Platinum Dynamic”	Platinum Dynamic Investments Ltd, a company incorporated in the BVI with limited liability on 26 August 2014 and the entire issued share capital of which is held by Mr. Chow Hin Keong
“PRC” or “China” or “Mainland China”	the People’s Republic of China, save that, for the purpose of this [REDACTED] and unless the context otherwise requires, references in this [REDACTED] do not include Hong Kong, Macau and Taiwan
“PRC Government”	the central government of the PRC, including all government subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“PRC Legal Advisers”	Beijing Jingtian & Gongcheng Law Firm, the legal advisers to our Company as to the PRC laws
“PRC Trademark Office”	the Trademark Office of The State Administration For Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局商標局)


DEFINITIONS

“Price Determination Date”	the date, expected to be on or about [REDACTED], on which the [REDACTED] will be determined for the purposes of the [REDACTED] and, in any event, not later than [REDACTED]
“Prismark”	Prismark Partners LLC, an independent market research consultant
“Prismark Report”	a market research report commissioned by us and prepared by Prismark on the PRC semiconductor and discrete semiconductor market
“Reorganisation”	the corporate reorganisation in preparation for [REDACTED] as more particularly described in the subsection headed “ <i>History, Reorganisation and Group Structure – The Reorganisation</i> ” of this [REDACTED]
“Remuneration Committee”	the remuneration committee of the Board
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Korea”	the Republic of Korea
“SAFE”	the State Administration of Foreign Exchange (國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SEL”	Semtech Electronics Limited, a company whose issued share capital is indirectly held as to 50% by Mr. Chow Hin Keong, our executive Director and chairman, and as to 50% ultimately by Sino-Tech International Holdings Limited
“SEL Trademarks”	the trademarks owned by SEL
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Sale and Purchase Agreement”	the sale and purchase agreement dated [•] among our Company, Mr. Chow Hin Keong, Mr. Chow Hin Kok and TD Int’l (BVI) in relation to, among other things, our Company’s acquisition of the entire issued share capital of TD Int’l (BVI) from Mr. Chow Hin Keong and Mr. Chow Hin Kok as part of the Reorganisation
“Share(s)”	ordinary share(s) of HK\$[0.01] each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Shares
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on [•], the principal terms of which are summarised in the sub-section headed “ <i>Appendix IV – Statutory and General Information – D. Other Information – Share Option Scheme</i> ” of this [REDACTED]
“SIA”	Semiconductor Industry Association
“Silver Dynamic”	Silver Dynamic Investments Ltd, a company incorporated on 26 August 2014 in the BVI and the entire issued share capital of which is held by Mr. Chow Hin Kok
“ST Mark”	the trademark which is the subject of transfer under the Transfer Agreements
“Standing Committee”	the Standing Committee of the NPC (全國人民代表大會常務委員會)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Subdivision”	the sub-division of each issued and unissued shares of the Company of HK\$0.10 each into ten shares of HK\$0.01 each pursuant to the written resolutions of the Shareholders passed on [•] 2015
“Supreme People’s Court”	the Supreme People’s Court of the PRC (中華人民共和國最高人民法院)

DEFINITIONS

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers as may be amended, supplemented and/or otherwise modified from time to time
“TD Electronics”	Top Dynamic Electronics Limited 泰邦電子有限公司, a company incorporated in Hong Kong with limited liability on 23 August 2013 and a wholly-owned subsidiary of our Company
“TD Enterprises”	Top Dynamic Enterprises Limited 泰邦企業有限公司, a company incorporated in Hong Kong with limited liability on 11 July 2012 and a wholly-owned subsidiary of our Company
“TD (BVI)”	Top Dynamic (BVI) Ltd, a company incorporated in BVI with limited liability on 13 October 2009 and a wholly-owned subsidiary of our Company
“TD Int’l (BVI)”	Top Dynamic International (BVI) Ltd, a company incorporated in BVI with limited liability on 25 August 2009 and a wholly-owned subsidiary of our Company
“TD Trademarks”	our trademarks  and  which have been registered in Hong Kong and registration applications for which have been made in other jurisdictions as summarised in the sub-section headed “ <i>Appendix IV – Statutory and General Information – B. Further information about the business – Intellectual Property Rights</i> ” of this [REDACTED]
“Top Empire”	Top Empire Management Limited 德邦管理有限公司, a company incorporated in Hong Kong with limited liability on 18 March 2013 and a wholly-owned subsidiary of our Company
“Track Record Period”	the two financial years ended 31 December 2013 and 2014 and the three months ended 31 March 2015
“Transfer Agreements”	the deed of assignment and the trademark transfer agreement both dated 15 June 2015 and entered into between SEL and TD Electronics in respect of the transfer of the ST Mark at a consideration of HK\$2,600,000
“Underwriters”	the Underwriters of the [REDACTED] named in the sub-section headed “ <i>Underwriting – Underwriters</i> ” of this [REDACTED]

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated [•], [•] relating to the [REDACTED] and entered into by our Company, Platinum Dynamic, Silver Dynamic, the executive Directors, the Sole Sponsor, [REDACTED] and the Underwriters, details of which are set out in the section headed “ <i>Underwriting</i> ” of this [REDACTED]
“US” or “United States”	the United States of America
“US\$” or “US dollar(s)”	United States dollars, the lawful currency of the US
“VAT”	the value-added tax of the PRC (中華人民共和國增值稅)
“WFOE(s)”	wholly foreign owned enterprise(s)
“%”	per cent

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

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms, definitions and abbreviations used in this [REDACTED] in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

“Advanced Product Quality Planning” or “APQP”	a framework of procedures and techniques used to develop new products in industrial production that starts with a concept and ends with product and process validation
“AEC-Q101”	a set of standards developed by Automotive Electronics Council (AEC) for the supply of discrete parts in the automotive electronics industry
“axial and through-hole packaging”	one of the methods to package DO series products
“bridge rectifier”	a type of full-wave rectifier which has four elements connected as a bridge circuit with direct voltage obtained from one pair of opposite junctions when alternating voltage is applied to the other pair
“clip bonding”	the process which connects die and lead by a solid copper bridge, which is also soldered by solder paste
“Darlington transistor”	a type of transistor which has a compound structure consisting of two bipolar transistors connected in a way that the current amplified by the first transistor is amplified further by the second one
“die” or “silicon die”	one individual chip cut from a wafer before being packaged
“die bonder”	a machine that picks die from wafer and mounts it onto a high density leadframe
“die bonding”	the process of connecting wires from the package leads to the die (or chip) bonding pads
“digital transistor”	a type of transistor that combines resistors for convenience of digital circuit
“diode”	a semiconductor device with two terminals, typically allowing the flow of current in one direction only

GLOSSARY OF TECHNICAL TERMS

“discrete”, “discrete devices” or “discrete semiconductor”	a single silicon die, housed in a package, which performs a single function
“dispenser”	an automatic machine which is designed to release a specific amount of substance
“DFN”	dual flat no lead packages, which have leads on only two opposing package sides
“DO”	diode outline, a type of discrete semiconductor package, which could be either through-hole package or surface mount package
“DPAK”	discrete packaging, a type of TO series package mainly used for power discrete packaging
“ESD protection diode”	an electronic component used in electronic appliances, which is designed to provide protection from electrostatic discharge (ESD), the sudden flow of electricity between two electrically charged objects caused by contact, an electrical short, or dielectric breakdown
“epoxy moulding compound” or “EMC”	one of the major materials used in package assembly, which can be heated to a liquid and then injected over a circuit for protection
“FAB process”	one of the processes in semiconductor manufacturing, which forms hundreds to thousands of chips on the wafer
“fast recovery rectifier”	a type of rectifier which switches current quickly
“former”	a machine used in the semiconductor packaging and assembly process
“handler”	a machine used in the semiconductor packaging and assembly process
“high voltage switching diode”	a type of diode designed for high voltage and high speed switching applications

GLOSSARY OF TECHNICAL TERMS

“IECQ”	the International Electrotechnical Commission Quality Assessment System for Electronic Components, a worldwide approval and certification system covering the supply of electronic components and associated materials and assemblies (including modules) and processes
“IECQ QC080000”	the standard for hazardous substance process management, as approved by the International Electrotechnical Commission, to restrict the use of hazardous substances in electronic products
“ISO”	International Organization for Standardization
“ISO 9001”	a quality management system model published by ISO for quality assurance in design, development, production, installation and servicing
“ISO 14001”	a set of standards published by ISO, which specifies a framework of control for an environmental management system
“laser”	a narrow beam of concentrated light produced by a machine, such as a laser marker, to cut or engrave semiconductors in the manufacturing process
“laser marker”	a machine that engraves characters or logos on the surface of semiconductors
“leadframe”	one of the major materials used in semiconductor package assembly, which serves as a platform for assembling the dies and interconnections prior to encapsulation
“LBF”	a type of bridge rectifier package
“LED”	Light-emitting Diode, a two-lead semiconductor light source
“mounting”	a step to process the components in the semiconductor manufacturing. During this process, the wafer is mounted on a plastic tape. The adhesive film on which the wafer is mounted ensures that the individual dies remain firmly in place during the process of cutting the wafer into dies

GLOSSARY OF TECHNICAL TERMS

“MOSFET”	Metal Oxide Semiconductor Field Effect Transistor, a type of transistor used for amplifying or switching electronic signals
“moulding machine”	a machine used to process components in the semiconductor manufacturing
“NPN/PNP small digital transistor”	a type of transistor
“ODM”	Original Design Manufacturing, a business model where a product is designed and manufactured by one company as specified, and is eventually rebranded by another firm for sale
“OEM”	Original Equipment Manufacturing, a business model where a product is manufactured by one company, and then purchased by another firm, and eventually retailed under that purchasing company’s brand name
“OHSAS 18001”	Occupational Health and Safety Management System, an internationally applied standard for occupational health and safety management systems
“OSAT”	Outsourced Semiconductor Assembly and Test
“passivated chip”	a type of silicon die
“photolithographic”	a process used in micro-fabrication to pattern parts of a thin film or the bulk of a substrate
“plating”	forming a layer of metal on an object from a plating solution
“PPAP”	Production Part Approval Process, the industry standard of production part approval process, which is developed to ensure engineering design record and specification requirements are consistently met
“PC”	personal computer
“PV”	photovoltaic, a method of converting solar energy into direct current
“Power-SO”	a type of small outline package

GLOSSARY OF TECHNICAL TERMS

“power transistor”	a type of transistor designed for high power
“QFN”	quad flat no lead packages, a type of discrete semiconductor package with single or multi-die
“REACH”	Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals, an European Union regulation on the production and use of chemical substances, as well as their potential impacts on both human health and the environment
“rectifier”	a type of semiconductor device, which converts an alternating current into a direct one by allowing a current to flow through it in one direction only
“reference design”	a technical blueprint of a system that is intended for others to copy
“regulator”	a type of semiconductor
“RoHS”	Restriction of Hazardous Substances Directive, an European Union directive that restricts the use of six hazardous materials in the manufacture of various types of electronic and electrical equipment
“SC-70”	a type of semiconductor package
“schottky barrier diodes”	an electronics component widely used for radio frequency in semiconductors
“schottky barrier rectifier”	a type of rectifier
“semiconductor”	a solid material whose electrical conductivity at room temperature is between that of a conductor and that of an insulator
“server”	a running instance of application software capable of accepting requests from the client and giving responses accordingly
“small signal transistor” or “SST”	a type of transistor

GLOSSARY OF TECHNICAL TERMS

“solder paste”	a substance used to connect the leads of surface mount integrated chip packages to attachment points (lands) in the circuit patterns on a printed circuit board
“solution kits”	a prototype with a list of electronic components put together to form a specific application
“SOD”	small outline diode, a type of small size, lead, and surface mount discrete semiconductor packages
“SOT”	small outline transistor, a type of surface mount discrete semiconductor packages
“sq.m”	square metre(s)
“storage”	an electronic memory device for storing data
“substrate”	a solid substance onto which a semiconductor device and other electronic parts can be applied
“surface mount”	a method for constructing electronic circuits in which the components are mounted directly onto the surface of printed circuit boards
“surge current”	a short-duration, high-amperage electric current wave, generally caused by a voltage imbalance, that may sweep through an electrical network
“switching diode”	a type of diode, with low resistance and with the normal forward voltage/current characteristic
“tablet”	a mobile computer with touch-screen display
“transient voltage suppressor”	an array of electronic devices that are designed to react to sudden or momentary overvoltage conditions
“thyristor”	a four-layered semiconductor rectifier in which the flow of current between two electrodes is triggered by a signal at a third electrode
“TO”	transistor outline, a type of discrete semiconductor package
“transistor”	a semiconductor device used to amplify and switch electronic signals and electrical power

GLOSSARY OF TECHNICAL TERMS

“trimmer”	a machine used to process components in the semiconductor manufacturing which cut and neaten the encapsulates
“trimming”	a step to process the components using a trimmer
“triode”	a semiconductor rectifier with three connections
“wafer”	a thin slice of semiconductor material, such as a silicon crystal, on which arrays of integrated circuits or discrete devices are fabricated during the manufacturing process
“wafer level chip scale packaging” or “WLCSP”	one of the methods to package discrete semiconductors
“wire bonder”	a machine used to bind the wire to the die
“wire bonding”	the process of connecting a fine wire between an on-chip pad and a substrate pad
“zener diodes”	a type of semiconductor diode in which a large reverse current can flow at a critical reverse voltage

FORWARD-LOOKING STATEMENTS

This [REDACTED] contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plans of operations;
- our capital expenditure plans;
- our amount and nature of, and potential for, future development of our Group’s business;
- our operations and business prospects;
- our profit estimate and other prospective financial information;
- our dividend policy;
- our projects under planning;
- the regulatory environment of the relevant industry in general;
- the future development in relevant industry; and
- other factors referenced in this [REDACTED], including, without limitation, in the sections headed “*Risk Factors*”, “*Industry Overview*”, “*Business*”, and “*Financial Information*” of this [REDACTED].

The words “anticipate”, “believe”, “could”, “expect”, “intend”, “may”, “plan”, “project”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our Group’s current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this [REDACTED]. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, our Company does not intend to publicly update or otherwise revise the forward-looking statements in this [REDACTED], whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this [REDACTED] might not occur in the way our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this [REDACTED] are qualified by reference to this cautionary statement.

In this [REDACTED], statements of or references to our intentions or that of any of our Directors are made as at the date of this [REDACTED]. Any such intentions may change in light of future developments.

RISK FACTORS

Potential investors should consider carefully all the information set out in this [REDACTED] and, in particular, should consider and evaluate the following risks associated with an investment [REDACTED] before making any investment decision in relation to [REDACTED]. The trading price of [REDACTED] could decline due to any of these risks, and you may lose part or all of your investment.

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to the semiconductor industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to the [REDACTED] and the Shares; and (v) risks relating to the statements made in this [REDACTED] and from other sources.

RISKS RELATING TO OUR BUSINESS

Our business, results of operations and financial condition could be adversely affected by the global economic downturn and adverse market conditions.

We 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. The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the economic downturns of 2008 and 2009 was uneven and it is facing new challenges, including the escalation of the European sovereign debt crisis starting in 2011 and the slowdown of the PRC economy in 2012. A continuous deterioration in global economic conditions could affect consumer confidence and spending. 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 our customers, our suppliers and us 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.

RISK FACTORS

We depend on a small number of customers for a substantial portion of our turnover, and have not entered into long-term agreements with customers and cannot assure our sales volumes will remain consistent. Therefore, a loss of any one of these customers, or a significant decrease in orders from any of them, could adversely affect our business, results of operations and financial condition.

As at 31 December 2013 and 2014 and 31 March 2015, we had 36, 78 and 84 customers, respectively. 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 corresponding periods. As such, given our short history, 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.

We have not entered into 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.

Our failure to compete effectively in the quality of our products could result in loss of customers, which could adversely affect our business, results of operations and financial condition.

We face competition from a number of domestic and foreign companies in the industry which may have more financial resources, research and development and marketing capabilities. The pressure that we face, like other players in the market, may principally come from (a) our existing competitors which continue to improve the design and quality of their products, seek price reduction and introduce new products with much advanced technology, or which are able to adapt to the ever-changing market trend, and (b) our existing and prospective customers who constantly review the merits of our products. Therefore, an effective quality assurance system is critical to the success of our business. The effectiveness of our quality assurance system depends on a number of factors, including the design of our quality assurance procedures and our ability to ensure that our employees adhere to our quality assurance policies and guidelines. We cannot assure you that our quality assurance system will be effective in maintaining our product quality, and any failure to do so could adversely affect our business, results of operations and financial condition. If we fail to maintain our competitive edges in terms of the quality and pricing of our products, we could experience loss of our existing customers or difficulty in establishing new customer relationship, which could adversely affect our business, results of operations and financial condition.

RISK FACTORS

Our short operating history makes it difficult to evaluate our business and prospects.

We were founded in December 2012 and did not commence commercial production of semiconductors until September 2013. Because of our limited operating history as a semiconductor packaging manufacturer, there may not be an adequate basis upon which our future results of operations and prospects could be evaluated, and we may have limited insight into the trends that may emerge and could adversely affect our business, results of operations and financial condition.

Our production facilities are located on leased properties and therefore may be subject to relocation.

We do not own the land or premises where our production facilities are situated. We have only entered into lease agreements with a landlord in respect of our production facilities at Songshan Lake, Dongguan, the PRC. Although the current term of the lease agreements only expires on 30 April 2023, we cannot assure you that the lease agreements will be extended upon expiry of their term on terms and conditions acceptable to us or the landlord may revoke the lease agreements during the term of the lease agreements for factors which are beyond our control. Under these circumstances, we are subject to relocation, which is expected to take approximately four days and cost approximately HK\$5.2 million (including set up and renovation costs). Moreover, if we fail to renew the lease agreements or the landlord terminates the lease agreements, we will have to locate new land and/or properties to accommodate our production facilities and we may or may not be able to locate new land and/or properties which are suitable for our business and are on favourable terms. Any such failure to renew the lease agreements or locate new land and/or properties may adversely affect our business, results of operations and financial condition.

If we are unable to offset increased labour costs, our business, results of operations and financial condition could be adversely affected.

We rely on our employees located in China for our manufacturing and operating activities. The average wages paid for manufacturing labour in China have recently increased and may continue to increase as a result of macroeconomic and other policies of the PRC Government. On 29 June 2007, the Standing Committee promulgated the Labour Contract Law, which became effective on 1 January 2008 and was 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 by way of automation or otherwise or pass along these increased labour costs to customers, our business, results of operations and financial condition could be adversely affected.

RISK FACTORS

If we are unable to obtain additional packaging equipment or facilities in a timely manner and at a reasonable cost, our competitiveness and future profitability could be adversely affected.

The semiconductor packaging business is capital intensive and requires significant investment in obtaining expensive equipment. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by semiconductor or electronics companies; and
- economic, political and other conditions.

The market for semiconductor packaging equipment is characterised, from time to time, by intense demand, limited supply and long delivery cycles. Our operations and future expansion plans depend on our ability to obtain a significant amount of such equipment. We have no binding supply agreements with any of our suppliers and acquire our equipment on a purchase order basis, which exposes us to changing market conditions and other substantial risks. Shortages of equipment could result in an increase in equipment prices and longer delivery times. If we are unable to obtain equipment in a timely manner and at a reasonable cost, we may be unable to achieve our expansion plans or meet our customers’ orders, which could adversely affect our business, results of operations and financial condition.

Our production capacity may not correspond precisely to our production demands, and any significant increase in our idle or unutilised production capacity during any particular period could adversely affect our results of operations in that period.

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. 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. Please refer to the sub-section headed “*Business – Manufacturing and Facilities – Production Facilities and Capacities*” of this [REDACTED] for a detailed description of the utilisation rates of our production facilities during the Track Record Period.

RISK FACTORS

In addition, in the event that a customer reduces or cancels orders unexpectedly after we have invested in increasing 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.

We will have difficulty in selling our products if customers do not incorporate our products into their product designs.

Our products are not sold directly to the end-users, but are components or subsystems of other products. Our products are generally incorporated into our customers’ end-products at the design stage. As a result, we rely on our customers to select our products from among alternative offerings to be designed into the products they sell. If they do not incorporate our products in their designs, we will have difficulty in selling our products. Even after a customer designs our products into the products it sells, the customer is not obligated to purchase our products and can choose at any time to reduce or discontinue their use of our products, for example, if its own products are not commercially successful, or for any other reason. If a customer designs a competitor’s product into its product offering, it will become significantly more difficult for us to sell our products to that customer because we understand that changing suppliers could involve significant cost, time, effort and risk for the customer. Our customers may discontinue to include our products into their products or we might not be able to convert any such design into actual sales, either of which could adversely affect our business, results of operations and financial condition.

We are dependent on a few major suppliers. If we are unable to obtain adequate supplies of raw materials in a timely manner and at reasonable prices, our turnover and profitability may decline.

Our operations require that we obtain adequate supplies of raw materials, such as silicon wafer, leadframes and gold wires. Any shortage in the supply of some materials, 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.

RISK FACTORS

In addition, we may occasionally need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials is substantially reduced or disrupted, or if there are significant increases in their prices; or if the lead times for the supply of raw materials are extended, we may incur additional costs to acquire sufficient quantities of these materials to maintain our production schedules and commitments to customers.

Given our demand for a stable supply of raw materials, 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. 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 [REDACTED] 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.

Moreover, we also depend on the supply of spare parts for our production equipment. Our equipment occasionally requires repair and maintenance as a result of break down or wear and tear from continuous usage, in which case we will be required to obtain spare parts in order to maintain our production. If we are unable to obtain spare parts at a reasonable cost and in a timely manner, our operations could be adversely affected.

We rely on a third-party agent for the sales of our products and adverse changes in our relationship with such agent could adversely affect our business, results of operations and financial condition.

During the Track Record Period, we depend on a third-party agent for sales of our products in Korea. Our agent helps us identify business and market opportunities and business networking. Customers referred to by such agent place purchase orders directly with us. Approximately 5.0%, 30.2% and 43.1%, respectively, of our total turnover were generated from customers referred by our third-party agent for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. In addition, this agent also placed orders directly with us and was our top customer in 2013 and 2014 and one of the top five customers for the three months ended 31 March 2015 accounting for approximately 23.3%, 10.5% and 6.2% respectively of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Since such agent is not owned or controlled by us, it is free to perform sales and support services for others, including our competitors. In particular, we may not be able to find an adequate replacement for such agent or to develop sufficient capabilities internally on a timely

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basis. Any serious interruption in our relationship with such agent or substantial loss in its effectiveness in performing its functions could adversely affect our business, results of operations and financial condition.

If we lose one or more of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, our operations could be disrupted and the growth of our business could be delayed or restricted.

Our success depends on the continued service of our key executive officers, and in particular, our Chairman, Mr. Chow Hin Keong, and our Chief Executive Officer, Mr. Chow Hin Kok. These key personnel manage our Group, develop and execute our business strategies and manage our relationship with key suppliers, customers and subcontractors. We do not carry key person insurance on any of our personnel. If we lose the services of any of our key executive officers, it could be very difficult to find, allocate and integrate adequate replacement personnel into our operations, which could adversely affect our operations and the growth of our business.

Moreover, we rely on the collective experience of our technically skilled employees, primarily the experienced executives, engineers, production manager, technical personnel and other skilled employees, in our manufacturing process to implement our growth plans and to ensure that we continuously evaluate and adopt new technologies to meet our customers’ needs. There is intense competition for the services of these personnel in the semiconductor industry. In addition, we expect demand for skilled and experienced personnel in China to increase in the future as new semiconductors production facilities and other similar high technology businesses are established there. If we are unable to retain our existing personnel or attract, assimilate and retain new experienced personnel in the future, our operations could be disrupted and the growth of our business could be delayed or restricted.

We may be subject to intellectual property rights disputes, which could adversely affect our business, results of operations and financial condition.

Our ability to compete successfully and achieve future growth depends, in part, on our ability to develop and protect our proprietary technologies and to secure on commercially acceptable terms certain intellectual property rights that we do not own. We cannot assure you that we will be able to independently develop, protect or secure from any third party, the technologies required and intellectual property rights used by us. Our ability to compete successfully also depends, in part, on our ability to operate without infringing on the proprietary rights or intellectual property rights of others.

In addition, claims may be brought against us by, or we may assert claims against, other parties involving disputes in relation to intellectual property rights. We have previously applied for registration of the TD Trademarks in the PRC but our applications have been rejected on the grounds that certain part of these trademarks are similar to other trademarks which have been registered under the name of another person or entity in the same class. Our PRC Legal Advisers have advised that Dongguan Jia Jun may be claimed for trademark infringement for its historical

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use of the TD Trademarks in the PRC whilst the trademark applications were then pending. As at the Latest Practicable Date, we were not aware of any claim or litigation initiated against Dongguan Jia Jun in respect of its historical use of the TD Trademarks in the PRC or elsewhere. We have ceased to use these two trademark logos for the boxes containing our products for sale in the PRC market. Although we have not been notified of any claim of infringement, if there are claims in the future and we are unable to resolve such claims through negotiations, we could face costly legal proceedings, which could divert the resources and efforts of our management and technical personnel away from our daily business operations and thereby having a material adverse effect on our business, results of operations and financial condition. Furthermore, if we are not successful in these proceedings, we could be subject to substantial liabilities or even disruptions to our business operations.

Any adverse publicity or other adverse developments that may affect the SEL Trademarks generally could adversely affect our business, results of operations and financial condition.

We use the ST Mark on the packing boxes of our products alongside our Company name. SEL licenses the SEL Trademarks to subsidiary of Sino-Tech International Holdings Limited for use in its business except for the ST Mark after we have entered into the Transfer Agreements to acquire it from SEL. As the ST Mark and the other two SEL Trademarks bear some resemblance, any negative publicity or disputes regarding such products manufactured by SEL’s licensees and marketed under the SEL Trademarks (except the ST Mark) could adversely affect public perception of our products labelled with the ST Mark. Although SEL has undertaken through the Deed of Undertaking that it will, among other matters, procure its licensees of the SEL Trademarks not to manufacture and sell products which are marketed using the SEL Trademarks and which are of similar specifications to our Group’s products, we have no control over these licensees of the SEL Trademarks. If such licensees manufacture and sell products under the SEL Trademarks and there is any negative publicity associated with such products, the reputation of our products and our name may be adversely affected. Any impairment of our ability to continue to sell products under the ST Mark, or any significant damage to the SEL Trademarks’ images could adversely affect our business, results of operations and financial condition.

We rely on the stable operation of our production facilities and cannot assure you that our production would be free of disruption in the future.

Our turnover is dependent on the continued operation of our production facilities. Our production facilities are subject to inspection, maintenance and machinery and part replacement during which production capacity may be affected. In such events, our financial resources will need to be diverted to the servicing and replacement of machinery. We may require maintenance services or purchase equipment from external vendors who may or may not provide timely services, equipment or parts. Frequent or prolonged occurrence of any of the aforesaid events could adversely affect our business, results of operations and financial condition.

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In addition, our manufacturing process requires extensive volume and a stable source of electricity. We generally rely on city power supply for our production and other operating processes. However, we may experience insufficient supply in electricity, due to various reasons including the insufficient local power-generating capacity to fully satisfy the increased demand, or government intervention, particularly in the form of rationing. For example, the Dongguan Power Bureau adopts a rationing policy during the summer time when the strain on the city’s power plants increases, pursuant to which enterprises in Dongguan are required to plan their production and holidays according to the pre-scheduled power outage by the Dongguan Power Bureau. We experienced pre-scheduled power outage one day a week during the months from July to September in 2014. As our production capabilities gradually increase and our business grows, our requirement for electricity may grow substantially. The insufficient supply of electricity may interrupt, limit or delay our production, and could adversely affect our business, results of operations and financial condition.

Any health epidemics and other outbreaks, adverse weather conditions, natural disasters and other catastrophes could severely disrupt our business operations.

Our business could be adversely affected by epidemics, adverse weather conditions, natural disasters and other catastrophes. In April 2009, an outbreak of a new strain of influenza identified as the Influenza A (H1N1) virus occurred in Mexico resulting in a number of deaths. There have also been recent reports of outbreaks of an avian flu caused by a serotype of the species Influenza, H7N9 virus, including confirmed human cases, in China. Since early 2015 there have been increasing reports of human infection with Middle East Respiratory Syndrome (MERS) in Korea. The sudden outbreak of MERS in Korea may result in temporary closure of production facilities of some of our customers in the country. Moreover, the spread of the H1N1 or H7N9 virus or any prolonged recurrence of avian influenza, SARS, MERS, or other adverse public health developments in China could require the temporary closure of our production facilities. Such closures could severely disrupt our business operations and adversely affect our results of operations. If any disaster were to occur in the future, our ability to operate our business could be adversely affected.

We maintain limited insurance coverage and any significant product liability claim could adversely affect our business, results of operations and financial condition.

The products we manufacture or distribute may contain defects that are detected only when the products are in use. We and our customers may experience defects which could require significant product recalls, reworks and/or repairs which could consume a substantial amount of time, effort and expense to resolve. Such defects could have a serious impact on our customers, which could harm our customer relationships and expose us to liability. There is no assurance that there will not be any material product liability claims against us in relation to our products in the future. We may expend significant resources and time to defend ourselves if legal proceedings are brought against us. The successful assertion of product liability claims against us could require us to pay significant monetary damages and/or subject us to product recall. If any such claims are

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made, our reputation may also be adversely affected, which may lead to loss of future business and may adversely affect our business, results of operations and financial condition. If any of such claims were to be decided against us, we may be required to pay substantial damages. The occurrence of any such incidents and their consequential losses may not be adequately covered, or at all, by our insurance policies currently in place. Any such losses not covered by insurance will be charged directly against our profits. Losses incurred, or payments we may be required to make, could adversely affect our business, results of operations and financial condition.

We are subject to significant foreign exchange risk due to our exposure to overseas markets.

Our functional currency is the HK dollar, but 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.

We are exposed to the credit risks of our customers.

We extend credit only to customers that we deem creditworthy based on analysis of their credit profiles. However, our customers are subject to market conditions and their own business risks. Accordingly, 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. We cannot assure you that the creditworthiness of our customers will not change because there could be unanticipated adverse changes in the economy or extraordinary events adversely affecting specific customers, industries or markets. If the credit quality of our customer base decreases as a result of economic conditions or if our reserves for credit losses are not adequate, our business, results of operations and financial condition could be adversely affected.

Inaccurate sales forecasts could adversely affect our profitability and financial results.

We estimate our sales orders based on our sales forecast and past experience with our customers. Our sales forecast is mainly based on the verbal indication of the volume and specification of products to be ordered by our customers. With reference to these sales forecasts, we typically place orders for certain raw materials and components with our suppliers prior to receipt of formal purchase orders issued by our customers. If we fail to correctly estimate the demand from our customers, we may misallocate resources, resulting in among other things, excessive raw materials or components to meet the timing and volume of purchase orders which may be longer and lower than expected. As such the raw materials or components may become obsolete and our profitability and results of operations could be adversely affected.

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If we are unable to secure adequate and timely supply of the relevant outsourcing services, our business, results of operations and financial condition could be adversely affected.

During the Track Record Period, we outsourced the plating process of our semi-finished products to a third-party service provider. We typically procure services from our service provider on a per-order basis, and we do not have long-term agreements with such service provider that guarantee us access to capacity. As such, such service provider may give priority to orders from other customers when the demand for its service is high, and our business or operations could be adversely affected if there is any disruption in the supply of our parts and services from our service provider. If our service provider experiences capacity constraints or financial difficulties, raises its prices, suffers any damage to its facilities, is acquired or restructures its business or terminates its relationship with us, we may have to seek alternative services, which may not be available on commercially reasonable terms, or at all, or which may expose us to risks associated with qualifying new service providers. If we are unable to secure adequate and timely supply of the relevant outsourcing services, our business, results of operations and financial condition could be adversely affected.

We may be subject to liability in connection with accidents at our production facilities.

As our production process involves the operation of tools, equipment and machinery which are potentially dangerous, industrial accidents resulting in personal injuries or even deaths may occur. We cannot assure you that industrial accidents at our production facilities, whether due to malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. In such an event, we may be held liable for the personal injuries or deaths and subject to monetary losses, fines or penalties or other forms of legal liability as well as business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures. For example, work safety laws imposed by the PRC government authorities could impose compliance costs or reduce the efficiency of our operations, thereby adversely affecting our business, results of operations and financial condition.

We recorded net current liabilities as at 31 December 2013 and 2014 and 31 March 2015

As at 31 December 2013 and 2014 and 31 March 2015, our net current liabilities were approximately HK\$18.8 million, HK\$34.4 million and HK\$28.6 million, respectively. Our current liabilities position as at 31 December 2013 and 2014 and 31 March 2015 was primarily attributable to amounts due to shareholders being recorded as current liabilities. Amounts due to shareholders represented unsecured and interest-free advances that are repayable on demand from our Controlling Shareholders for our general financing needs. A net current liabilities position would expose us to liquidity risks if we were unable to repay the relevant balances when our Shareholders call for a repayment of the amounts due. In such circumstances, our business operations, liquidity, financial condition and prospects could be adversely affected.

RISK FACTORS

RISKS RELATING TO THE SEMICONDUCTOR INDUSTRY

Excess capacity in the semiconductor industry may reduce our turnover, earnings and margins.

The prices that we can charge our customers for our products are significantly related to the overall worldwide supply of semiconductors and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is beyond our control. In periods of excess capacity, if we are unable to offset the resulting adverse effects through, among other things, our technology and product mix, we may have to lower the prices we charge our customers for our products and/or we may have to operate at significantly less than full capacity. Such actions could reduce our margin and weaken our results of operations and financial condition. We cannot assure you that an increase in the demand for our products will not lead to excess capacity over time, which could adversely affect our turnover, earnings and margins.

We must constantly anticipate and respond to trends in technology development and evolving industry standards in an efficient and timely manner, otherwise we may be unable to effectively compete with our competitors, or maintain or increase our business and operating margins.

The semiconductor industry and its downstream industries have historically been characterised by rapid technological changes and evolving industry standards. We may not be able to accurately predict what technologies will be required by our customers in the future, and therefore may not be able to utilise suitable capital expenditures to expand our production capability with technology necessary for our customers. Conversely, we may misjudge the market and expand our capacity with technologies for which the customer base is small or demand is low.

We cannot assure you that we will be successful in responding to the technological development and evolving industry standards. New technologies may render our existing products offerings or technologies less competitive. If we are unable to anticipate the trends in technology development and rapidly develop and implement new and innovative technology that our customers require, we may not be able to produce sufficiently advanced products at competitive prices. As the life cycle for a process technology matures, the average sales prices of our products usually fall. Accordingly, unless we continually upgrade our capability to manufacture new products that our customers design, our customers may use the services of our competitors instead of ours and the average sales prices of our products may fall, which could adversely affect our business, results of operations and financial condition.

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Foreign governments may institute various trade regulation measures and impose high tariffs on imported goods, which could adversely affect our business, results of operations and financial condition.

During the Track Record Period, we delivered significant volumes of our products to overseas markets, including Asia (other than the PRC and Hong Kong) and Europe. We expect export sales to continue to represent a significant portion of our turnover in the near future. As such, our export sales and, in turn, our results of operations and financial position, are subject to the economic, political, social and legal developments in these jurisdictions. Any continuing or new foreign government trade protection measures unfavourable to our products could significantly increase the cost of importing our products by our overseas customers and potential customers. Our overseas customers may be unable or unwilling to pass on the extra cost to their customers and may choose instead to purchase products from our competitors who are not subject to such trade protection measures. In either event, we could substantially lose our competitive advantages in the overseas markets and lose export sales turnover, and our market share, business, results of operations and financial condition could be adversely affected.

Our sales of export products may fluctuate and may drop if our export products become subject to anti-dumping measures and countervailing duties.

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

We cannot assure you that the countries to which we directly or indirectly export our products will not initiate trade protectionist measures in the form of anti-dumping duties, countervailing duties, taxes, trade laws, tariffs and regulatory requirements against our products in the future. In the event that there is an anti-dumping measure or other trade sanctions imposed on our exported products by overseas countries, prices of our products exported to such countries could be increased, which in turn could result in a loss of our competitive advantage. Consequently, our export sales and profitability may drop, and hence adversely affect our business, results of operations and financial condition.

RISK FACTORS

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could adversely affect our business, results of operations and financial condition.

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. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in the PRC.

The economy of China differs from the economies of most other developed countries in many respects, including the extent of government involvement, level of development, growth rate and governmental control over foreign exchange. China’s economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform, the reduction of State ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in China is still owned by the PRC Government. The PRC Government continues to play a significant role in regulating and supporting industrial development. It also exercises influence over China’s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in China and, in turn, our business. While the Chinese economy has experienced significant growth in the past 30 years, such growth has been uneven across both geographic regions and the various sectors of the economy. The PRC Government has implemented various measures to influence growth rates and to guide the allocation of resources. Some of these measures benefit the overall economy of China but may have a negative effect on us. For example, our results of operations and financial condition could be adversely affected by governmental monetary policies, changes in interest rate policies, tax regulations or policies and regulations affecting the development of the semiconductor industry.

Uncertainties with respect to the Chinese legal system could adversely affect our business, result of operations and financial condition.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. Our PRC subsidiary is subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to foreign-invested enterprises in particular.

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However, these laws, regulations and legal requirements change frequently, and their interpretation and enforcement involve uncertainties. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. In addition, such uncertainties, including the inability to enforce our contracts, could adversely affect our business and operations. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published in a timely manner or at all, that may have retroactive effects. As a result, we may not be aware of our violation of these policies and rules until some time after the violation, or we may have to go through further approval, registration or filing procedures as required by the relevant PRC Governmental authorities. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and our foreign investors.

It could be difficult to enforce any judgments obtained in non-PRC courts against our PRC subsidiary and assets located in the PRC.

We conduct a significant part of our operations in the PRC through our PRC subsidiary, and a substantial portion of our assets are located in the PRC. On 14 July 2006, the PRC and Hong Kong entered into the Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of Mainland And Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”) which became effective on 1 August 2008. Pursuant to the Arrangement, a party with an enforceable final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. A choice of court agreement in writing is defined as any agreement in writing entered into between the parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it could be difficult or impossible for investors to effect service of process against our PRC subsidiary, assets located or members of senior management residing in the PRC in order to seek recognition and enforcement of Hong Kong judgments in the PRC.

RISK FACTORS

Furthermore, China does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of most other jurisdictions including the United States, Japan, the United Kingdom, and most other European countries. Therefore, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to binding arbitration provisions could be difficult or impossible.

Governmental control of currency conversion may limit our ability to use our turnover effectively and the ability of our PRC subsidiary to obtain financing.

A significant portion of our turnover is currently generated in RMB. Any future restrictions on currency exchanges may limit our ability to use turnover generated in RMB to make dividends or other payments in Hong Kong dollars, or US dollars or fund possible business activities outside China. Although the PRC Government introduced regulations in 1996 to allow greater convertibility of RMB for current account transactions, significant restrictions still remain, including primarily the restriction that enterprises may only buy, sell and/or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial documents. In addition, remittance of foreign currencies abroad and conversion of RMB for capital account items, including direct investment and loans, is subject to government approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. On 19 November 2012, SAFE promulgated the Notice on Further Improve and Adjust the Direct Investment Foreign Exchange Administration Policies (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》(the “Circular 59”) according to which, certain administrative approval procedures were simplified, or abolished to approve the direct investment foreign exchange administration. For example, foreign-invested enterprises, like our PRC subsidiary, may increase its registered capital by using its legal earnings including capital reserves, surplus reserves or accumulated profits or re-invest them without obtaining prior foreign exchange approvals from SAFE. Furthermore, the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which came into effect on 1 June 2015, cancels certain administrative approval procedures relating to the domestic and overseas direct investment in certain districts, and the foreign exchange registration for domestic direct investment shall be directly reviewed and handled by qualified banks. However, we cannot assure you the regulatory authorities of the PRC will continue or further lift the restrictions on foreign exchange administration or will not impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

RISK FACTORS

Any significant change in, or promulgation of, laws and regulations applicable to us may increase our costs of production, and our failures to comply with any of these developments could result in legal liabilities for us.

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.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities could delay or prevent us from using the proceeds of the [REDACTED] to make loans or additional capital contributions to our WFOE.

To utilise the proceeds from the [REDACTED] or any further offerings in the future, as an offshore holding company of our operating WFOE, we may make loans or additional capital contributions to the WFOE. Any foreign loans procured by a WFOE must be registered with the SAFE or its local branch, and the WFOE may not procure foreign loans which exceed the difference between its registered capital and its total investment amount as approved by the MOFCOM or its local counterpart. Any medium or long term loan to be provided by us to the WFOE must be approved by the SAFE or its local branch. In addition, capital contributions to the WFOE must be approved by the MOFCOM or its local counterpart and registered with other governmental authorities in China. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, or at all, with respect to future loans or capital contributions by us to the WFOE. If we fail to receive such registrations or approvals, our ability to use the proceeds of the [REDACTED] and to capitalise our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

RISK FACTORS

Fluctuations in the value of the RMB may have a material adverse effect on your investment.

The value of the RMB against the US dollars and other currencies may fluctuate and is affected by, among others, changes in political and economic conditions. On 21 July 2005, the PRC Government changed its decade-old policy of pegging the value of the RMB to the US dollars. Under the new policy, the RMB was permitted to fluctuate within a managed band based on market supply and demand and by reference to a basket of certain foreign currencies. However, PBOC regularly intervenes in the foreign exchange market to achieve policy goals. There remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the US dollars. More recently, the PRC Government has indicated the willingness to allow the RMB to appreciate against the US dollars. It is difficult to predict how long the current situation may last and when and how RMB exchange rates may change going forward.

We rely on dividends paid by our PRC subsidiary for our cash needs, and any limitation on the ability of our PRC subsidiary to make payments to us could adversely affect our ability to conduct our business.

We conduct a significant portion of our business through Dongguan Jia Jun, our sole PRC subsidiary. We may rely on dividends paid by Dongguan Jia Jun for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Dongguan Jia Jun is also required to set aside a certain percentage of its after-tax profit based on PRC accounting standards each year to their respective statutory reserve funds in accordance with the requirements of relevant PRC laws and regulations as well as provisions in its articles of association. Our statutory reserves are not distributable as loans, advances or cash dividends. We anticipate that in the foreseeable future Dongguan Jia Jun will need to continue to set aside a certain percentage of its after-tax profits to its statutory reserves. In addition, if Dongguan Jia Jun incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of Dongguan Jia Jun to transfer funds to us could adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

RISK FACTORS

Income in respect of our Shares or dividends from our PRC subsidiary may become subject to PRC taxes.

Under the EIT Law and Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》)(the “**EIT Rules**”), the profits of a foreign-invested enterprise generated from 1 January 2008 and onwards, which are distributed to its immediate holding company outside the PRC, are subject to a withholding tax rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Tax Evasion on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), such rate may be lowered to 5% if a Hong Kong resident enterprise owns over 25% of the PRC subsidiary’s equity interests. However, according to the Circular of State Administration of Taxation on Issuing the Administrative Measures for Non-residents to Enjoy the Treatment under Taxation Treaties (《關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》), which became effective on 1 October 2009, the 5% tax rate does not automatically apply. Approvals from or filings with the SAT or its local counterpart are required before an enterprise can enjoy the relevant tax treatments relating to dividends under the relevant taxation treaties. In addition, according to the Circular of State Administration of Taxation on Implementing the Dividends Provisions of Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) issued by the SAT on 20 February 2009, if the main purpose of an offshore arrangement is considered to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the tax rate enjoyed by the relevant offshore entity. We cannot assure you that the PRC tax authorities will determine that the 5% tax rate applies to dividends received by our subsidiary in Hong Kong from our PRC subsidiary, nor that the PRC tax authorities will not levy a higher withholding tax rate on such dividends in the future.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment.

Pursuant to the Notice on Strengthening the Administration of Enterprise Income Tax on Income From Transfers of Equity Interests by Non-resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (the “**Circular 698**”), issued by the SAT on 10 December 2009 with retroactive effect from 1 January 2008, and Announcement on the Administration of Enterprise Income Tax on Income of Non-resident Enterprises (《國家稅務總局關於非居民企業所得稅管理若干問題的公告》) issued by the SAT on 28 March 2011, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly through disposing of the equity interests of an overseas holding company, or Indirect Transfer, the foreign investor shall report this Indirect Transfer to the competent local tax authority where the PRC resident enterprise locates. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of 10%. In addition, where the non-resident enterprise

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transfers the equity interest a PRC resident enterprise to its affiliate(s) and the transfer price thereof is not negotiated on an arm’s length basis (and thereby reducing the amount of the relevant taxable income), the tax authorities shall have the right to adjust the transfer price.

On 3 February 2015, the SAT issued the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax Deriving from the Indirect Transfers of Properties among Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “**Announcement 7**”). Announcement 7 repealed certain provisions in Circular 698 with respect to Indirect Transfer, and stipulates more detailed rules for tax treatment of indirect transfer of equity interest in PRC resident enterprises and other assets situated in China. Announcement 7 has broadened the scope of the Indirect Transfer under Circular 698 to non-resident enterprises’ indirect transfer of (i) the assets of an “establishment or place” situated in the PRC; (ii) real estate/immovable property situated in the PRC; and (iii) equity interest in Chinese resident enterprises. The Announcement 7 has also elaborated on how to determine that an Indirect Transfer has “a reasonable commercial purpose” and specified the legal consequences for failing to withhold and pay tax. We may conduct acquisitions involving changes in corporate structures in the future and Circular 698 and Announcement 7 may be interpreted by the relevant tax authorities to be applicable. As a result, we may be required to expend valuable resources to comply with Circular 698 and Announcement 7 and other related tax rules, which could adversely affect our business, results of operations and financial condition in the future.

Under the EIT Law, we may be classified as a “resident enterprise” of the PRC. Such classification could result in unfavourable tax consequences to us and our non-PRC shareholders.

Under the EIT Law, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises”. Under the EIT Rules, “de facto management bodies” are defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. The EIT Law and the EIT Rules are relatively new and practical ambiguities exist with respect to the interpretation of the provisions relating to resident enterprise issues. We do not currently consider our Company to be a PRC “resident enterprise”. However, if the PRC tax authorities determine that our Company is a “resident enterprise” for the PRC enterprise income tax purposes, it would result in unfavourable tax consequences to us and our non-PRC Shareholders. First, our Company or our overseas subsidiary will be subject to the uniform 25% enterprise income tax rate as to our global income as well as the PRC enterprise income tax reporting obligations. Second, although under the EIT Law and the EIT Rules, dividends paid to us from our PRC subsidiary would qualify as tax-exempted income, we cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control and tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for the PRC enterprise income tax purposes. Finally, dividends payable by us to our Shareholders and gain on the sale of our Shares may become subject to the PRC

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withholding tax. It is possible that future guidance issued with respect to the new resident enterprise classification could result in a situation in which a potential withholding tax of 10% for our non-PRC enterprise Shareholders, or a potential withholding tax of 20% for non-PRC individual Shareholders, is imposed on dividends we pay to them and with respect to gains derived by such investors from transferring our Shares. In addition to the uncertainty regarding how the new resident enterprise classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. If we are required under the EIT Law to withhold additional PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay the PRC income tax on the transfer of our Shares under the circumstances mentioned above, the value of your investment in our Shares could be adversely affected.

Our PRC subsidiary may be required to comply with PRC occupational disease laws.

We may be required by the Law on the Prevention and Treatment of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》) to comply with certain formalities (including the filing of occupational disease reports) if our operations generate powder or dust, or emit radioactive, toxic or harmful substances. We have not been required by the local governmental authorities to submit such report as the local authorities currently do not strictly enforce such law on manufacturers engaged in semiconductor packaging and assembly. We cannot assure you that we would not be required to file occupational disease reports in the future or that we will not be subject to fines or other penalties which could adversely affect our business, results of operations and financial condition. Please refer to the sub-section headed “– *Risks Relating to Conducting Business in the PRC – Uncertainties with respect to the Chinese legal system could adversely affect our business result of operations and financial condition*” in this section for further details.

Our operations may be delayed or interrupted and our business could suffer as a result of steps we may be required to take in order to comply with environmental regulations.

We are subject to a variety of Chinese environmental, occupational and safety regulations relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in our production processes. Any failure or any claim that we have failed to comply with these regulations could cause delays in our production and capacity expansion and affect our public image, both of which could adversely affect our business. In addition, any failure to comply with these regulations could subject us to substantial fines or other liabilities or require us to suspend or adversely modify our operations.

We may become subject to legislation, regulation, or treaty obligations designed to address global climate change, air quality in the PRC, and other environmental concerns. Compliance with any new rules could be costly, causing us to incur additional energy and environmental costs, as well as costs for defending and resolving legal claims.

Please refer to the sub-section headed “*Business – Health, Work Safety, And Environmental Matters – Environmental Matters*” of this [REDACTED] for further details about relevant environmental regulations and our compliance record.

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Our operations may be subject to transfer pricing adjustment.

During the Track Record Period, we primarily manufactured our products through our PRC subsidiary Dongguan Jia Jun, which sold the finished goods to TD Enterprises for onwards sales to our customers. When TD Enterprises receives purchase orders from the customers, it will channel the relevant purchase orders to Dongguan Jia Jun, our manufacturing arm in the PRC. The respective finished products manufactured by Dongguan Jia Jun are then sold to TD Enterprises who then on-sells the finished products to our customers. Our Directors confirmed that the relevant intra-group services were conducted on normal commercial terms. Pursuant to the EIT Law, the EIT Rules and the Implementation Regulations for Special Tax Adjustments (Trial)(《特別納稅調整實施辦法(試行)》)(the “**STA Rules**”), transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by the same third party are regarded as related parties transactions. According to the EIT Laws, EIT Rules and STA Rules, related parties transactions should comply with the arm’s length principle (獨立交易原則) and if the related parties transactions fail to comply with the arm’s length principle results in the reduction of the enterprise’s taxable income, the tax authority has the power to make an adjustment following certain procedures. Pursuant to such laws and regulations, any company entering into related party transactions with another company shall submit an annual related party transactions reporting form (年度關聯業務往來報告表) to the supervising tax authority, but enterprises which meet one of the following standards are exempt from preparing further contemporaneous documents report (同期資料): (1) the annual amount of related party purchase/sales is lower than RMB200 million and the annual amount of other related party transactions is lower than RMB40 million; (2) related party transactions are involved in the performance of arrangements for advance pricing; or (3) foreign shareholding percentage is lower than 50% and the related party transactions only incur among domestic associated parties. However, according to the Notice of the State Administration of Taxation on Strengthening the Monitoring and Investigation of Transnational Affiliated Transactions (《國家稅務總局關於強化跨境關聯交易監控和調查的通知》)(Letter No. 363 [2009] of the SAT), if a PRC enterprise, which is established by a foreign entity and undertakes the mere function of production (processing with supplied or imported materials), distribution, contractual research and development or any other limited function and bears the risks relating thereto, encounters a loss, then no matter such PRC enterprise meets related party transaction thresholds mentioned above or not, it would need to prepare the relevant information and file the same with the relevant tax authority before 20 June of the subsequent year. Except as otherwise stipulated by the STA Rules, enterprises should complete the preparation of contemporaneous documents for the current year before 31 May of the following year and submit the documents within 20 days upon request from tax authorities. According to the transfer pricing report prepared by our tax advisor the profit margin derived by Dongguan Jia Jun from the sales of finished goods to TD Enterprises was within an arm’s length range comparable to enterprises engaged in similar industry. The total annual amount of the related party transactions engaged by Dongguan Jia Jun were lower than RMB200 million for each of the two years ended 31 December 2013 and 2014 and Dongguan Jia Jun did not encounter a loss during the Track Record Period. Dongguan Jia Jun was therefore not required to submit the contemporaneous documents report for the years ended 31 December 2013 and 2014.

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However, as advised by the PRC Legal Advisers, according to the relevant PRC tax laws and regulations, the tax authority still has the power to reassess the transactions entered into between Dongguan Jia Jun and TD Enterprises and the related parties of Dongguan Jia Jun for a maximum of 10-years time. If Dongguan Jia Jun is deemed not to be in compliance with the transfer pricing rules, the tax authority has the power to order Dongguan Jia Jun to pay all outstanding tax and statutory interest and Dongguan Jia Jun may be subject to a maximum penalty of RMB50,000. According to the transfer pricing report prepared by our tax advisor, where double taxation arises as a result of transfer pricing adjustments made by other tax authorities, a Hong Kong taxpayer may potentially claim relief from the Inland Revenue Department under Departmental Interpretation and Practice Notes No. 45. There is no assurance that the PRC tax authority will not make adjustment to the tax payable by our Group in respect of such related party transactions within the above time frame or that our Group can successfully and timely claim the aforementioned relief. Our Group may be required to change its transfer pricing practices such as adjusting the selling price of the finished goods sold by Dongguan Jia Jun to TD Enterprises. In such event, our Group may be required to pay additional profit tax and our profitability could be adversely affected. We have not been subject to any tax/transfer pricing disputes during the Track Record Period and up to the Latest Practicable Date.

We may be deemed to have not fully paid social insurance contributions for employees and have not contributed in full to housing provident funds for certain employees in the PRC during the Track Record Period by relevant PRC authorities, which could lead to the imposition of fines and penalties and adversely affect our business.

In accordance with the relevant PRC labour laws and regulations, we are required to contribute to certain employee social insurance schemes for the benefit of our employees in the PRC. Such schemes include social insurance and housing provident fund contributions. We have not fully paid all social insurance premiums and housing provident fund for certain employees in the PRC during the Track Record Period. The total contribution of social insurance and housing provident fund which was underpaid by our PRC subsidiary during the Track Record Period amounted to approximately HK\$1.4 million.

Although we are not aware of any complaints or demands for payment of these contributions from employees, our PRC Legal Advisers have advised that the relevant PRC authorities may notify us that we are required to pay outstanding contribution of social insurance and a daily surcharge of 0.05% on any delinquent payments may be imposed on us. If we fail to make such payments on time, we may be liable to a fine equal to one to three times the amount of outstanding contributions. In the event that we fail to undertake deposit registration or open housing provident fund accounts for our staff within the time period specified by the relevant PRC authorities, we may be subject to a fine ranging from RMB10,000 to RMB50,000. If we fail to pay housing provident fund within the time period specified by the relevant PRC authorities, such relevant PRC authorities may apply to court for compulsory execution. In all those cases, our business could be adversely affected.

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RISK RELATING TO THE [REDACTED] AND THE SHARES

There has been no prior public market for our Shares. If an active trading market for our Shares does not develop, the price of our Shares could be adversely affected and may decline below the [REDACTED].

Prior to the [REDACTED], there has been no public market for our Shares. The indicative range of the [REDACTED] was determined as a result of negotiation between our Company and the [REDACTED] (for itself and on behalf of the Underwriters) and the [REDACTED] may not be indicative of the price at which the Shares will be traded following the completion of the [REDACTED].

In addition, we cannot assure you that an active trading market will develop or be maintained following the completion of the [REDACTED] or the [REDACTED], or that the market price of our Shares will not decline below the [REDACTED].

The liquidity and market price of our Shares following [REDACTED] may be volatile.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our turnover, earnings and cash flows and announcements of major contracts awarded could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

Volatility in the trading price of our Shares may be caused by factors beyond our control and may be unrelated to our results of operations. Factors affecting the volatility of the trading price of our Shares may include: (i) investors’ perception of us and our business plans; (ii) fluctuation in our results of operations; (iii) changes in pricing policy adopted by us and our competitors; (iv) changes in our senior management personnel; and (v) general economic factors.

Interests of Shareholders in our Company may be diluted as a result of additional equity fund raising.

We may issue additional Shares to raise additional funds in the future to finance our business expansion. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company, other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution, and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders.

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Our financial results for the year ending 31 December 2015 will be affected by certain non-recurring expenses, including the expenses in relation to the [REDACTED].

Our financial results for the year ending 31 December 2015 will be affected by certain non-recurring expenses, including the expenses in relation to the [REDACTED]. Currently, we only have an estimate of our [REDACTED] expenses to be incurred and the actual amount to be recognised in the financial statements of our Group for the year ending 31 December 2015 is subject to adjustment based on the audit and the changes in variables and assumptions. We cannot guarantee that such expenses in relation to the [REDACTED] will not exceed the amount estimated, and in the event they exceed our estimates, our financial results for the year ending 31 December 2015 will be further adversely affected.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the price of our Shares to decline.

Future sales of a significant number of our Shares by us or our Controlling Shareholders in the public market after the [REDACTED], or the perception that these sales could occur, could cause the market price of our Shares to decline and could materially impair our future ability to raise capital through offerings of our Shares.

We cannot assure you that our Controlling Shareholders will not dispose of their Shares or that we will not issue Shares in the future. We cannot predict the effect, if any, that any future sales of Shares by our Controlling Shareholders, or the availability of Shares for sale by our Controlling Shareholders, or the issuance of Shares by us may have on the market price of the Shares. Sale or issuance of a substantial amount of Shares by our Controlling Shareholders or us, or the market perception that such sale or issuance may occur, could adversely affect the prevailing market price of the Shares.

RISKS RELATING TO THE STATEMENTS MADE IN THIS [REDACTED] AND FROM OTHER SOURCES

Forward-looking statements may not be accurate or reliable.

This [REDACTED] contains forward-looking statements and information which use terms such as “will”, “may”, “could”, “expect”, “believe”, “should” or “anticipate”. Those statements include, among others, discussion of our plans, objectives, expectations and intentions. Investors should be cautious against placing undue reliance on any forward-looking statements as it may involve risks and uncertainties and the assumptions upon which the forward-looking statements are based on could turn out to be inaccurate despite our belief that the assumptions are reasonable. Forward-looking statements should not be regarded as representations by us and prospective investors should not place undue reliance on such statements. We are not obliged to update or revise any forward-looking statements in this [REDACTED], whether by reason of new information, future events or otherwise.

RISK FACTORS

Investors should not unduly rely on any industry statistics derived from governmental sources.

Certain statistical and other publicly available information including those relating to the PRC and our industry have been derived or compiled from publicly available official governmental sources as well as industry reports we commissioned from independent industry consultants. We believe that the sources of such information are appropriate and we have taken reasonable care in the selection and reproduction of such information in this [REDACTED]. However, none of our Company, the Sole Sponsor, [REDACTED], the Underwriters or any other parties involved in the [REDACTED] has independently verified such information and it may be inaccurate, incomplete or outdated. We make no representation as to the accuracy or completeness of such information available and there is no assurance that such information is prepared to the same standard of level of accuracy with similar information available in other publications or jurisdictions. Therefore, prospective investors should not place undue reliance on information obtained from various governmental sources in this [REDACTED].

We strongly caution you not to place any reliance on any information contained in press articles, media coverage and/or research analyst reports regarding us, our industry or the [REDACTED].

There may be press articles, media coverage and/or research analyst reports regarding us, our industry or the [REDACTED], which may include certain financial information, financial projections and other information about us that do not appear in this [REDACTED]. We have not authorised the disclosure of any such information in the press, media or research analyst report. We do not accept any responsibility for any such press articles, media coverage or research analyst report or the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this [REDACTED] is inconsistent or conflicts with the information contained in this [REDACTED], we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to [REDACTED], you should rely only on the financial, operational and other information included in this [REDACTED].

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Chow Hin Keong (Chairman)	4, Lebuah Bukit Kecil 4 Taman Sri Nibong 11900 Bayan Lepas Penang Malaysia	Malaysian
Mr. Chow Hin Kok (Chief Executive Officer)	15, USJ3D/3 47630 Subang Jaya Selangor Darul Ehsan Malaysia	Malaysian
<i>Independent Non-executive Directors</i>		
Ms. Wong Sau Ying	Block 1 Royal Crest 68 Pat Heung Road Yuen Long New Territories Hong Kong	Chinese
Ms. Chan Mei Po	Flat 9, 45th Floor H Cube 118 Yeung Uk Road Tsuen Wan New Territories Hong Kong	Chinese
Ms. Man Oi Yuk Yvonne	Flat D, 11th Floor, Block 8 Sceneway Garden 8 Sceneway Road Lam Tin Kowloon Hong Kong	Chinese

Please refer to the section headed “*Directors, Senior Management and Staff*” of this [REDACTED] for further information.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor, [REDACTED] and [REDACTED]	Celestial Capital Limited 21st Floor, Low Block Grand Millennium Plaza 181 Queen’s Road Central Hong Kong
Legal adviser to our Company as to Hong Kong law	Reed Smith Richards Butler 20th Floor, Alexandra House 18 Chater Road Central Hong Kong
Legal adviser to our Company as to the Cayman Islands law	Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal adviser to our Company as to the PRC law	Beijing Jingtian & Gongcheng Law Firm 34th Floor, Tower 3 China Central Place 77 Jianguo Road Chaoyang District Beijing The PRC
Legal adviser to the Sole Sponsor and the [REDACTED] as to Hong Kong law	[REDACTED]
Legal adviser to the Sole Sponsor and the [REDACTED] as to the PRC law	[REDACTED]
Auditors and reporting accountants	SHINEWING (HK) CPA Limited Certified Public Accountants 43rd Floor Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

CORPORATE INFORMATION

Registered office in Cayman Islands	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong (registered under Part 16 of the Companies Ordinance)	Office A, 31st Floor Billion Plaza II 10 Cheung Yue Street Cheung Sha Wan Kowloon Hong Kong
Principal place of business in the PRC	Room 102 Building A No. 3 Xincheng Avenue Songshan Lake Dongguan The PRC
Website of the Company	www.topdynamicintl.com <i>(contents of this website do not form part of this [REDACTED])</i>
Company secretary	Ms. Lam Yuk Yee <i>FCCA, HKICPA</i> Office A, 31st Floor Billion Plaza II 10 Cheung Yue Street Cheung Sha Wan Kowloon Hong Kong
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CORPORATE INFORMATION

Compliance Officer	Mr. Chow Hin Kok
Audit Committee	Ms. Man Oi Yuk Yvonne (<i>Chairperson</i>) Ms. Wong Sau Ying Ms. Chan Mei Po
Remuneration Committee	Ms. Wong Sau Ying (<i>Chairperson</i>) Mr. Chow Hin Kok Ms. Chan Mei Po Ms. Man Oi Yuk Yvonne
Nomination Committee	Ms. Chan Mei Po (<i>Chairperson</i>) Mr. Chow Hin Keong Ms. Wong Sau Ying Ms. Man Oi Yuk Yvonne
Cayman Islands principal share registrar and transfer office	[REDACTED]
Hong Kong branch share registrar and transfer office	[REDACTED]
Compliance adviser	Celestial Capital Limited 21st Floor, Low Block Grand Millennium Plaza 181 Queen’s Road Central Hong Kong

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16th Floor
The Center
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China Construction Bank

D113, D114 and D115, 1st Floor
Songshan Lake Creative Life City
Dongguan
The PRC

INDUSTRY OVERVIEW

This section contains certain information which is derived from official government publications and industry sources as well as a report we commissioned from Prismark, an Independent Third Party. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from the above sources has not been independently verified by us, the Sole Sponsor, the [REDACTED], the Underwriters or any other party involved in the [REDACTED].

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This section contains information extracted from the commissioned report from Prismark which reflects research estimates of the market size, rankings and performance from publicly available secondary sources and trade survey analysis of the opinions and perspectives of industry players, and is prepared primarily as a market research tool. Research by Prismark should not be considered as the opinion of Prismark as to the value of any security or the advisability of investing in our Company and accordingly, such information should not be relied upon.

SOURCE OF INFORMATION

Prismark

Prismark, a company founded in 1994 and based in New York, is an electronics industry consulting firm with offices in New York and Taipei. Prismark is an Independent Third Party. We commissioned Prismark to conduct market analysis of the semiconductor and discrete semiconductor industry, and produce the Prismark Report at a total fee of US\$20,000. Our payment of such fees is not contingent upon the results of the analysis of Prismark.

INDUSTRY OVERVIEW

Prismark Report

We have included certain information from the Prismark Report in this [REDACTED] because we believe that such information facilitates an understanding of the relevant market for potential investors. The information, data and forecast contained in the Prismark Report came from primary and secondary sources. For the avoidance of doubt, the reference to China in the Prismark Report includes Hong Kong. The market research process for compiling the Prismark Report involved:

- in-depth discussions and interviews with managers or executives of leading companies profiled;
- review of financial filings, investor presentations and other press releases to collect the historic financial and component sales data over the course of any given year; and
- detailed desk research using Prismark’s own database collected based on a combination of company sales, data reported by Semiconductor Industry Association (“SIA”), as well as other analysts.

Analysis and forecasts contained in the Prismark Report are based on the following major assumptions at the time of compiling such report:

- the global economy is likely to maintain a steady but moderate growth through the forecast period;
- the social, economic and political environment is likely to remain stable in the forecast period; and
- there will not be catastrophic events that will result in a disruption of demand for the semiconductor supply chain ecosystem.

The market assessments are based upon the current market, as well as likely future conditions as perceived by the market. The estimation of future market conditions is a very problematic exercise which, at best, should be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forward projections and market outlook involves assumptions regarding a considerable number of variables, which are acutely sensitive to changing conditions. Some assumptions inevitably will not materialise and unanticipated events and circumstances may occur.

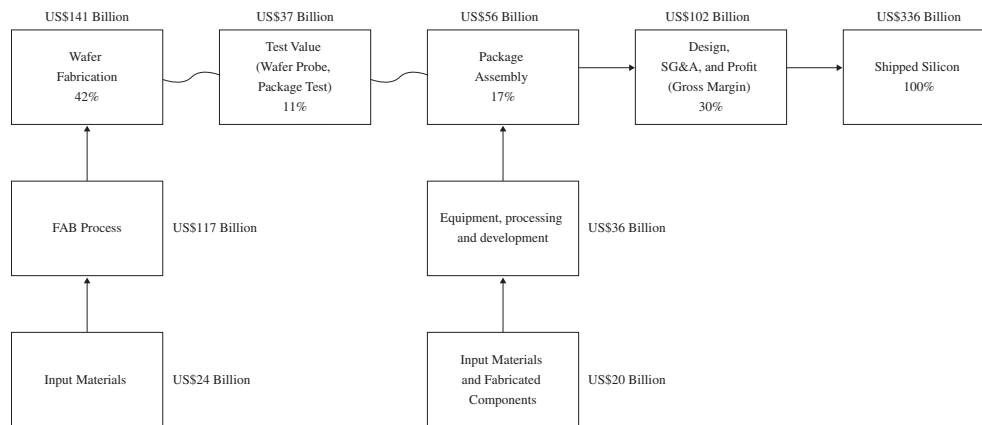
After taking reasonable care, our Directors confirm that to their knowledge there is no adverse change in the market information since the date of the Prismark Report which may qualify, contradict or have a material impact on the information in this section.

INDUSTRY OVERVIEW

SEMICONDUCTOR MANUFACTURING VALUE CHAIN

The chart below sets out where the value is derived across the value chain for manufacturing semiconductor products in the global semiconductor manufacturing industry.

Global Semiconductor Manufacturing Value Chain (2014)



Source: Prismark

- Shipped silicon – represents the total value of semiconductor devices shipped to the end customers. In 2014, the global semiconductor industry shipped approximately US\$335.8 billion worth of components.
- Wafer fabrication – represents value derived from the wafer processing of the silicon, which could be either done by an internal fab, or a wafer foundry as a service provider. In 2014, among the approximately US\$335.8 billion total worth of components shipped in the global semiconductor industry, approximately 42.0% or US\$141.0 billion was derived from wafer fabrication.
- Test value – represents value derived from wafer probe and package testing. In 2014, among the approximately US\$335.8 billion total worth of components shipped in the global semiconductor industry, approximately 11.0% or US\$37.0 billion was derived from wafer probe and package testing.

INDUSTRY OVERVIEW

- Package assembly – represents value derived from assembly of the semiconductor device into a package that can be shipped to end customer. In 2014, among the approximately US\$335.8 billion total worth of components shipped in the global semiconductor industry, approximately 16.7% or US\$56.0 billion was derived from package assembly, which included approximately US\$36.0 billion worth value generated from equipment, processing and development involved in the package assembly process and approximately US\$20.0 billion worth major raw materials related to package assembly.
- Design, selling, general and administrative (SG&A) and profit (gross margin) – represents all semiconductor design and SG&A expenses, as well as profits. In 2014, among the approximately US\$335.8 billion total worth of components shipped in the global semiconductor industry, approximately 30.4% or US\$102.0 billion went to design, SG&A as well as the profit (gross margin).

SEMICONDUCTOR MARKET DEMAND AND GROWTH OUTLOOK

Global and China (including Hong Kong) Semiconductor Market Demand

According to Prismark, the market performance of the semiconductor industry may be affected by a number of underlying factors, including but not limited to economic growth, release of new consumer electronic devices, corporate capital spending, consumer demand, legislative actions such as tighten automotive safety requirements, or even general consumer sentiment.

The tables below set out certain data of the global semiconductor market and the China (including Hong Kong) semiconductor market for the period from 2008 to 2014, respectively.

Global Semiconductor Market Demand (2008 – 2014)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>CAGR 2008- 2014</u>
Units (<i>billion</i>).	560.6	529.3	661.5	660.8	672.6	705.5	775.0	5.5%
Average sales price (<i>US\$</i>)	0.44	0.43	0.45	0.45	0.43	0.43	0.43	-0.4%
Revenue (<i>US\$ billion</i>). . .	248.6	226.3	298.3	299.5	291.6	305.6	335.8	5.1%

Source: SIA

INDUSTRY OVERVIEW

China (including Hong Kong) Semiconductor Market Demand (2008 – 2014)

	2008	2009	2010	2011	2012	2013	2014	CAGR 2008- 2014
Units (<i>billion</i>)	169.8	172.9	218.6	225.4	277.0	241.8	268.0	7.9%
Average sales price (<i>US\$</i>)	0.27	0.26	0.29	0.29	0.27	0.33	0.34	4.2%
Revenue (<i>US\$ billion</i>)	45.1	45.6	63.1	66.2	61.9	80.9	91.0	12.4%
Revenue as a percentage of global revenue	18.1%	20.2%	21.2%	22.1%	21.2%	26.5%	27.1%	–

Source: SIA

The global semiconductor market demand in terms of revenue grew from approximately US\$248.6 billion in 2008 to approximately US\$335.8 billion in 2014, representing a CAGR of approximately 5.1%, while the China (including Hong Kong) semiconductor market outpaced the global market growth by a significant margin from approximately US\$45.1 billion in 2008 to approximately US\$91.0 billion in 2014, representing a CAGR of approximately 12.4%. Despite a strong performance of the China (including Hong Kong) semiconductor market, the market demand in terms of revenue in the rest of the Asia (including Taiwan, Korea, Vietnam, Singapore, Thailand, Malaysia, etc.) grew at a much slower CAGR of approximately 4.7% from 2008 to 2014, primarily due to migration of semiconductor manufacturing toward China in the region.

The tables below set out certain forecast data of the global semiconductor market and the China (including Hong Kong) semiconductor market for the period from 2015 to 2018, respectively.

Global Semiconductor Market Demand Forecast (2015E – 2018E)

	2015E	2016E	2017E	2018E	CAGR 2015E-2018E
Units (<i>billion</i>)	800.0	830.0	860.0	900.0	4.0%
Average sales price (<i>US\$</i>)	0.44	0.44	0.44	0.43	-0.3%
Revenue (<i>US\$ billion</i>)	350.0	365.0	380.0	390.0	3.7%

Source: Prismark (2015E-2018E)

INDUSTRY OVERVIEW

China (including Hong Kong) Semiconductor Market Demand Forecast (2015 – 2018)

	<u>2015E</u>	<u>2016E</u>	<u>2017E</u>	<u>2018E</u>	<u>CAGR</u> <u>2015E-2018E</u>
Units (<i>billion</i>)	275.0	285.0	295.0	310.0	4.1%
Average sales price (<i>US\$</i>)	0.35	0.35	0.36	0.36	1.5%
Revenues (<i>US\$ billion</i>)	95.0	100.0	105.0	112.0	5.6%
China (including Hong Kong) share of revenue	27.1%	27.4%	27.6%	28.7%	–

Source: Prismark (2015E-2018E)

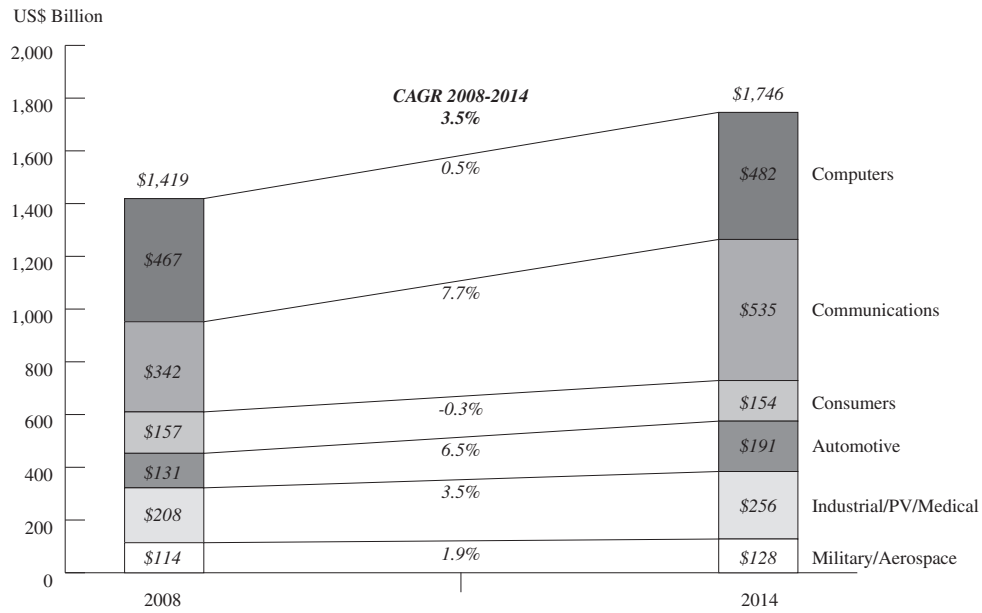
Prismark expects the market demand in the China (including Hong Kong) semiconductor market will continue to outpace that of the global semiconductor market. The global semiconductor market is expected to grow at a CAGR of approximately 3.7% from approximately US\$350.0 billion in 2015 to approximately US\$390.0 billion in 2018, while the China (including Hong Kong) market is expected to grow at a CAGR of approximately 5.6% from approximately US\$95.0 billion in 2015 to approximately US\$112.0 billion in 2018. As the migration of semiconductor manufacturing to China slows down and some companies turn to other locations in the region (such as Vietnam and India) for lower manufacturing costs, Prismark expects that market demand in terms of revenue in the rest of Asia (including Taiwan, Korea, Vietnam, Singapore, Thailand, Malaysia, etc.) will slightly recover and is expected to achieve a CAGR of approximately 6.0% from 2015 to 2018.

Global Growth Outlook by Application Segments

Semiconductors are used in a wide array of electronic application segments, such as computers, communications, consumers, automotive, industrial, medical, military and aerospace. The tables below show the growth of the electronics industry by application segments from 2008 to 2014, and a forecast for the period from 2015 to 2018.

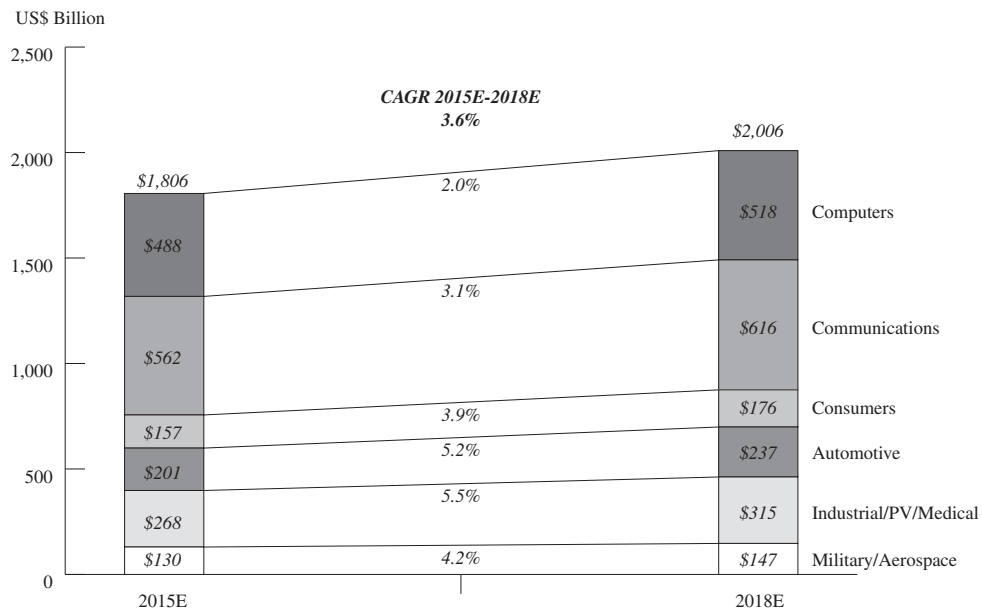
INDUSTRY OVERVIEW

Electronic Systems Global Revenue History by Application Segments (2008 – 2014)



Source: Prismark

Electronic Systems Global Revenue Forecast by Application Segments (2015E – 2018E)



Source: Prismark

INDUSTRY OVERVIEW

The communications and automotive segments had been a key growth driver from 2008 to 2014, with a CAGR of approximately 7.7% and 6.5% respectively, much higher than the average overall CAGR of approximately 3.5% for all segments during the same period. From 2015 to 2018, however, the growth of these two segments is expected to slow down. Prismark expects that the communications segment will experience a lower than average growth rate from 2015 to 2018 while the automotive segment is expected to achieve a growth rate slightly above average. As forecasted by Prismark, segments including industrial, PV and medical, automotive, military and aerospace are expected to be the growth drivers from 2015 to 2018.

Global Growth Outlook by Product Types

Semiconductor devices are manufactured both as single discrete devices and as integrated circuits. Discrete semiconductors are used in almost all electronic systems for power distribution, power conditioning, and other basic functional blocks. There are a variety of different types of discrete devices, including diodes, small signal transistors, power transistors, thyristors and rectifiers. The table below sets out the global unit shipments of discrete semiconductors by type for the periods indicated:

Global Unit Shipments of Discrete Semiconductors by Type

	2013	2014	2015E	2018E	2015E-2018E CAGR
	<i>(in billion units)</i>				
Diodes	146	154	162	190	5.5%
Small Signal Transistors	103	109	114	130	4.5%
Power Transistors	44	48	51	62	6.7%
Thyristors	61	65	69	83	6.4%
Rectifiers/Others	4	4	4	5	5.0%
Total	358	380	400	470	5.5%

Source: SIA (2013/2014)/Prismark (2015E/2018E)

INDUSTRY OVERVIEW

Global and China (including Hong Kong) Diode and Transistor (Discrete) Semiconductor Market Demand

Diodes and transistors collectively contributed to a significant portion of the global units of discrete semiconductors shipped in 2014. According to Prismark, the diode and transistor semiconductor market demand in terms of revenue grew from approximately US\$16.9 billion in 2008 to approximately US\$20.0 billion in 2014, representing a CAGR of approximately 2.8%, while the China (including Hong Kong) diode and transistor semiconductor market slightly outpaced the global market growth from approximately US\$4.8 billion in 2008 to approximately US\$6.2 billion in 2014, representing a CAGR of approximately 4.4%. The tables below set out certain data of the global and China (including Hong Kong) diode and transistor semiconductor market demand from 2008 to 2014, respectively.

Global Diode and Transistor (Discrete) Semiconductor Market Demand (2008 – 2014)

	2008	2009	2010	2011	2012	2013	2014	CAGR 2008- 2014
Units (<i>billion</i>).	324.0	289.0	371.0	356.0	346.0	358.0	380.0	2.7%
Average sales price (<i>US\$</i>)	0.052	0.049	0.053	0.060	0.055	0.051	0.053	0.1%
Revenue (<i>US\$ billion</i>). . .	16.9	14.2	19.8	21.4	19.1	18.2	20.0	2.8%

Source: SIA

China (including Hong Kong) Diode and Transistor (Discrete) Semiconductor Market Demand (2008 – 2014)

	2008	2009	2010	2011	2012	2013	2014	CAGR 2008- 2014
Units (<i>billion</i>).	108	85	130	125	120	124	138	4.2%
Average sales price (<i>US\$</i>)	0.044	0.041	0.045	0.046	0.042	0.045	0.045	0.2%
Revenue (<i>US\$ billion</i>). . .	4.8	3.5	5.9	5.8	5.0	5.6	6.2	4.4%
China (including Hong Kong) share of revenue	28.4%	24.6%	29.8%	27.1%	26.2%	30.8%	31.0%	–

Source: SIA

INDUSTRY OVERVIEW

Prismark expects that the growth of the China (including Hong Kong) diode and transistor semiconductor market will further outpace the global market primarily driven by the strong demand for end-products within China (including Hong Kong) in the next five years. The tables below set out the forecasts to the global and China (including Hong Kong) diode and transistor semiconductor market from 2015 to 2018, respectively.

Global Diode and Transistor (Discrete) Semiconductor Market Forecast (2015E – 2018E)

	<u>2015E</u>	<u>2016E</u>	<u>2017E</u>	<u>2018E</u>	<u>CAGR 2015E-2018E</u>
Units (<i>billion</i>)	400.0	420.0	430.0	470.0	4.0%
Average sales price (<i>US\$</i>).	0.053	0.052	0.053	0.050	-0.2%
Revenue (<i>US\$ billion</i>)	21.0	22.0	22.7	23.5	3.8%

Source: Prismark (2015E-2018E)

China (including Hong Kong) Diode and Transistor (Discrete) Semiconductor Market Forecast (2015 – 2018)

	<u>2015E</u>	<u>2016E</u>	<u>2017E</u>	<u>2018E</u>	<u>CAGR 2015E-2018E</u>
Units (<i>billion</i>)	147.0	155.0	162.0	170.0	5.0%
Average sales price (<i>US\$</i>).	0.045	0.045	0.046	0.046	0.7%
Revenue (<i>US\$ billion</i>)	6.6	7.0	7.4	7.8	5.7%
China (including Hong Kong) share of revenue	31.4%	31.8%	32.6%	33.2%	–


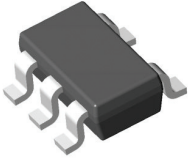
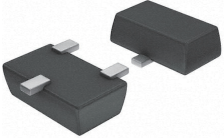
Source: Prismark (2015E-2018E)

INDUSTRY OVERVIEW


OVERVIEW OF THE DISCRETE SEMICONDUCTOR PACKAGES

Discrete Semiconductor Packages

Discrete semiconductors are typically packaged into a standard through-hole or surface mount package. Discrete semiconductor packages usually contain a single die, but some can also include multi-dies. According to Prismark, depending on the packaging technology deployed in the manufacturing process, discrete semiconductor packages are generally classified into four generations, as categorised in the table below:

<u>Generation</u>	<u>Package types</u>	<u>Key features</u>	<u>Product picture</u>
First	Axial and through-hole packaging, such as DO and TO series	Through-hole packages for mature applications. It is estimated that approximately 15% of diodes and transistors still use this generation of discrete packaging.	
Second	Traditional surface mount packages, such as certain model within the SOD and SOT series, mainly represented by SOT-23, SOT-89, SOT-223, SOT-323, and similar packages	Most commonly applied mainstream packages today, in particular for small signal transistors, but slowly losing favor to smaller packages.	
Third	Micro-package for discrete devices, which is also a surface mount package, mainly represented by SOT-723, SOT-963, SOT-1123, SOD-923, etc.	Fast growing, and cost competitive to mature packages. The typical size of a micro-package is about 1mm x 0.6mm x 0.4mm. Micro-packaged discrete semiconductors are targeted to meet the needs of today's demanding space-constrained portable applications. The penetration rate of these packages is still relatively low, but growing extremely fast.	

INDUSTRY OVERVIEW

<u>Generation</u>	<u>Package types</u>	<u>Key features</u>	<u>Product picture</u>
Fourth	QFN/DFN-style and WLCSP	<p>Fastest growing and driven by market demand for small size and better performance. Some applications are not ready to deploy such packages, but most consumer portables are already using these packages.</p> <p>For the WLCSP, a bumped die is directly attached to the board and no substrate or moulding compound is required for packaging. This offers a smaller package size, better electrical performance (specifically, lower on resistance) and possibly lower packaging cost compared to leadframe-based solutions. QFN and DFN style packages are quickly becoming the lowest cost and practical package for discrete companies to adopt.</p>	

Source: Prismark

INDUSTRY OVERVIEW

According to Prismark, the second and third generation discrete semiconductor packages represent the mainstream packages which are well accepted in the industry, and will also be utilised for many years to come. The fourth generation discrete semiconductor packages are expected to experience the highest growth rate among all types of discrete semiconductor packages. The table below sets out the global unit shipments of discrete semiconductor by package type in 2014, and forecasted global unit shipments by package type in 2018.

Global Diode and Transistor (Discrete) Semiconductor Market Growth by Package Type

<u>Package Types</u>	<u>2013</u>	<u>2014</u>	<u>2018E</u>	<u>2013 – 2018E CAGR</u>	<u>Major applications</u>
	<i>(in billion units)</i>				
DO	17	17	15	-2.5%	Diode, rectifier
SOD.	40	40	37	-1.6%	Diode
SOT-23 Similar.	101	108	125	4.6%	Diode, small signal transistor
SOT Others	57	61	70	4.2%	Diode, small signal transistor, thyristor
TO-92 Similar.	6.5	6.5	8	4.2%	Diode, small signal transistor
TO-220 Similar.	12.5	13.5	15	3.7%	Power transistor, rectifier
TO Others	12	12	15	4.6%	Diode, small signal transistor, power transistor, rectifier, thyristor
DPAK and Power-SO . . .	27	29	35	5.3%	Power transistor, rectifier
QFN, DFN, SC-70, etc. . .	60	65	100	10.8%	Diode, small signal transistor, power transistor, rectifier, thyristor
WLCSP.	25	28	50	14.9%	Diode, small signal transistor, power transistor
Total	358	380	470	5.6%	–

Source: Prismark

INDUSTRY OVERVIEW

Raw Materials and Cost Structure of Discrete Semiconductor Packages

According to Prismark, die cost and package assembly material cost collectively account for more than half of the total cost of packaging finished discrete semiconductors such as diodes and transistors. As a result, a price increase in die or any package assembly material would cause an increase in the average sales price of the final packaged discrete semiconductors.

The table below sets forth a breakdown of the principal raw material costs involved in packaging the typical discrete semiconductors such as diodes and transistors in 2011 and 2014, respectively:

Manufacturing Cost and Materials Breakdown of Diode and Transistor

	Diode		Transistor	
	2011	2014	2011	2014
	<i>(US\$ per finished device)</i>			
Average sales price	0.0110	0.0100	0.2600	0.2500
Die Cost	0.0028	0.0025	0.0800	0.0700
Raw Wafer Cost	0.0007	0.0005	0.0160	0.0140
Package Assembly	0.0060	0.0050	0.1100	0.1000
Leadframe	0.0012	0.0012	0.0200	0.0200
Gold/Copper Wire	0.0011	0.0005	0.0200	0.0100
Epoxy Moulding Compound . .	0.0006	0.0007	0.0040	0.0050
Die Attach	0.0005	0.0006	0.0100	0.0110

Source: Prismark

The historical cost reduction of package assembly has been enabled by material cost reductions. Material costs of both diodes and transistors decreased from 2011 to 2014, primarily due to the transition from using gold wire to copper wire during the manufacturing process. According to Prismark, discrete semiconductor packaging cost is expected to decrease 1.5% to 2.0% annually, which is primarily enabled by reduced material volume and/or cost, improved equipment efficiencies, improved yields and better plant and labour utilisation.

INDUSTRY OVERVIEW

MARKET PLAYERS AND COMPETITIVE LANDSCAPE

Market Players and Market Trend

The discrete semiconductor market is largely controlled by multinational companies such as Infineon, Toshiba, Renesas, NXP, and STMicro, who have dominated this market for decades. Although it will take new market entrants many years to develop a full spectrum of components as offered by the top-ten suppliers in the market, they still have opportunity as the number of end customers is potentially in the thousands, and the largest players cannot call out one customer that makes up even 5% of the total sales.

According to Prismark, the global top-ten semiconductor companies have consistently represented over 50% of the world-wide production of semiconductors between 2008 and 2014.

Chinese players in the market are mainly focused on discrete semiconductor package assembly for leading global players. As packaging costs can account for a significant portion of the manufacturing cost of finished discrete devices, ranging from 30% to 60% depending on die size and complexity, leading discrete semiconductor suppliers have few incentives to outsource much of their discrete packaging and testing, given that their internal cost structures are usually much more competitive. However, according to Prismark, approximately 15% of discrete semiconductor packaging are outsourced by a few key players.

According to Prismark, there has been a trend among the leading Chinese suppliers of discrete semiconductors to seek growth in the IC packaging business rather than the discrete semiconductor packaging business. On the other hand, while the supply of semiconductor components has been growing at approximately 15% to 20% annually, the market demand is growing at only 5% to 6% annually, leaving considerable discrepancies between supply and demand and thus intensifying the competition among the market players.

INDUSTRY OVERVIEW

The Competitive Landscape

According to Prismark, the semiconductor market in China (including Hong Kong) has been well served by companies who are long established participants in the market, and there are no specific and imminent threats and/or challenges at the industry level. Similar to the global market where the top-ten players have consistently represented over half of the total production, the semiconductor market in China (including Hong Kong) has high market share concentration for discrete semiconductors, making it challenging for smaller players with limited product offerings to penetrate the market.

To compete with the multinational companies who have advantages in brand recognition, resources, long-term customer relationships, and technology development enabled by investments, smaller players are expected to penetrate the market by offering customised solutions, faster delivery of products, as well as adherence to high-quality and services. In the long run, Prismark forecasts that there will be continuing emergence of smaller local players in the market, along with mergers among the large players. The competitive landscape has remained relatively unchanged in the past ten years.

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

REGULATORY OVERVIEW

We are subject to a wide range of governmental laws and regulations in the PRC. Set out below is a summary of the relevant laws and regulations that have significant impact on our operations, which is prepared with the objective to provide potential investors with a brief overview of the key laws and regulations applicable to us. This summary does not purport to be a comprehensive description of all the laws and regulations applicable to our business and operations which may be important to potential investors. Investors should note that the following summary is based on laws and regulations in force as at the date of this [REDACTED], which may be subject to change.

LAWS AND REGULATIONS RELATING TO OUR BUSINESS

General

Pursuant to the Catalogue for the Guidance of Foreign Investment Industries ((2015 Revision)(《外商投資產業指導目錄(2015年修訂)》)(the “**Foreign Investment Catalogue**”) jointly promulgated by MOFCOM and NDRC on 10 March 2015 and effective as at 10 April 2015, electronic manufacturing industry is categorised as permitted category for foreign investment and according to the Foreign Investment Catalogue, WFOEs manufacturing electronic information product are permitted.

At present, there is no specific governmental organisation that is responsible for administering the daily operation of the electronic manufacturing industry in the PRC. Instead, the daily operation of the electronic manufacturing industry is administered by different governmental departments, which mainly include (i) the AQSIQ and its local branches, (ii) the SAIC and its local branches, and (iii) the MIIT and its local branches.

Product Quality Law of the PRC

The quality of products in the PRC is governed by the Product Quality Law of the PRC (《中華人民共和國產品質量法》)(the “**Product Quality Law**”), whose amendments were promulgated by the Standing Committee on 8 July 2000 and came into effect on 1 September 2000 with the aim of regulating the supervision of product quality as well as setting out the liabilities for non-compliance of the regulation.

(i) System for Product Quality Management

According to the Product Quality Law, all producers and sellers shall have in place proper set of internal regulations concerning the management of product quality, post-oriented quality regulations, liabilities and measures for the assessment of the quality of products.

REGULATORY OVERVIEW

(ii) System for Voluntary Certification of Enterprise Quality Control System

Pursuant to the Product Quality Law, the State shall set up a system for certifying quality control system of business enterprises based on the quality control standards commonly accepted internationally. Business enterprises may voluntarily apply for certification of their quality control systems with the certification organisations recognised by the product quality supervision departments under the State Council or by the departments which are authorised by the product quality supervision departments under the State Council. Certificates for quality control systems shall be issued to enterprises which pass the certification.

Production Safety Law

The Production Safety Law of the PRC (《中華人民共和國安全生產法》)(the “**Production Safety Law**”) was promulgated by the Standing Committee on 29 June 2002, revised on 31 August 2014 and became effective on 1 December 2014. This law is applicable to entities that are involved in the production and business operation activities in the PRC. The production safety conditions of the production and business operation entities shall satisfy the requirements set out in the Production Safety Law and other relevant laws, administrative regulations, national standards or industrial standards. Any entity whose production safety conditions do not meet the above requirements may not engage in production and business operation activities. The production and business operation entities shall educate and train employees regarding production safety so as to ensure that the employees have the necessary knowledge of production safety, are familiar with the relevant regulations and rules for safe production and the rules for safe operation, master the skills of safe operation in their own positions, understand the emergency measures, and know their own rights and duties in terms of production safety. Employees who fail the education and training programmes on production safety may not commence working in their positions.

Furthermore, the design, manufacturing, installation, using, checking, maintenance, reforming and safe disposal of useful safety equipment shall also be in conformity with the national standards or industrial standards. The production and business operation entities shall also provide labour protection articles that meet the industrial standards or national standards to their employees as well as supervise and educate them to wear and use the articles in accordance with the usage rules.

System on Declaration Registration

Pursuant to the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the NPC on 22 January 1987 and amended on 8 July 2000, 9 June 2013 and 28 December 2013 by the NPC, consignors or consignees of imported or exported goods or declaration enterprises shall register with the Customs according to law, in order to complete the declaration procedure. In the absence of registration with the Customs, conducting declaration business is forbidden. Declaration enterprises and declaration personnel may not illegally act as an agent of others and declare, or conduct declaration activities exceeding their business scope.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Wholly Foreign Owned Enterprise

The Law on WFOE of the PRC (《中華人民共和國外資企業法》)(the “WFOE Law”), was promulgated by the NPC on 12 April 1986 and was amended by the Standing Committee on 31 October 2000. The Implementation Regulation of the WFOE Law (《中華人民共和國外資企業法實施細則》) was promulgated by the State Council on 12 December 1990 and amended on 12 April 2001 and 19 February 2014 respectively.

According to the WFOE Law and its Implementation Regulation, the ratio between the registered capital of a WFOE and its total amount of investment shall be in conformity with the relevant regulations of the PRC. In addition, according to the Interim Provisions on the Management of Foreign Debts (《外債管理暫行辦法》) promulgated jointly by the MOF, the NDRC and the SAFE on 8 January 2003, the aggregated amount of the long-term loans, mid-term loans and the balance of the short-term loans of a WFOE shall be less than the difference between its registered capital and total amount of investment authorised by the approval authority.

LAWS AND REGULATIONS RELATING TO LEASING

General

In accordance with the Law on the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), promulgated by the NPC on 5 July 1994 and amended on 30 August 2007 and 27 August 2009, the owner of a building as a lessor is entitled to lease his building to a lessee and receive rents from the lessee, and the lessor and lessee should conclude a written lease contract and agree on terms and conditions such as the term, purpose, rents and responsibility for maintenance and repair, etc. as well as other rights and obligations of both parties. The written lease contract shall be registered with the real estate administration department.

Lease of Real Estate

Under the Urban Real Estate Law and the Measures for Administration of Leases of Commodity Real Estate (《商品房屋租賃管理辦法》) promulgated by MOHURD on 1 December 2010 and effective as at 1 February 2011, the parties to a lease of a real estate are required to enter into a lease contract in writing. When a lease contract is signed, amended or terminated, the parties must register the details in 30 days with the real estate administration authority in the place in which the building is situated, otherwise, a maximum penalty of RMB10,000 may be imposed for non-registration of each lease.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

According to Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated on 26 December 1989 and amended on 24 April 2014 by the Standing Committee, entities that cause environmental pollution and other public hazards must incorporate environmental protection work into their plans, establish an environmental protection responsibility system, and adopt effective measures to prevent and control pollution and other harm caused to the environment by waste gas, wastewater, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, ray radiation, and electromagnetic radiation generated in the course of production, construction or other activities and entities that discharge pollutants must register with the relevant environmental protection authorities, and any violation of Environmental Protection Law may give rise to much more stringent punishment than ever before.

On 29 November 1998, the State Council promulgated the Regulations on the Administration of Environmental Protection of Construction Project (《建設項目環境保護管理條例》). On 28 October 2002, the Standing Committee promulgated the Law on Appraising of Environment Impact of the PRC (《中華人民共和國環境影響評價法》) which became effective on 1 September 2003. According to the aforesaid laws, the construction units responsible for the construction projects must submit corresponding environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval; where the construction project is governed by an industrial authority, the environmental impact appraisal documents shall be pre-reviewed by the industrial authority before submitting to the competent administrative department of environment protection for examination and approval. If the construction units fail to submit the aforesaid environmental impact appraisal documents according to the applicable PRC laws and regulations, or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for examination and approving the relevant construction projects shall not approve such projects and the construction units shall not commence the construction. Meanwhile, the environmental protection facilities for the pollution prevention and control at a construction project shall be designed, built and commissioned together with the main part. No permission shall be given for a construction project to be commissioned until its installations for (the prevention and control of pollution) are examined and assessed to be up to standard by the relevant administrative department of the environmental protection that is responsible for examining and approving the environmental impact statement of the applicant.

Under the amended Law on Prevention of Environmental Pollution Caused by Solid Waste of the PRC (《中華人民共和國固體廢物污染環境防治法》), which was promulgated on 30 October 1995 and last amended on 24 April 2015, entities and individuals that collect, store, transport, utilise or dispose of solid waste must take precautions against the spread, loss, and leakage of such solid waste or adopt such other measures to prevent such solid waste from polluting the environment.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

In 2007, the PRC Government adopted the EIT Law and the EIT Rules, both of which became effective on 1 January 2008. The EIT Law provides that all enterprises in the PRC, including FIEs, are generally subject to a uniform 25.0% enterprise income tax rate.

The EIT Law also provides that enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and are generally subject to the uniform 25.0% enterprise income tax rate as to their worldwide income. Under the EIT Rules, “de facto management bodies” are defined as the bodies that have material and overall management control over the business, personnel, accounts and real estate of an enterprise. On 22 April 2009, the SAT promulgated the Circular on Identification of China-controlled Overseas-registered Enterprises as Resident Enterprises on the Basis of Actual Management Organisation (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) with retroactive effect from 1 January 2008, to further provide certain specific criteria for determining whether the “de facto management bodies” for enterprises incorporated overseas with controlling shareholders that are PRC enterprises are located in the PRC. The criteria include whether (i) the premises where the senior management and the senior management bodies responsible for the routine production and business management of the enterprise perform their functions are mainly located within the PRC, (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in the PRC, (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. However, since there have been no official implementing rules regarding the determination of the “de facto management bodies” for foreign enterprises which are not controlled by the PRC enterprises (including companies like ourselves), there remains uncertainty on how the “de facto management body” test would be applied in our case.

Under the EIT Law and the EIT Rules issued by the State Council, the PRC income tax at the rate of 10.0% is applicable to dividends payable to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. A lower income tax rate of 5.0% is applied if the “non-resident enterprises” are registered in Hong Kong or other jurisdiction that have a tax treaty arrangement with China and such “non-resident enterprises” are deemed as “beneficial owners” to those dividends under such tax treaty and the competent PRC taxation authority has approved the application of such beneficial tax rate. On 27 October 2009, the SAT promulgated the Circular on How to Understand and Recognise the “Beneficial Owner” in Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中「受益所有人」的通知》)(the “**Circular 601**”). Circular 601 clarifies that a beneficial owner is a person

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having actual operation and this person could be an individual, a company or any other entity. Circular 601 expressly excludes a “conduit company,” which is established for the purposes of tax avoidance and dividend transfers and is not engaged in actual operations such as manufacturing, sales and management, from being a beneficial owner. On 29 June 2012, the SAT promulgated the Announcement of the State Administration of Taxation on the Determination of “Beneficial Owners” in Tax Treaties (《國家稅務總局關於認定稅收協定中「受益所有人」的公告》) which further clarifies the explanation and implementation of Circular 601.

In addition, any gain realised on the transfer of equity or shares by foreign enterprise is also subject to the PRC enterprise income tax at a rate of 10.0% if such gain is regarded as income derived from sources within the PRC. On 10 December 2009, the SAT issued the Circular 698, which became effective retroactively as at 1 January 2008 and was amended on 12 December 2013. Under Circular 698, where a non-PRC resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company (excluding buying and selling shares of a PRC resident enterprise on a public stock exchange) (the “**Indirect Transfer**”), the non-resident enterprise, being the transferor, shall report this Indirect Transfer to the competent tax authorities for the PRC resident enterprise. As a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at a rate of up to 10%. In addition, Circular 698 provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant PRC tax authorities can, at their discretion, make a reasonable adjustment to the taxable income of the transaction. On 3 February 2015, the SAT issued the Announcement 7. Announcement 7 has broadened the scope of the Indirect Transfer under Circular 698 to non-resident enterprises’ indirect transfer of (i) the assets of an “establishment or place” situated in the PRC; (ii) real property situated in the PRC; and (iii) equity interest in Chinese resident enterprises. Unlike Circular 698 which requires the transferor to report the Indirect Transfer to the relevant tax authority, under the Announcement 7, both the transferor and the transferee of an Indirect Transfer, and the target PRC resident enterprise, may voluntarily report the transfer by submitting a standard set of documents to the relevant tax authority. Voluntary reporting by the transferor will exempt it from the additional 5% punitive interest levy. The Announcement 7 has also elaborated on how to determine that an Indirect Transfer has “a reasonable commercial purpose” and specified the legal consequences for failing to withhold and pay tax.

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Value Added Tax

Pursuant to the Interim Regulation on the VAT of the PRC (《中華人民共和國增值稅暫行條例》) amended on 10 November 2008 and became effective on 1 January 2009, all entities and individuals in the PRC engaging in the sale of goods, the provision of processing services, repair and replacement services and the importation of goods are required to pay VAT as prescribed by this regulation. Except for those listed in the above regulation, any VAT exemption and reduction shall be prescribed by the State Council.

Pursuant to the Notice of the MOF and the SAT on VAT and Consumption Tax Policies for Exported Goods and Labour Services (《財政部、國家稅務總局關於出口貨物勞務增值稅和消費稅政策的通知》) which was promulgated on 25 May 2012 with retroactive effect from on 1 January 2011, VAT exemption and VAT redemption policies apply to goods exported by export enterprises.

Stamp Duty

Pursuant to the Provisional Rules on the Stamp Duty of the PRC (《中華人民共和國印花稅暫行條例》)(the “**Stamp Duty Rules**”), which was promulgated on 6 August 1988 and became effective on 1 October 1988, and amended on 8 January 2011, all businesses and individuals who conclude or receive any of the documents listed in Stamp Duty Rules are taxpayers to the stamp duty and shall pay stamp duty according to the Stamp Duty Rules. Documents which shall be regarded as taxable documents are (i) documents issued for purchase and sale transactions, process contracting, property leasing, commodity transportation, storage and custody of goods, loans, property insurance, technology contracts and other documents of a contractual nature; (ii) documents relating to the transfer of property title; (iii) business books of account; (iv) documentation of rights or licenses; (v) other documents determined by the MOF to be taxable.

LAWS AND REGULATIONS RELATING TO FOREIGN CURRENCY EXCHANGE

Under the amended Foreign Exchange Administration Rules of the PRC ((2008 Revision) (《中華人民共和國外匯管理條例(2008修訂)》) promulgated by the State Council, which was promulgated and came into effect on 5 August 2008, RMB is freely convertible for current account items, including transaction items in the balance of payment involving goods, services, incomes and current transfers. Conversion of RMB for capital account items, such as capital transfer, direct investment, securities investment, derivative products, and loans, however, is still generally subject to the approval or verification of the SAFE. On 13 February 2015, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**Circular 13**”), which came into force on 1 June 2015. Circular 13 cancels certain administrative approval procedures relating

REGULATORY OVERVIEW

to the domestic and overseas direct investment in certain districts, and the foreign exchange registration for domestic direct investment shall be directly reviewed and handled by qualified banks.

On 30 March 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資金結匯管理方式的通知》) (the “**Circular 19**”), pursuant to which, the foreign exchange capital of foreign-invested enterprises shall be subject to the discretionary foreign exchange settlement. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is temporarily determined as 100%. The SAFE also has the right to adjust the aforementioned proportion in due time based on the situation of international balance of payments.

On 4 July 2014, the SAFE promulgated the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”). The SAFE Circular No. 37 applies to PRC residents, including both PRC institutions and PRC individual residents (collectively the “**PRC Resident**”), who engage in offshore investment and financing and reverse investment activities via special purpose vehicles (the “**SPV**”). An SPV is an overseas enterprise which is directly established or indirectly controlled by a PRC Resident for the purposes of investment and financing with its lawful domestic enterprise assets or interests, or its lawful overseas assets or interests. Reverse investment is referred to the direct investment activities of a PRC Resident directly or indirectly via an SPV, i.e. establishing foreign-invested enterprises or projects within the territory of the PRC by ways such as newly establishment or mergers and acquisitions, etc., and the activities of obtaining interests such as ownership, control, operation management, etc.

Pursuant to the SAFE Circular No. 37, (a) a PRC Resident must register with the local SAFE branch before contributing assets or equity interests in an SPV, that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the SPV, including a change in the SPV’s PRC Resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV’s registered capital, share transfer or swap, merger or division and so on, or other similar significant change development. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties. If a non-listed SPV grants equity-based incentives to its directors, supervisors, senior officers in the domestic enterprise directly or indirectly controlled by it, as well as other employees in employment or labour relations with the company by using the company’s stock rights or options, the relevant domestic individual residents may apply for going through foreign exchange registration of a SPV before exercising its rights.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO LABOUR PROTECTION

The Labour Law (《中華人民共和國勞動法》) was promulgated by the Standing Committee on 5 July 1994 and became effective on 1 January 1995 and was revised on 27 August 2009. PRC Labour Contract Law was promulgated by the NPC on 29 June 2007 and became effective on 1 January 2008, and was amended on 28 December 2012, which has taken effect on 1 July 2013. The Implementing Regulations of the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) were promulgated by the State Council and became effective on 18 September 2008. The aforesaid laws and their implementing regulations govern the establishment of employment relationships between employers and employees, as well as the conclusion, performance, termination and amendment of employment contracts. To establish an employment relationship, a written employment contract must be signed. In the event that no written employment contract is signed at the time of the establishment of an employment relationship, a written employment contract must be signed within one month from the date on which the employer first engages the employee.

Under applicable PRC laws, rules and regulations, including the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the Standing Committee on 28 October 2010 and became effective on 1 July 2011, Several Provisions on Implementation of the Social Insurance Law of the PRC (《實施《中華人民共和國社會保險法》若干規定》), which were promulgated by the MOHRSS on 29 June 2011 and became effective on 1 July 2011, and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), which were promulgated by the State Council and became effective on 3 April 1999 and were amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance, maternity insurance, and housing provident funds. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to rectify the deficit within a stipulated time limit. As to the outstanding social insurance payment, a daily surcharge of 0.05% on any delinquent payments may be imposed on it. If a company fails to make such payments within the stipulated time limited, it may be liable to a fine equal to one to three times the amount of outstanding contributions. In the event that our Company fails to undertake deposit registration or fail to open housing provident fund accounts for our staff within the time period specified by the relevant PRC authorities, our Company may be subject to a fine ranging from RMB10,000 to RMB50,000. If our Company fails to pay housing provident fund within the time period specified by the relevant PRC authorities, such relevant PRC authorities may apply to court for compulsory execution.

HISTORY, REORGANISATION AND GROUP STRUCTURE

THE GROUP’S BUSINESS DEVELOPMENT

Introduction

Mr. Chow Hin Keong and Mr. Chow Hin Kok (collectively with Mr. Chow Hin Keong, the “**Chow Brothers**”), our executive Directors, are our co-founders. Mr. Chow Hin Keong has over 25 years of experience in the semiconductor industry some as a trader and some as a manufacturer. Mr. Chow Hin Keong commenced his career in the semiconductor industry when he joined a semiconductor manufacturer in 1989 as a marketing executive responsible for sales and marketing of semiconductors and liaising with customers and suppliers.

Leveraging on his experience in the semiconductor industry gained from his work, Mr. Chow Hin Keong set up his own trading, import and export of electronic components company in Penang, Malaysia – SAG Components Sdn Bhd (“**SAG**”), in 1994. SAG was principally engaged in the trading of various electronic components including diodes, bridge rectifiers and transistors which can be used in display monitors, power supplies, mobile phones and electrical appliances. Its customers mainly included companies in Malaysia, Singapore, and Indonesia. Later in 1995, Mr. Chow Hin Kok, the younger brother of Mr. Chow Hin Keong, joined SAG as a sales manager and to help Mr. Chow Hin Keong develop the business. The Chow Brothers have since then jointly developed their electronic components business. SAG was recognised in the June 1996 edition of an industry magazine as one of the diodes companies in Malaysia.

The products sourced and traded by SAG were sold to customers in the Southeast Asia with no particular focus in China. During their time in the industry, the Chow Brothers have recognised that China and Korea had a lot of potential to grow in semiconductor business. Seeing the close relationship between China and Hong Kong, the Chow Brothers therefore decided to set up a separate company in Hong Kong with an ultimate aim to establish production facilities in China. The Chow Brothers therefore co-founded our Group with their own resources on 14 December 2012 when they set up TD Enterprises and commenced trading in electronic and electrical parts and components. Subsequently on 27 April 2013, our manufacturing arm, Dongguan Jia Jun was established in the PRC, and our production facilities at Songshan Lake, Dongguan, Guangdong Province, the PRC commenced the business of assembly and packaging of discrete semiconductors in September of the same year.

In order to focus on the business of our Group, Mr. Chow Hin Keong disposed of all his shareholding in SAG to a management personnel of SAG and her affiliate who are Independent Third Parties in 2014. The Chow Brothers have ceased to have any interest in SAG or its business since then.

HISTORY, REORGANISATION AND GROUP STRUCTURE

When TD Enterprises was set up in December 2012, Mr. Chow Hin Keong had considered various ways to establish and grow our business in the most efficient and effective manner. Since Mr. Chow Hin Keong has already accumulated relevant experience and established relevant business contacts in the industry, he believed that a recognised established brand name would be a useful tool for our products to leverage on in order to quickly penetrate into the market. In this regard, Mr. Chow Hin Keong approached one of the long-term suppliers of SAG, Super Victory Enterprises Limited (“**Super Victory**”) which is a wholly-owned subsidiary of Sino-Tech International Holdings Limited (formerly known as Semtech International Holdings Limited) (“**Sino-Tech**”) whose shares are listed on the Stock Exchange, with a view to discussing an arrangement under which he could obtain a benefit of the brand “ST” by way of a licence to use, acquisition of interest, joint venture or otherwise.

Based on public information, Super Victory is principally engaged in the manufacturing and trading of electronic and electrical parts and components and has been selling its products under the brand name “ST” for over 10 years. As Mr. Chow Hin Keong had wished to have the control over and certainty of the duration and manner of his use of the “ST” brand name, he had ruled out the possibility of obtaining a licence to use the name or formation of a business joint venture with Super Victory which would both ordinarily be of a fixed duration and be terminable by the parties at any given time. Therefore, in May 2013, Mr. Chow Hin Keong acquired from a subsidiary of Sino-Tech a 50% equity interest in SEL which has no operations and whose sole assets are the SEL Trademarks at a total consideration of HK\$5,000,000. Based on public available information, SEL is not accounted for as a subsidiary of Sino-Tech after such acquisition. The parties had come to such arrangement as it was an understanding of the parties that the products sold by the two groups would be different in terms of electric current capability, efficiency, size and application. Since then, Mr. Chow Hin Keong has procured SEL to license the SEL Trademarks to our Group for use in our business at nil consideration. SEL has also licensed the SEL Trademarks to Super Victory.

We have labelled the boxes containing our Group’s products with our name “Top Dynamic” and the mark “ST” with the objective of increasing customers’ awareness of our name “Top Dynamic”. For the purpose of facilitating the [REDACTED] and to maintain operational independence from Mr. Chow Hin Keong who is one of our controlling Shareholders, on 15 June 2015, TD Electronics entered into the Transfer Agreements to acquire the ST Mark from SEL at a consideration of HK\$2,600,000. Although we intend to gradually phase out the ST Mark from the boxes of our products, we consider it necessary for our business at this stage to conduct such acquisition to eliminate the potential uncertainty associated with an interim arrangement such as a licence. To reduce the risk of being potentially affected by adverse publicity which may arise from the use of the SEL Trademarks by other parties including Super Victory, SEL has on 22 June 2015 entered into the Deed of Undertaking in favour of us, under which SEL has agreed, among other matters, to procure any licensee of the SEL Trademarks not to manufacture and/or sell products with specifications similar to our products except if those products are manufactured by us. For risks relating to the potential negative effect from the use of the ST Mark, please refer to the sub-section headed “*Risk Factors – Risk Relating to Our Business – Any adverse publicity or other adverse developments that may affect the SEL Trademarks generally may result in a*”

HISTORY, REORGANISATION AND GROUP STRUCTURE

material adverse effect on our business, results of operations and financial condition.” of this [REDACTED]. As our customers begin to recognise our name “Top Dynamic”, we intend to market our name “Top Dynamic” on a standalone basis and will gradually phase out the “ST” mark from our products when we consider that it is in the interest of our business to do so.

Milestones in our business development

The following table sets out the milestones of our Group’s business development:

<u>Time</u>	<u>Business achievements</u>
December 2012	Mr. Chow Hin Keong and Mr. Chow Hin Kok co-founded the Group via setting up TD Enterprises and commenced trading in power supply sector products with customers in the PRC and Hong Kong
January 2013	We commenced trading display monitor sector products to customers in Korea
April 2013	Dongguan Jia Jun obtained its business license
August 2013	We commenced trading products to customers in Taiwan
September 2013	Our production facilities at Songshan Lake, Dongguan, the PRC commenced manufacturing operation and we commenced supplying self-manufactured products to customers in PRC
	We commenced trading household appliances sector and mobile phone sector products
	Our TD Trademarks were registered in Hong Kong
October 2013	We commenced selling self-manufactured products to customers in Hong Kong
November 2013	We commenced selling self-manufactured products in the mobile phone and battery pack sector
	We commenced trading products to customers in Europe

HISTORY, REORGANISATION AND GROUP STRUCTURE

<u>Time</u>	<u>Business achievements</u>
December 2013	We commenced selling self-manufactured products to customers in the charger sector
	We commenced trading products in the healthcare sector
March 2014	We commenced selling our self-manufactured products to customers in Europe
April 2014	We commenced selling our self-manufactured products to customers in Taiwan
	We commenced trading products in the MP3 and Bluetooth sector and products used in printer and LCD TV panel
August 2014	We commenced selling self-manufactured products in the mobile phone charger sector
December 2014	We commenced selling self-manufactured products in the computer motherboard sector, CCD camera sector and mobile surface mount sector
February 2015	We commenced selling our self-manufactured products in the display monitor sector
March 2015	We commenced selling our self-manufactured products in household appliance sector
April 2015	We commenced trading products in the travel adaptor and battery charger sector to customers in Vietnam

CORPORATE HISTORY

Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 September 2014. On the date of incorporation, the authorised share capital of the Company was HK\$50,000 divided into 500,000 ordinary shares of HK\$0.1 each and one Share was allotted and issued nil-paid to the initial subscriber (an Independent Third Party),

HISTORY, REORGANISATION AND GROUP STRUCTURE

which was subsequently transferred to Platinum Dynamic on the same date. Another one share in the Company was allotted and issued nil-paid to Silver Dynamic on the same date. On 27 October 2014, the Chinese name of our Company changed from 泰邦國際控股有限公司 to 泰邦集團國際控股有限公司.

Pursuant to the Reorganisation, on [•], our Company acquired from Mr. Chow Hin Keong and Mr. Chow Hin Kok their respective 50% shareholding in TD Int'l (BVI) for HK\$32.3 million, being the net asset value of TD Int'l (BVI) and its subsidiaries as of 31 March 2015, which was settled by (i) the issuance by our Company of one share in the Company to each of Platinum Dynamic and Silver Dynamic as the respective nominees of Mr. Chow Hin Keong and Mr. Chow Hin Kok and (ii) our Company crediting the one nil-paid share in the Company held by each of Platinum Dynamic and Silver Dynamic as fully paid.

On [•] 2015, our Shareholders approved the Subdivision, pursuant to which each issued and unissued Share in the Company of HK\$0.10 each was sub-divided into ten Shares of HK\$0.01 each.

On [•] 2015, the authorised share capital of our Company was increased from HK\$50,000 to HK\$20,000,000 by the creation of an additional 1,995,000,000 Shares ranking *pari passu* in all respects with the then existing Shares.

On [•] 2015, our Company acquired two loans each in the amount of HK\$30,000,000 owed by TD Enterprises to Mr. Chow Hin Keong and Mr. Chow Hin Kok respectively on a dollar-for-dollar basis, and as a result, our Company is indebted to Mr. Chow Hin Keong and Mr. Chow Hin Kok two loans, each in the amount of HK\$30,000,000 (the “Loans”). On the same date, the Loans were respectively capitalised in full by our Company by the issue of (i) 30,000,000 Shares, credited as fully paid, to Platinum Dynamic as the nominee of Mr. Chow Hin Keong, and (ii) 30,000,000 Shares, credited as fully paid, to Silver Dynamic as the nominee of Mr. Chow Hin Kok.

Pursuant to the [REDACTED] and the [REDACTED], our Company will have in issue [REDACTED] Shares immediately prior to [REDACTED].

Our Company is principally engaged in investment holding. As at the Latest Practicable Date, our Group comprised the Company and its wholly-owned subsidiaries, namely TD Int'l (BVI), TD (BVI), TD Enterprises, TD Electronics, Top Empire and Dongguan Jia Jun.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The Other Members of Our Group

TD Int’l (BVI)

TD Int’l (BVI) was incorporated under a former name in the BVI with limited liability on 25 August 2009 and is authorised to issue a maximum of 50,000 shares with no par value. Upon its incorporation, 1,000 shares were issued fully paid for US\$1,000 to its first shareholder, an Independent Third Party, which were subsequently transferred to Mr. Chow Hin Keong and Mr. Chow Hin Kok on 30 November 2012. On [•], Mr. Chow Hin Keong and Mr. Chow Hin Kok transferred their respective shareholding in TD Int’l (BVI) to our Company under the Sale and Purchase Agreement. As a result, TD Int’l (BVI) became a direct wholly-owned subsidiary of our Company. TD Int’l (BVI) is principally engaged in investment holding.

TD (BVI)

TD (BVI) was incorporated under a former name in the BVI with limited liability on 13 October 2009 and is authorised to issue a maximum of 50,000 shares with no par value. Upon its incorporation, 100 shares were issued fully paid for US\$100 to TD Int’l (BVI), its sole shareholder. TD (BVI) is principally engaged in investment holding.

TD Enterprises

TD Enterprises was incorporated in Hong Kong as a private company with limited liability on 11 July 2012. On the date of its incorporation, one share in its share capital was allotted and issued fully paid to its initial subscriber, an Independent Third Party, for a consideration of HK\$1.00, which was subsequently transferred to TD (BVI) on 14 December 2012. As a result, TD Enterprises became a wholly-owned subsidiary of TD (BVI). TD Enterprises is principally engaged in the business of sourcing of raw materials and production plant and equipment for our Group’s products and sale and distribution of the Group’s products outside the PRC.

TD Electronics

TD Electronics was incorporated in Hong Kong as a private company with limited liability on 23 August 2013. On the date of its incorporation, one share in its share capital was allotted and issued fully paid for a consideration of HK\$1.00 to TD (BVI), its sole shareholder. TD Electronics has not commenced any business operation and is the holder of our registered TD Trademarks and the ST Mark.

Top Empire

Top Empire was incorporated in Hong Kong as a private company with limited liability on 18 March 2013. On the date of its incorporation, one share in its share capital was allotted and issued fully paid for a consideration of HK\$1.00 to its initial subscriber, an Independent Third

HISTORY, REORGANISATION AND GROUP STRUCTURE

Party, which was subsequently transferred to TD (BVI) on 9 July 2013. As a result, Top Empire became a wholly-owned subsidiary of TD (BVI). Top Empire is principally engaged in the provision of inter-company management services within the Group.

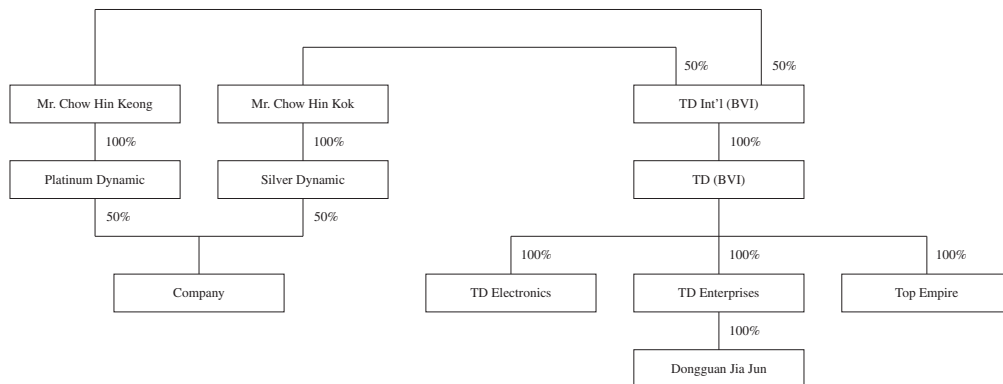
Dongguan Jia Jun

Dongguan Jia Jun was established in the PRC with limited liability on 27 April 2013 and its entire equity interest is wholly-owned by TD Enterprises. The initial registered capital of Dongguan Jia Jun is US\$8,000,000 which was fully paid up on 23 January 2015. Dongguan Jia Jun commenced operations in September 2013. It is principally engaged in the business of manufacturing and selling semiconductor products and trading of other semiconductor products in the PRC.

THE REORGANISATION

Corporate Structure of the Group

The following chart illustrates the corporate structure of the Group immediately prior to the Reorganisation:



Reorganisation

Our Group underwent the Reorganisation in preparation for the [REDACTED] pursuant to which our Company became the holding company of TD Int'l (BVI) and its subsidiaries. On [•], Mr. Chow Hin Keong, Mr. Chow Hin Kok, TD Int'l (BVI) and our Company entered into the Sale and Purchase Agreement under which (i) Mr. Chow Hin Keong transferred to our Company his entire shareholding in TD Int'l (BVI); and (ii) Mr. Chow Hin Kok transferred to our Company his entire shareholding in TD Int'l (BVI). The aggregate consideration for the above transfer was HK\$32.3 million, being the net asset value of TD Int'l (BVI) and its subsidiaries as of 31 March 2015, was satisfied by (i) our Company issuing one share in the Company to Platinum Dynamic and one share in the Company to Silver Dynamic as the respective nominees of each of Mr. Chow Hin Keong and Mr. Chow Hin Kok; and (ii) our Company crediting the one nil-paid share in the Company held by each of Platinum Dynamic and Silver Dynamic as fully paid.

HISTORY, REORGANISATION AND GROUP STRUCTURE

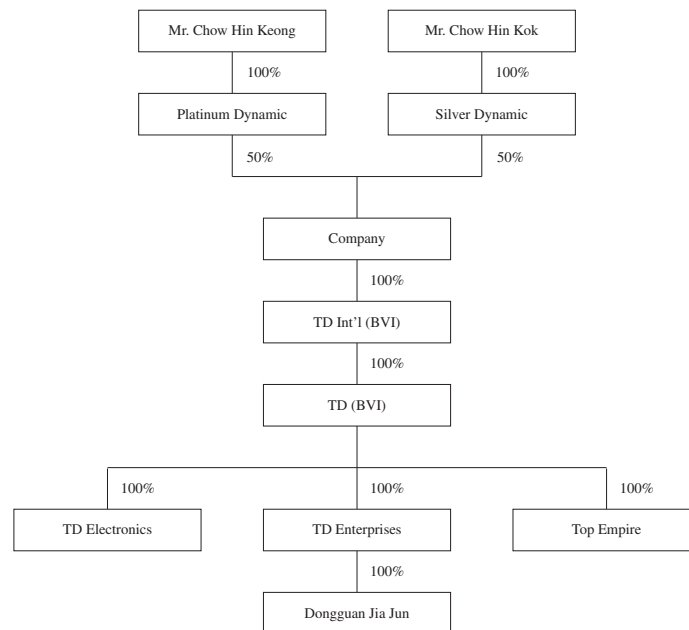
On [•] 2015, our Shareholders approved the Subdivision, pursuant to which each issued and unissued share in the Company of HK\$0.10 each was sub-divided into ten Shares of HK\$0.01 each.

On [•] 2015, the authorised share capital of our Company was increased from HK\$50,000 to HK\$20,000,000 by creation of an additional 1,995,000,000 Shares ranking *pari passu* in all respects with the then existing Shares.

On [•] 2015, our Company acquired two loans each in the amount of HK\$30,000,000 owed by TD Enterprises to Mr. Chow Hin Keong and Mr. Chow Hin Kok respectively on a dollar-for-dollar basis, and as a result our Company is indebted to each of Mr. Chow Hin Keong and Mr. Chow Hin Kok the two Loans. On the same date, the Loans were respectively capitalised in full by our Company by the issue of (i) 30,000,000 Shares, credited as fully paid, to Platinum Dynamic as nominee of Mr. Chow Hin Keong, and (ii) 30,000,000 Shares, credited as fully paid, to Silver Dynamic as nominee of Mr. Chow Hin Kok.

Pursuant to the [REDACTED] and the [REDACTED], our Company will have in issue [REDACTED] Shares immediately prior to [REDACTED].

The following diagram shows the shareholding and corporate structure of our Group upon completion of the Reorganisation:



HISTORY, REORGANISATION AND GROUP STRUCTURE

PRC REGULATORY COMPLIANCE

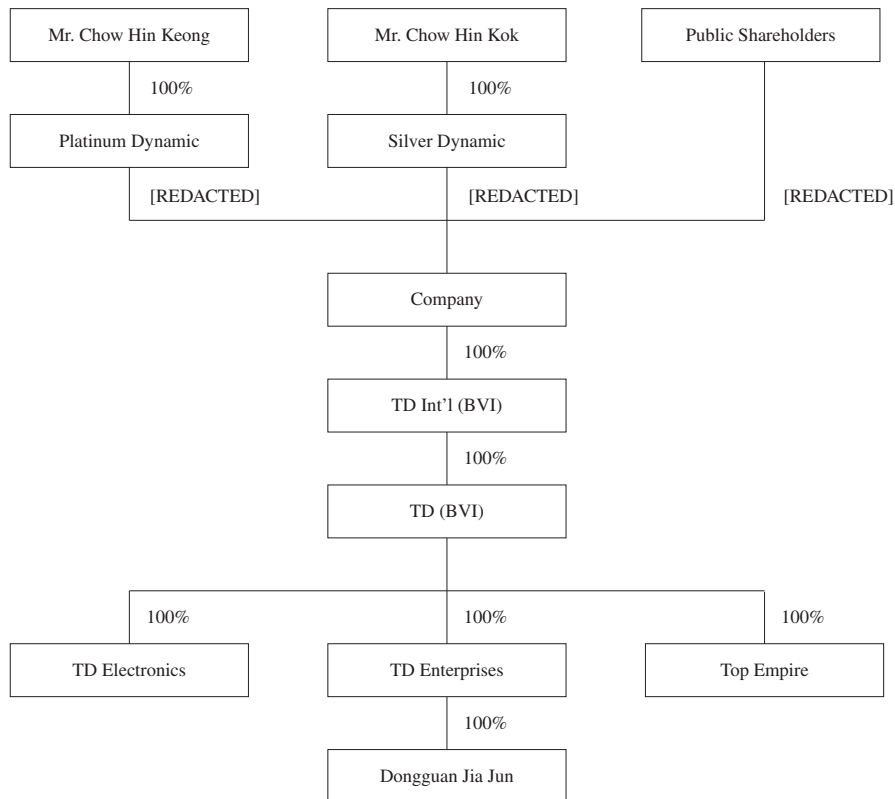
Our PRC Legal Advisers have confirmed that the Reorganisation is not in violation of the applicable PRC laws and regulations and that no approval or license from PRC regulatory authorities is required in order to effect the Reorganisation. It has also confirmed that the [REDACTED] does not require approval from PRC authorities including MOFCOM and the China Securities Regulatory Commission.

SAFE Circular No. 37 requires a PRC Resident to register with the local SAFE branch before he or she contributes assets or equity interests in a SPV that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the SPV, or any increase or reduction of the SPV’s registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the SPV’s PRC subsidiary to distribute dividends to its overseas parent. For definitions of the terms “PRC Resident” and “SPV”, please refer to the section headed “*Regulatory Overview*” of this [REDACTED].

Our PRC Legal Advisers have advised that as neither Mr. Chow Hin Keong nor Mr. Chow Hin Kok is a PRC Resident under the provisions of SAFE Circular No. 37, they are not subject to the registration requirements under SAFE Circular No. 37.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The following diagram shows the shareholding and corporate structure of our Group immediately after the Reorganisation and completion of the [REDACTED] and [REDACTED] but without taking into account of any Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme:



BUSINESS

OVERVIEW

We are a discrete semiconductor manufacturing solution provider 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. In addition, upon the request of our customers, we assist them in sourcing from third-party suppliers, where applicable, of the semiconductors they require, usually integrated/bundled with our self-manufactured products. 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.

BUSINESS

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 80 customers located mainly in the PRC, Hong Kong, Korea, Thailand, Vietnam, Taiwan and Japan as at the Latest Practicable Date.

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

OUR COMPETITIVE STRENGTHS

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

Reputation as a high-quality manufacturer of discrete semiconductor packages

We believe we enjoy a strong reputation with our customers for our reliability and ability to provide high-quality products consistently. We have maintained the quality of our products by implementing relatively stringent quality control procedures. We emphasise quality and reliability in the manufacture of our products. We have established quality assurance standards to meet our customers’ requirements. Our quality control team is responsible for ensuring that raw materials, semi-finished and finished products used or produced by us pass through our quality control processes and meet our standards. To ensure our product quality, our raw material procurement policy is to select only those suppliers on our approved list who have passed our quality control tests and have a satisfactory record of quality and on-time delivery. We also monitor our manufacturing processes, and conduct performance and reliability testing in an attempt to ensure that our products have a low defect rate and meet the expectations of our customers. In addition, we communicate regularly with our customers to obtain feedback on the quality standards of our products. In recognition of our quality assurance systems, our production facilities certified in relation to our quality management systems (ISO 9001:2008) in January 2014, hazardous substance process management system requirements (IECQ QC080000:2012) in November 2014 and environmental management system (ISO 14001:2004) in June 2015.

BUSINESS

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

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

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

Ability to provide high-quality customer service

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

- responsiveness to customers’ requirements in terms of lead time and product cycle time;
- flexibility in providing customised solutions and in production scheduling;
- timely delivery of products in the required volumes;
- strict adherence to high-quality technical specifications; and
- prompt and knowledgeable responses to customer inquiries and timely attention to requests for technical assistance by qualified professionals.

BUSINESS

Equipped with technologically advanced production lines and strong technology expertise

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

Strong and stable management team with extensive industry experience

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

OUR BUSINESS OBJECTIVES AND STRATEGIES

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

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

Our products are priced on a cost-plus basis and we generally achieve a higher gross profit margin on our self-manufactured products than our trading products. Our gross profit margin for sales of self-manufactured products for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015 were approximately 44.6%, 39.8% and 42.7%, respectively, while our gross profit margin of trading products sourced from third-party suppliers were approximately 10.2%, 13.7% and 13.6%, respectively, for the same periods. We intend to continue to improve our profitability through offering more self-manufactured products to attain a higher overall gross profit margin. We will continue to invest in production lines and equipment.

BUSINESS

Given that the production capacity of some of our products are close to saturation, we plan to further expand our production facilities and increase our production capacity by adding new machineries including wire bonders, die bonders, moulding machines, trimmers, laser markers and handlers. Please refer to the section headed “*Future Plans and Use of Proceeds*” for details of our expansion plan. As at the Latest Practicable Date, we have no plan to expand through acquisition and have not identified any acquisition targets.

Notwithstanding a short history of less than three years, we have already attracted over 80 customers located mainly in the PRC, Hong Kong, Korea, Thailand, Vietnam, Taiwan and Japan as at the Latest Practicable Date. In order to further expand and broaden our customer base, we intend to increase our brand recognition and penetrate markets in which we expect economic growth and have experienced growth opportunities, such as Korea, Taiwan, Japan and the PRC. We plan to achieve the above, through, among others, the following avenues:

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

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

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

BUSINESS

our continuous efforts to offer additional ultra-small, thin profile near chip scale leadframe packages, we have deployed clip bonding technology to further improve thermal ability of our products and we are also following the market demand to migrate from gold wire bonding to copper wire bonding in order to lower our manufacturing costs.

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

Continue to focus on value-added services to customers

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

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

Continue to attract and retain top talent in the industry

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

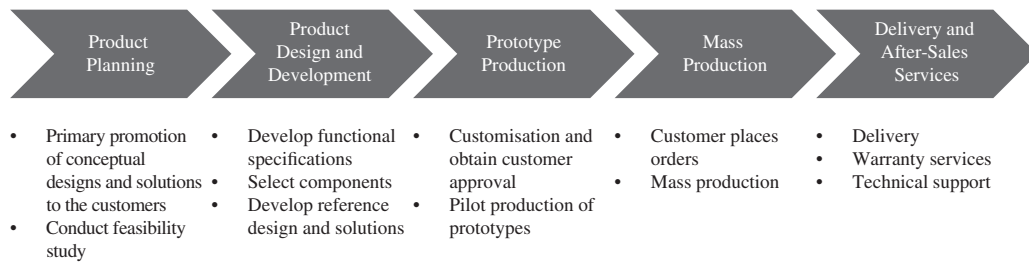
BUSINESS

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

OUR BUSINESS MODELS

Manufacturing Business

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



Product Planning

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

Product Design and Development

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

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Prototype Production

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

Mass Production

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

Delivery and After-sales Services

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

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

Trading Business

To complement sales of our self-manufactured products, we are also engaged in trading of semiconductors sourced from third-party suppliers. We started off as a trading company of semiconductors in December 2012. Since our production facilities commenced operations in September 2013, our turnover derived from sales of our self-manufactured products as a percentage of our total turnover increased from approximately 24.9% for the year ended 31 December 2013 to approximately 50.7% for the year ended 31 December 2014 and further increased to approximately 65.3% for the three months ended 31 March 2015. However, upon the request of our customers, we still assist them in sourcing from third-party suppliers, where

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applicable, of the semiconductors they require, usually integrated/bundled with our self-manufactured products. For details of our value-added solution kits services, please refer to the sub-section headed “– *Products and Services Provided – Products Sourced from Third-Party Suppliers and Solution Kits Services*” in this section.

PRODUCTS AND SERVICES PROVIDED

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

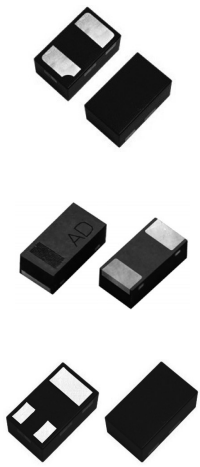

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover
	(unaudited)							
Turnover								
Manufacturing business	11,390	24.9	80,745	50.7	9,242	39.6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

Self-Manufactured Products



We are primarily involved in the packaging and testing processes of the semiconductor manufacturing. Please refer to the sub-section headed “– *Manufacturing and Facilities – Overview of Semiconductor Manufacturing Process*” in this section for details of the major processes involved in the semiconductor manufacturing. Our self-manufactured products are used in consumer and industrial portable electronics such as mobile phones, display monitors, LED televisions, portable electronic equipment and power supplies manufactured by OEM/ODM manufacturers for well-known consumer electronic brands such as Samsung, LG, BYD, Rftech and Skyworth.

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

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

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

Note:

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

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Products Sourced from Third-Party Suppliers and Solution Kits Services

We assist our customers in fulfilling most, if not all, of the semiconductors they require in their solution kits. We usually try to fulfil the solution kits first from our existing self-manufactured products. Our sales and marketing staff with their specialised 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. Upon the request of our customers, we will also assist them in sourcing from third-party suppliers any parts or components outstanding from the solution kits.

Engineering Solutions Services

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

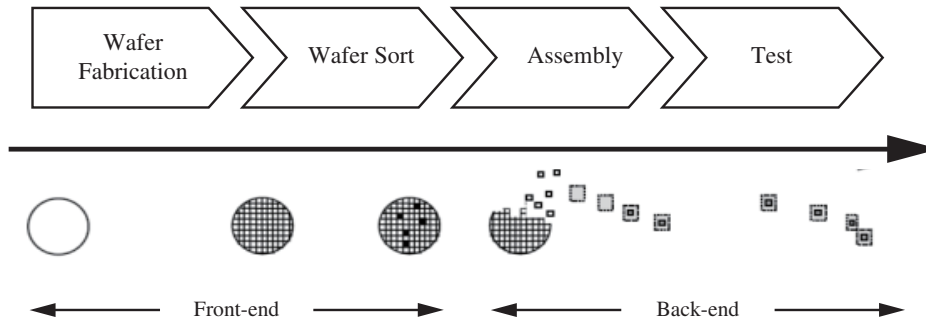
Although we amortise our value-added engineering solutions services into our unit sales prices and do not record them as separate sources of turnover, we believe that they have enabled us to create demand for our products. In addition, an interaction with our customers allows us to understand their immediate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

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MANUFACTURING AND FACILITIES

Overview of Semiconductor Manufacturing Process

The manufacturing of semiconductors is a process that requires relatively sophisticated engineering and manufacturing expertise. The following diagram illustrates the major processes involved in the semiconductor manufacturing:



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

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Production Facilities and Capacities

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

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

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

Notes:

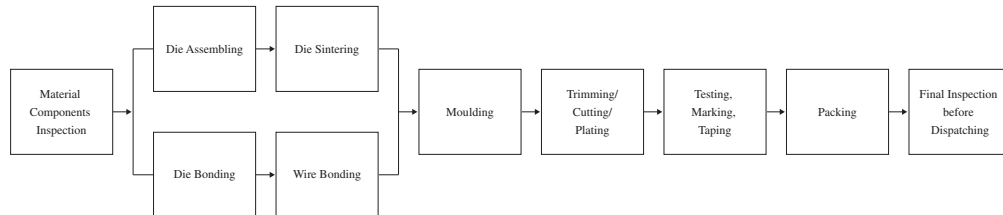
- (1) Maximum production capacity is calculated based on the period commencing on the day of first production of the relevant product and ending on the relevant year/period, adjusted for workers’ shift change and holidays. It is assumed that our production facilities operate 22 hours per day under usual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

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

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Production Processes

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



Die Assembling Process

Step 1 – Material/Components Incoming Inspection

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

Step 2 – Die Assembling

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

Step 3 – Die Sintering

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

Step 4 – Moulding

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

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Step 5 – Trimming/Cutting/Plating

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

Step 6 – Testing, Marking and Taping

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

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

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

Step 7 – Packing

The completed products will then be labelled and packed.

Step 8 – Final Inspection Before Dispatching

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

Die Bonding Process

Step 1 – Material/Components Incoming Inspection

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

Step 2 – Die Bonding

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

Step 3 – Wire Bonding

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

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Step 4 – Moulding

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

Step 5 – Cutting

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

Step 6 – Testing, Marking and Taping

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

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

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

Step 7 – Packing

The completed products will then be labelled and packed.

Step 8 – Final Inspection Before Dispatching

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

Subcontracting

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

We generally are not required to solicit consent from our customers to engage subcontractors as there were no stated restrictions regarding subcontracting in the relevant purchase orders. However, if customers require us not to engage in any subcontracting in producing their products without their prior consent, we will comply with such requirements and seek consent from the customers before subcontracting. For each of the two years ended 31

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December 2013 and 2014, and the three months ended 31 March 2015, the subcontracting fees paid to our independent subcontractor amounted to approximately HK\$0.2 million, HK\$2.3 million and HK\$0.8 million, respectively, representing approximately 0.5%, 2.0% and 2.4%, respectively, of the total cost of sales during the same periods.

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

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

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

QUALITY CONTROL

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

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Incoming Quality Control

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

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

In-Process Quality Control

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

Outgoing Quality Control

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

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

SALES AND MARKETING

Customers

Notwithstanding a short history of less than three years, we have had business dealings with over 80 customers located mainly in the PRC, Hong Kong, Korea, Thailand, Vietnam, Taiwan and Japan as at the Latest Practicable Date. Our customers usually include (i) trader customers which generally on-sell our products to others and/or (ii) manufacturers which use our products as components, and either manufacture end-products on an OEM/ODM basis for others or in their own brands. We treat our trader customers in the same way as we treat our manufacturer customers. As at the Latest Practicable Date, we do not control or enter into any distribution or franchise agreement with any of our trader customers, nor do we monitor their inventory level or sales level. They do not hold any inventory under our name either. None of our Directors or Substantial Shareholders has any interest, direct or indirect, in any of our trader customers.

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

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

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

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

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

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

Overlapping of Customers and Suppliers

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

For each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, five of our customers were also our suppliers. Sales to such customers who were also suppliers attributed to approximately 36.2%, 15.5% and 13.7%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015. The amount of purchases from such customers who were also suppliers attributed to approximately 29.8%, 42.3% and 37.6%, respectively, of our total purchases for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our gross profit derived from the sales of products to such customers were approximately HK\$5.1 million, HK\$9.5 million and HK\$2.0 million, respectively, for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, and our gross profit

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margin for the sales of products to such customers were 31.0%, 38.3% and 30.1%, respectively, for the same periods. Our gross profit margin for the sales to such customers varied during the Track Record Period, primarily due to the different product mix sold to such customers.

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

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

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

Relationship with Particular Customers

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

Supplier III, one of our top five suppliers was also one of our top ten customers during the Track Record Period. Sales to Supplier III attributed to approximately 5.7%, 3.5% and 3.0%, respectively, of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Purchase from Supplier III attributed to approximately 12.0%, 27.2% and 11.2%, respectively, of our total purchases for each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015. Products sold to Supplier III mainly include DFN1006 and SOD123FL, the price of which were mainly determined based on costs plus the expected profit margin determined by our management team. Products purchased from Supplier III mainly include glass diodes and TO92 products. Our decision to purchase from Supplier III depends upon the prevailing market prices of such products from other suppliers. In addition, the parent company of Supplier III also holds 50% of the entire issued share capital of SEL with whom we have entered into the Transfer Agreements to acquire the ST Mark.

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Sales Markets

Our products are sold in the PRC, Hong Kong and certain overseas markets in Asia (other than the PRC and Hong Kong) and Europe. The following table sets out a breakdown of our turnover by geographic locations of our customers during the Track Record Period:

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover
	(unaudited)							
Geographic locations								
PRC	19,191	42.0	69,527	43.6	11,981	51.4	20,014	40.8
Asia (excluding PRC and Hong Kong) ⁽¹⁾	18,376	40.2	63,913	40.1	7,378	31.7	24,428	49.8
Hong Kong	7,193	15.8	14,876	9.3	1,610	6.9	2,497	5.1
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) These Asian markets (excluding the PRC and Hong Kong) are Korea, Thailand, Vietnam, Taiwan and Japan.
- (2) The relevant European country is Germany.

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

Sales and Distribution Channels

Direct Sales

We primarily sell our products to customers through direct sales. Our sales and marketing efforts are customer-driven because we believe that knowledge of our customers’ requirements and specifications is critical to our ability to offer products to meet their changing needs. We maintain a database of our existing customers with information regarding their previous purchases and credit history. In addition, we also collect information about companies which we believe may become our customers in the future. We believe this database assists us in developing the most appropriate marketing approach. We contact our existing and potential customers

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periodically. We meet with them with a view to understanding the technical requirements and sales objectives of our customers, as well as to discuss how our products and capabilities can be effectively utilised in their product lines.

Third-party Agent

We consider engaging third-party agent with local knowledge is a more efficient and cost-effective way of quickly broadening our sales networks and reaching out to targeted international customers, as compared to the fixed cost of employing and growing an international sales force to achieve the same result, and maintaining satellite offices in location where we have no significant presence. As at the Latest Practicable Date, we sold our products through a third-party agent in Korea, which is an Independent Third Party. In addition, this agent also placed orders directly with us and was our top customer in 2013 and 2014 and one of the top five customers for the three months ended 31 March 2015 accounting for approximately 23.3%, 10.5% and 6.2% respectively of our total turnover for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. Our third-party agent performs a useful role in identifying business and market opportunities and business networking thereby enabling us to deploy our resources to concentrate on product development, branding and cultivating our relationships with our existing and potential customers elsewhere. We generally enter into an agency commission agreement with our third-party agent with a term of two years, which is usually renewable automatically for another one year upon the expiration of its terms. Pursuant to the agreement, we grant such third-party agent the rights to procure business from the customers named in the agreement. We pay our third-party agent commission based on a percentage, generally ranging from approximately 2% to 18%, of our turnover generated from the actual sales to the named customers. For sales referred by our third-party agent, we invoice and deliver our products directly to the customers. For each of the two years ended 31 December 2013 and 2014, and the three months ended 31 March 2015, the total amount of commission paid to our third-party agent amounted to HK\$0.1 million, HK\$4.0 million and HK\$2.0 million, respectively. Going forward, we will consider different factors such as standing and level of influence in the local semiconductor product industry, the retail and brand management experience, financial resources and creditworthiness when selecting potential agents.

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

	Year ended 31 December				Three months ended 31 March			
	2013		2014		2014		2015	
	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover	(HK\$'000)	% of total turnover
	(unaudited)							
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.

Sales Arrangement

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

Sales and Marketing Strategies

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

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

Branding Strategy

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

Customer Service

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

PRICING POLICY

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

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

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CREDIT POLICY

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

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

PRODUCT RETURN POLICY

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

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

Self-Manufactured Products

We test and inspect our products extensively prior to delivery to customers with a view to minimise after-sale quality issues. The warranty terms and period for our self-manufactured products are usually negotiated between our Company and our customers and therefore such terms and period of warranty may differ from one customer to another. We generally provide one year warranty for our self-manufactured products. Our product warranty typically requires us to

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manufacture products at such standard agreed with our customers and in conformity with the customer specifications. If our products break down and defects are found in our product within the warranty period, our customers may return such products to us and we shall repair or replace such products free of charge. In the event that the products break down and defects are found after the expiration of the warranty period, upon the request of the customers, we will repair the defective products at the costs of our customers.

Products Sourced from Third-Party Suppliers

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

PROCUREMENT AND SUPPLIERS

Raw Materials and Suppliers

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

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

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

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

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

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

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

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

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

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

Supply Agreements

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

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

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

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

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

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

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

INVENTORY MANAGEMENT

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

For our trading business, we stock up our inventory in accordance with the requirements of our customers.

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

EQUIPMENT AND MAINTENANCE

The key equipment and machinery of our production lines are mainly purchased from reputable industry suppliers such as ASM Pacific (Hong Kong) Limited, Kulicke & Soffa Pte. Ltd., Ueno Seiki Co., Ltd. and Disco Hi-Tec China Co., Ltd. which are reputable industry suppliers headquartered in Japan or Singapore, as the case may be. The key equipment used in the

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

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

SEASONALITY

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

INTELLECTUAL PROPERTY

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

Although our products do not bear any trademark logo, the packing boxes of our products are labelled with our Company name “Top Dynamic” as well as the TD Trademarks (before they were removed) and the ST Mark. We have previously applied for registration of the TD Trademarks in the PRC and our applications have been rejected on the grounds that certain part of these trademarks are similar to other trademarks which have been registered under the name of

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another person or entity in the same class. Our PRC Legal Advisers have advised that Dongguan Jia Jun may be claimed for trademark infringement for its historical use of the TD Trademarks in the PRC whilst the trademark applications were then pending. The likelihood of success of a future potential claim (if it is initiated at all) for trademark infringement would ordinarily depend on a number of factors and circumstances, including but not limited to the similarities between the products using the registered trademark and the alleged infringing trademark in terms of capability, function, production method, sales channel and target consumers, and the circumstances under which the trademark in dispute has been applied by the registered owner and the alleged infringing party. Therefore, it is not possible at present to quantify the amount of a future potential claim which may or may not occur. As a result of the failure to register the TD Trademarks in the PRC, we have now ceased using the TD Trademarks and substituted them with the words “TOP DYNAMIC” in respect of the packing boxes of our products for sale to customers within the PRC. We believe that such change will not affect our business in a material adverse way as some of our customers have indicated that they would continue to do business with us under our name “Top Dynamic”. As of the Latest Practicable Date, we were neither aware of any material infringement of our intellectual property rights, nor do we have any knowledge of claims or litigation against us in respect of the use of our trademarks pending registration. We believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. Our standard employment agreement applicable to our operation team includes a covenant that requires our employees to keep the information and technical know-how that they have access to during the term of the employment confidential and not to disclose the same to any third party.

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

COMPETITION

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

We principally compete with discrete semiconductor manufacturers who offer similar products. Our Directors consider our potential competitors include, but are not limited to, Jiangsu Changjiang Electronics Technology Co., Ltd., Yangzhou Yangjie Electronic Technology Co., Ltd. and Suzhou Good-Ark Electronics Co., Ltd. As a relatively new market entrant, we recognise our lack of history in dealing with end customers. Moreover, we carry limited product offerings compared to leading market players which have been in the market for a longer period and with a wide range of products. However, we compete with our competitors on factors such as product quality, customisation services, price and time-to-market. We believe we enjoy a strong reputation

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with our customers for providing high-quality products consistently. We also constantly strive to differentiate ourselves from our competitors through providing tailor-made engineering solutions services that complement our product sales. Moreover, we have also established a service-oriented and customer-focused culture that strive to maintain close and timely interactions with our customers. For details of our competitive strengths and business strategies, please refer to the sub-sections headed “– *Our Competitive Strengths*” and “– *Our Business Objectives and Strategies*” in this section.

HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

Occupational Health and Safety

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

We have implemented safety measures at our production facilities and established guidelines for work safety and occupational health safety to minimise the risk of injury of employees. We also conduct regular training sessions for employees at our production facilities on accident prevention and management. During the Track Record Period, we had complied with the relevant PRC health and workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which had materially and adversely affected our financial condition or business operations. As advised by our PRC Legal Advisers and as confirmed by the local government authorities, we are currently in compliance with applicable work safety laws and regulations in all material respects during the Track Record Period. During the Track Record Period, no administrative sanctions or penalties that have a material and adverse effect on our financial condition or business operations have been imposed upon us for the violation of health and safety laws or regulations. Further, as confirmed by our Directors, during the Track Record Period there were no material work-related injuries or fatalities at our production facilities.

Environmental Matters

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

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

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

INSURANCE

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

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

HEDGING

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

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availability and effectiveness of currency or interest rate hedging transactions may be limited, and we may not be able to hedge our exposure to foreign currency risks or interest rate risks successfully, or at all.

EMPLOYEES

As at 31 March 2015, we had a workforce of 220 full-time employees (including our two executive Directors but excluding our three independent non-executive Directors) of whom approximately 95.9% were employed in the PRC and approximately 4.1% in Hong Kong. We have adopted a labour union for our employees in the PRC. Our Directors believe that the relationship and cooperation between the management and staff has been good and this is expected to continue in the future. There has not been any incidence of work stoppages, labour disputes, litigation, claims, administrative action or arbitration relating to labour disputes that has affected our operations during the Track Record Period.

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

The table below sets out a breakdown of our employees by function as at 31 March 2015:

	<u>Hong Kong</u>	<u>PRC</u>	<u>Total</u>	<u>% of Total</u>
Production	–	125	125	56.8
Sales and marketing.	1	6	7	3.2
Finance and accounting	2	5	7	3.2
Procurement	1	6	7	3.2
Quality management	–	38	38	17.3
Inventory management and logistics	1	14	15	6.8
Management	3	–	3	1.4
General administration and others	<u>1</u>	<u>17</u>	<u>18</u>	<u>8.1</u>
Total	<u><u>9</u></u>	<u><u>211</u></u>	<u><u>220</u></u>	<u><u>100</u></u>

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

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

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

PROPERTY AND PLANT

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

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

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Note:

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

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

INTERNAL CONTROL

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

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

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

LICENSE, REGULATORY APPROVALS AND COMPLIANCE

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

LEGAL PROCEEDINGS

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

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NON-COMPLIANCE

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

No.	Non-compliance Incident	Reasons	Remedial Measures	Possible Legal Consequences and Impact
1.	<p>Social insurance and housing provident fund contribution</p> <p>In accordance with the relevant PRC laws and regulations, we are required to contribute to a number of employee welfare schemes for the benefit of our employees. Such schemes require us to make payments for social insurance premiums and housing provident fund contributions.</p> <p>During the Track Record Period, we did not make full contribution in respect of the social insurance and the housing provident fund for certain employees in the PRC, nor did we receive any notification from the relevant authorities alleging our non-compliance and demanding such contributions.</p> <p>The total contribution of social insurance and housing provident fund which was underpaid by our PRC subsidiary during the Track Record Period amounted to approximately HK\$1.4 million.</p>	<p>Our human resources department staff were not familiar with the relevant laws and regulations.</p>	<p>We have made provisions for such outstanding social insurance premiums and housing provident fund contributions in the amount of approximately HK\$1.1 million and approximately HK\$0.3 million, respectively, in our financial statements for the Track Record Period, and will promptly settle any social insurance and/or housing provident fund contribution if subsequently required by the relevant authorities.</p> <p>In addition, our Controlling Shareholders have agreed to indemnify us to the extent such provisions are inadequate to cover any claims, demands, fines and penalties we incur as a result of such incidents of non-payment.</p> <p>We have been paying the social insurance and housing provident fund contributions for our employees in PRC in accordance with the standards confirmed by the relevant PRC authorities.</p>	<p>Our PRC Legal Advisers have advised us that, in relation to the social insurance premiums, we may be required by the relevant PRC authorities to make such outstanding payments in the future and a daily surcharge of 0.05% on any delinquent payments may be imposed on us. If this occurs, and if we fail to make such payments within the time period specified by the authorities, we may be liable to a fine equal to one to three times the amount of outstanding contributions.</p> <p>Our PRC Legal Advisers have advised us that, in relation to the housing provident fund contribution, we may be required by the relevant authorities to pay such outstanding amounts in the future. If this occurs, and if we fail to make such contributions within the time period specified by the relevant PRC authorities, such relevant PRC authorities may apply to court for compulsory execution.</p> <p>Our PRC Legal adviser are of the view that the possibility that the relevant authorities will order us to pay any past outstanding social insurance and surcharge or housing provident fund or penalise us for our past non-compliances is low and therefore, we are of the view that such incidents will not have any material adverse impact on our business, results of operations, and financial condition.</p>

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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 [REDACTED].

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 [REDACTED].

OVERVIEW

We are a discrete semiconductor manufacturing solution provider 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.

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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. In addition, upon the request of our customers, we assist them in sourcing from third-party suppliers, where applicable, of the semiconductors they require, usually integrated/bundled with our self-manufactured products. 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 80 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.

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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.

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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.

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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.

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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 [REDACTED] 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.

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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 [REDACTED], our Company became the holding company of the companies now comprising our Group on [•]. 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 notes 3 and 4 to “*Appendix I – Accountants’ Report*” of this [REDACTED].

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.

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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.

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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.

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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.

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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.

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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.

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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\$28.3 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.

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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.

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

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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. However, upon the request of our customers, we still assist them in sourcing from third-party suppliers, where applicable, the semiconductors they require, usually integrated/bundled with our self-manufactured products. 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.

Manufacturing Business

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 [REDACTED]. 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.

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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:

Package type	Year ended 31 December						Three months ended 31 March									
	2013			2014			2014			2015						
	Turnover (HK\$'000)	%	Units sold '000	Avg. sales price ⁽¹⁾ HK\$	Turnover (HK\$'000)	%	Units sold '000	Avg. sales price ⁽¹⁾ HK\$	Turnover (HK\$'000)	%	Units sold '000	Avg. sales price ⁽¹⁾ HK\$				
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	0.1864	80,745	100.0	795,798	0.1015	9,242	100.0	55,793	0.1656	32,029	100.0	312,687	0.1024

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.

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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.

Products Sourced from Third-party Suppliers

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 the request of our customers, we assist them in sourcing from third-party suppliers and sell to them, when applicable, the semiconductors they 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.

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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)	% 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
Asia (excluding PRC and Hong Kong) ⁽¹⁾	18,376	40.2	63,913	40.1	7,378	31.7	24,428	49.8
Hong Kong	7,193	15.8	14,876	9.3	1,610	6.9	2,497	5.1
Europe ⁽²⁾ and others	925	2.0	11,007	7.0	2,340	10.0	2,084	4.3
Total	<u>45,685</u>	<u>100.0</u>	<u>159,323</u>	<u>100.0</u>	<u>23,309</u>	<u>100.0</u>	<u>49,023</u>	<u>100.0</u>

Notes:

- (1) These Asian markets (excluding the PRC and Hong Kong) are Korea, 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 the Asian markets (excluding the PRC and Hong Kong) contributed approximately 40.2%, 40.1% and 49.8%, respectively, of our total turnover for same periods. Our sales in the Asian markets are mainly made to countries including Korea, Thailand, Vietnam, Taiwan and Japan. 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.

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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
Asia (excluding PRC and Hong Kong) ⁽¹⁾	13	29	16	30
Hong Kong	4	6	4	6
Europe ⁽²⁾ and others	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	<u><u>36</u></u>	<u><u>78</u></u>	<u><u>43</u></u>	<u><u>84</u></u>

Notes:

- (1) These Asian markets (excluding the PRC and Hong Kong) are Korea, 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)	% 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	<u>2,286</u>	<u>5.0</u>	<u>48,095</u>	<u>30.2</u>	<u>3,328</u>	<u>14.3</u>	<u>21,108</u>	<u>43.1</u>
Total	<u><u>45,685</u></u>	<u><u>100.0</u></u>	<u><u>159,323</u></u>	<u><u>100.0</u></u>	<u><u>23,309</u></u>	<u><u>100.0</u></u>	<u><u>49,023</u></u>	<u><u>100.0</u></u>

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%,

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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	
	<i>(HK\$'000)</i>	<i>% of total cost of sales</i>	<i>(HK\$'000)</i>	<i>% of total cost of sales</i>	<i>(HK\$'000)</i>	<i>% of total cost of sales (unaudited)</i>	<i>(HK\$'000)</i>	<i>% of total cost of sales</i>
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.

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

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.

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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.

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The follow 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			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			
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	18.8	42,901	100.0	26.9	5,637	100.0	24.2	15,967	100.0	32.6

(unaudited)

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.

FINANCIAL INFORMATION

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	
	<i>% of selling and distribution costs</i>		<i>% of selling and distribution costs</i>		<i>% of selling and distribution costs</i>		<i>% of selling and distribution costs</i>	
	<i>(HK\$'000)</i>		<i>(HK\$'000)</i>		<i>(HK\$'000)</i>		<i>(HK\$'000)</i>	
	(unaudited)							
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.

FINANCIAL INFORMATION

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 [REDACTED]. 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 [REDACTED] 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)	% 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.

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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 [REDACTED].

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.

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Turnover by Geography

The PRC and Asian (excluding the PRC and Hong Kong) markets collectively accounted for approximately 83.1% and 90.6%, 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 Asian markets (excluding the PRC and Hong Kong) also experienced a significant increase by approximately 229.7%, or HK\$17.0 million, from approximately HK\$7.4 million for the three months ended 31 March 2014 to approximately HK\$24.4 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.

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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.

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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 [REDACTED].

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 [REDACTED] during the three months ended 31 March 2015. If the expenses incurred in relation to the [REDACTED] 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.

FINANCIAL INFORMATION

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 Asian (excluding the PRC and Hong Kong) markets collectively accounted for approximately 82.2% and 83.7%, 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 Asian markets (excluding the PRC and Hong Kong) also experienced a significant increase by approximately 247.3%, or HK\$45.5 million, from approximately HK\$18.4 million for the year ended 31 December 2013 to approximately HK\$63.9 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.

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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.

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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 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.

FINANCIAL INFORMATION

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 [REDACTED].

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 [REDACTED] during the year ended 31 December 2014. If the expenses incurred in relation to the [REDACTED] 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.

FINANCIAL INFORMATION

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
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
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 [REDACTED] for details of our inventory management policies. We made no provision for inventory obsolescence during the Track Record Period.

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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
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
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.

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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:

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

As at 31 March 2015, approximately 78.7% of our inventories were aged within three months. As at 30 April 2015, approximately HK\$5.7 million or 48.9% of our inventory as at 31 March 2015 had been used or consumed subsequent to 31 March 2015.

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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
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
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.

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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:

	<u>Year ended 31 December</u>		<u>Three months ended</u>
	<u>2013</u>	<u>2014</u>	<u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
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.

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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 date.

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:

	<u>As at 31 December</u>		<u>As at</u> <u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
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	<u>–</u>	<u>54</u>	<u>145</u>
	<u>24,214</u>	<u>42,601</u>	<u>44,515</u>

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.

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

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

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 30 April 2015, approximately HK\$17.9 million or 40.2% 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:

	<u>As at 31 December</u>		<u>As at</u> <u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
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	<u>1,369</u>	<u>5,885</u>	<u>6,258</u>
	<u>37,459</u>	<u>52,499</u>	<u>51,915</u>

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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
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
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.

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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:

	<u>As at 31 December</u>		<u>As at</u> <u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
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	<u>–</u>	<u>11</u>	<u>–</u>
	<u>23,731</u>	<u>41,239</u>	<u>42,305</u>

As at 30 April 2015, approximately HK\$13.0 million or 30.7% of our trade payables outstanding as at 31 March 2015 were settled.

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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 [REDACTED], approximately HK\$60.0 million of amounts due to shareholders have been capitalised on [•] 2015 pursuant to the Reorganisation.

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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
	2013	2014	2015
	<i>(HK'000)</i>	<i>(HK'000)</i>	<i>(HK'000)</i>
Current assets			
Inventories	2,726	11,456	11,678
Trade and other receivables	28,310	53,770	54,334
Pledged deposit.	–	5,000	5,009
Bank balances and cash	6,162	11,274	16,223
Total current assets	37,198	81,500	87,244
Current liabilities			
Trade and other payables	37,459	52,499	51,915
Amounts due to shareholders	17,136	60,000	60,000
Tax payables	1,382	3,412	3,970
Total current liabilities.	55,977	115,911	115,885
Net current liabilities	(18,779)	(34,411)	(28,641)

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 as at each of these dates was primarily due to amounts due to shareholders being recorded as current liabilities. 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. Amounts due to shareholders represented unsecured and interest-free advances that are repayable on demand from our Controlling Shareholders to finance the continued growth our manufacturing business. Such outstanding amounts due to shareholders were capitalised on [•] 2015 pursuant to the Reorganisation. If such amounts were capitalised on 31 March 2015 (and assuming no other changes) we would have recorded a net asset position as at 31 March 2015.

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As at 30 April 2015, being the latest practicable date for the purpose of this statement, our net current liabilities were approximately HK\$25.0 million, consisting of approximately HK\$87.0 million of current assets and approximately HK\$112.0 million of current liabilities. After taking into consideration that (i) our Group’s profitable operation and positive operating cash flows; and (ii) the amounts due to our Controlling Shareholders of approximately HK\$60.0 million were capitalised on [•] pursuant to the Reorganisation, our Directors consider that our Group will have sufficient working capital to finance our operations in the foreseeable future.

STATEMENT OF INDEBTEDNESS

As at the close of business on [30 April 2015], being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this [REDACTED], 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 [30 April 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 [30 April 2015], being the date for determining our Group’s indebtedness up to the date of this [REDACTED].

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 [REDACTED], we expect our capital and operating cash flow requirements will be funded principally through internally generated cash flows and the net proceeds from the [REDACTED]. 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

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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 [REDACTED], 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 [REDACTED]. 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 [REDACTED], 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.

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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:

	<u>Year ended 31 December</u>		<u>Three months ended</u>	
			<u>31 March</u>	
	<u>2013</u>	<u>2014</u>	<u>2014</u>	<u>2015</u>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
			(unaudited)	
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

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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 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.

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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 [REDACTED], [REDACTED] and [REDACTED] during each of the years ending 31 December 2015, 2016 and 2017, respectively, to primarily purchase equipment and machineries after [REDACTED]. 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 [REDACTED]. 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:

	<u>As at 31 December</u>		<u>As at</u> <u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for.	<u>1,205</u>	<u>1,482</u>	<u>997</u>

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 [REDACTED].

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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:

	<u>As at 31 December</u>		<u>As at</u> <u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Within one year	519	517	1,475
In the second to fifth year inclusive	2,076	2,069	3,107
Over five years	<u>2,249</u>	<u>1,724</u>	<u>1,588</u>
	<u>4,844</u>	<u>4,310</u>	<u>6,170</u>

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.

	<u>Hypothetical</u> <u>fluctuation</u>	<u>Year ended</u> <u>31 December 2013</u>		<u>Year ended</u> <u>31 December 2014</u>		<u>Three Months ended</u> <u>31 March 2015</u>	
		<i>Increase/</i> <i>(decrease)</i>	<i>Increase/</i> <i>(decrease)</i>	<i>Increase/</i> <i>(decrease)</i>	<i>Increase/</i> <i>(decrease)</i>	<i>Increase/</i> <i>(decrease)</i>	<i>Increase/</i> <i>(decrease)</i>
	<i>(decrease) in</i> <i>percentage</i> <i>%</i>	<i>in gross</i> <i>profit</i> <i>%</i>	<i>in net profit</i> <i>%</i>	<i>in gross</i> <i>profit</i> <i>%</i>	<i>in net profit</i> <i>%</i>	<i>in gross</i> <i>profit</i> <i>%</i>	<i>in net profit</i> <i>%</i>
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)

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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.

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

KEY FINANCIAL RATIOS

	<u>As at/For the year ended</u> <u>31 December</u>		<u>As at/For</u> <u>the three</u> <u>months</u> <u>ended</u> <u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	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%	–

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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 [•] 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.

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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.

FINANCIAL INFORMATION

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.

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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	–	–	–
	<u>8,981</u>	<u>34,086</u>	<u>33,479</u>	<u>1,035</u>	<u>4,520</u>	<u>7,179</u>

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.

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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

Our Board may declare dividends after taking into account our operations, earnings, financial position, liquidity requirements and other factors as it may deem relevant at such time. 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. 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.

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.

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Our ability to make dividend distribution may therefore be restricted. Please refer to the subsection 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 subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business*” of this [REDACTED] 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 [REDACTED] on the combined net tangible assets of our Group attributable to equity owners of our Company as if the [REDACTED] 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 [REDACTED].

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 [REDACTED] ⁽²⁾	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company immediately after the completion of [REDACTED]	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 [REDACTED] of [REDACTED] per [REDACTED].	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Based on the [REDACTED] of [REDACTED] per [REDACTED].	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

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 [REDACTED].
- (2) The estimated net proceeds of the [REDACTED] are based on [REDACTED] and the respective [REDACTED] of [REDACTED] or [REDACTED] per [REDACTED] (being the low end and the high end of the indicative price range of the [REDACTED]), after deduction of the underwriting commission and

FINANCIAL INFORMATION

other related expenses payable by our Company in relation to the [REDACTED], in aggregate of approximately [REDACTED] or [REDACTED] respectively. 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 [REDACTED].

- (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 [REDACTED] Shares which were in issue (including Shares in issue as at the date of this [REDACTED] and those Shares which are expected to be issued pursuant to the [REDACTED] and the [REDACTED] 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.

DISTRIBUTABLE RESERVES

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

[REDACTED] EXPENSES

We incurred approximately [REDACTED] of [REDACTED] expenses which was recorded as expenses during the Track Record Period. We expect to incur the [REDACTED] expenses of approximately [REDACTED] prior to completion of the [REDACTED] (based on the mid-point of our indicative [REDACTED] range), of which approximately [REDACTED] will be recognised as expenses in our statements of profit or loss subsequent to the Track Record Period and approximately [REDACTED] will be capitalised after the [REDACTED]. Expenses in relation to the [REDACTED] 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 [REDACTED].

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 [REDACTED]) up to the date of this [REDACTED].

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.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] and [REDACTED] (without taking into account any Shares that to be issued upon exercise of options that may be granted under the Share Option Scheme), as each of Platinum Dynamic and Silver Dynamic, which is an investment holding company with its sole business being the holding of the Shares, will own [REDACTED] of our entire issued share capital, they are our Controlling Shareholders. As Mr. Chow Hin Keong and Mr. Chow Hin Kok, our executive Directors, are the respective sole shareholder of Platinum Dynamic and Silver Dynamic, they are also considered as our Controlling Shareholders.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, none of our Controlling Shareholders or Directors or their respective close associates is interested in any business (other than our Group’s business) which competes or may compete with the business of our Group. Having considered the following factors, our Directors believe that we are capable of carrying out our business independently from, and do not place reliance on, our Controlling Shareholders and their respective close associates after [REDACTED]:-

Management Independence

As stated above, our Controlling Shareholders and their respective close associates are not interested in any other business which competes or may compete with the business of our Group as at the Latest Practicable Date. Therefore, there is no competition that would adversely affect the management independence of our Group.

Our Board comprises two executive Directors and three independent non-executive Directors. Each of the Directors is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of the Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business operation of our Group independently from our Controlling Shareholders.

Based on the reasons above, our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholders and their respective close associates following the completion of the [REDACTED] and the [REDACTED].

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Operational Independence

Our organisational structure comprises a number of departments each with clearly delineated responsibilities, and we have in place various internal control procedures to facilitate the effective operation of our Group’s business. We have obtained and hold all relevant licenses that are material in relation to carrying on our business operation independently from our Controlling Shareholders and their respective close associates. We have independent access to suppliers and customers and an independent senior management team to handle our day-to-day operations. For the purposes of facilitating the [REDACTED] and maintaining operational independence, we have entered into the Transfer Agreements on 15 June 2015 to acquire the ST Mark from SEL, a company whose 50% issued share capital is held by Mr. Chow Hin Keong.

Based on the above, our Directors believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates.

Financial Independence

Our Group has an independent financial system and makes financial decisions independently according to our Group’s own business needs. Our Group’s accounting and finance functions are independent of our Controlling Shareholders and their respective close associates. As at the Latest Practicable Date and following the capitalisation of the two Loans each in the amount of HK\$30,000,000 owned from our Company to Mr. Chow Hin Keong and Mr. Chow Hin Kok pursuant to the Reorganisation, there were no outstanding balances between members of our Group and any of our Controlling Shareholders. The Group has also independently obtained banking facility which may be utilised as and when required.

Based on the above, our Directors believe that we are able to maintain financial independence from the Controlling Shareholders and their respective close associates.

DEED OF NON-COMPETITION

Non-Competition Undertaking

Although we consider that the 50% shareholding in SEL held by Mr. Chow Hin Keong is not a competing interest as SEL is not engaged in any business activity, in order to protect our Group’s interest in its current business activities, our Company and our Controlling Shareholders entered into the Deed of Non-Competition on [•] 2015. Under the terms of the Deed of Non-Competition, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to our Company (for ourselves and for the benefit of each of our subsidiaries from time to time) that with effect from the [REDACTED] and for so long as the Shares remain [REDACTED] on the Stock Exchange and our Controlling Shareholders, whether individually or taken together, are interested directly or indirectly in 30% or more of the issued share capital of

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

our Company, each of them will not, and will procure that its close associates (other than our Group) will not, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of our Group or our associated companies), director, employee, partner, agent or otherwise in any business that compete or may compete, directly or indirectly or through nominees, with the business carried out by our Group from time to time (the “**Restricted Activity**”) in the territories in which our Group carries out the Restricted Activity.

The undertaking set out above shall not restrict any of the Controlling Shareholders and their respective close associates (excluding our Group) from investing, participating and engaging in any Restricted Activity or any project or business opportunity, regardless of value, which has been offered or made available to our Group, provided always that information about the principal terms thereof has been disclosed to our Company and the Directors, and our Company shall have, after review and approval by the Directors (including the independent non-executive Directors but without the attendance by any Director who has a beneficial interest in such project or business opportunities at the meeting, in which resolutions passed shall include a majority of votes by the independent non-executive Directors), confirmed its rejection to be involved or engaged, or to participate, in the relevant Restricted Activities or projects or business opportunities and provided also that the principal terms on which the Controlling Shareholders or their respective close associates (excluding our Group) invest, participate or engage in the relevant Restricted Activities or projects or business opportunities are substantially the same as or not more favourable than those disclosed to our Company. Subject to the above, if any Controlling Shareholder or his/its close associate(s) (excluding our Group) decides to be involved, engaged, or participated in the relevant Restricted Activities or projects or business opportunities, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to our Company and the Directors as soon as practicable.

Notwithstanding the undertaking above, nothing shall prevent any of the Controlling Shareholders from acquiring or holding interests in equity securities issued by any company engaged in any Restricted Activity provided that each of them will not directly or indirectly own more than 5% of the total issued share capital of such company or control the exercise of more than 5% of the voting rights thereof or control the composition of the board of directors of such company.

Expiry

The non-competition undertaking by our Controlling Shareholders under the Deed of Non-Competition shall expire upon expiry of the Restricted Period (as defined below).

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

For the above purpose, the “Restricted Period” means the period commencing from the [REDACTED] Date and shall expire on the earlier of the dates below:

- (a) the date on which the Controlling Shareholders and their respective close associates (individually or taken as a whole) cease to be the controlling shareholders of our Company for the purpose of the GEM Listing Rules and do not have power to control the composition of the Board; and
- (b) the date on which the Shares cease to be [REDACTED] on the Stock Exchange.

The Controlling Shareholders have undertaken under the Deed of Non-Competition that they shall provide to our Company and the Directors (including the independent non-executive Directors) from time to time all information necessary for the annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-Competition during the Restricted Period by the Controlling Shareholders. The Controlling Shareholders have also undertaken to make an annual declaration as to compliance with the terms of the Deed of Non-Competition during the Restricted Period in our Company’s annual report.

MEASURES TO BE TAKEN BY OUR COMPANY TO ENSURE COMPLIANCE WITH DEED OF NON-COMPETITION

In order to properly manage any potential or actual conflict of interests between our Group and the Controlling Shareholders in relation to compliance and enforcement of the Deed of Non-Competition, our Company will adopt the following corporate governance measures:

- (i) the independent non-executive Directors shall review, at least on an annual basis, compliance and enforcement of the terms of the Deed of Non-Competition by the Controlling Shareholders;
- (ii) our Company will disclose any material decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition either through our Company’s annual report or by way of announcement; and
- (iii) in the event that any of the Directors and/or their respective close associates has material interest in any matter to be deliberated by the Board in relation to compliance and enforcement of the Deed of Non-Competition, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in our Articles of Association.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective close associates on one hand and our Group on the other hand.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

DEED OF INDEMNITY AND NON-DISPOSAL UNDERTAKINGS

Our Controlling Shareholders have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) in relation to estate duty, taxation and any losses which we may suffer in respect of social insurance and housing provident fund contributions. Please refer to the sub-section headed “*Appendix IV – Statutory and General Information – D. Other Information – 2. Estate Duty, Tax and Other Indemnity*” of this [REDACTED] for particulars of the deed of indemnity.

Our Controlling Shareholders have also entered into certain undertakings in relation to restrictions on disposal of Shares upon [REDACTED]. Please refer to the sub-section headed “*Underwriting – Underwriting Arrangements and Expenses – Undertakings*” of this [REDACTED] for details of these undertakings.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of our Company immediately following completion of the Subdivision, the increase of authorised share capital of our Company (as detailed in the sub-section “*History, Reorganisation and Group Structure – The Reorganisation – Reorganisation*” of this [REDACTED]), the [REDACTED] and the [REDACTED] will be as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
2,000,000,000 Shares of HK\$0.01 each	<u>20,000,000.00</u>
<i>Issued, fully paid or credited as fully paid:</i>	
[REDACTED] Shares in issue as at the date of this [REDACTED]	[REDACTED]
[REDACTED] Shares to be issued pursuant to the [REDACTED]	[REDACTED]
<u>[REDACTED]</u> Shares to be issued pursuant to the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u> Shares	<u>[REDACTED]</u>

ASSUMPTION

The above table assumes the [REDACTED] and the [REDACTED] will become unconditional and the issue of Shares pursuant thereto is made. The table takes no account of any Shares which may be issued or repurchased under the general mandates given to our Directors to issue or repurchase Shares, and any Shares which may fall to be allotted and issued upon the exercise for options which may be granted under the Share Option Scheme.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the [REDACTED] and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the total number of issued Shares in the hands of the public (as defined in the GEM Listing Rules).

SHARE CAPITAL

RANKING

The [REDACTED] are ordinary Shares in the share capital of our Company and will rank *pari passu* in all respects with all other Shares currently in issue or to be issued as mentioned in this [REDACTED] and, will rank equally for all dividends and other distributions declared, paid or made on the Shares in respect of a record date which falls after the date of this [REDACTED] save for any entitlement under the [REDACTED].

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted, upon the [REDACTED] become unconditional, a general unconditional mandate to allot, issue and deal with an aggregate number of Shares not exceeding the sum of:

- (i) 20% of the total number of the Shares in issue immediately following completion of the [REDACTED] and the [REDACTED]; and
- (ii) the number of Shares repurchased by our Company pursuant to the mandate referred to in the sub-section headed “– *General Mandate to Repurchase Shares*” in this section.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue, or deal in the Shares under a rights issue, or any scrip dividend shares or similar arrangement providing for allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or upon the exercise of any options which may be granted under the Share Option Scheme or other similar arrangement.

This mandate will expire at the earliest of:

- (a) the conclusion of the next annual general meeting of our Company; or
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- (c) the passing of any ordinary resolution of our Shareholders in a general meeting revoking, varying or renewing such mandate.

Please see the sub-section headed “*Appendix IV – Statutory and General Information – A. Further Information about Our Company – 3. Resolutions in Writing of All Our Shareholders Passed on [•] 2015*” of this [REDACTED] for further details of this general mandate.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total number of Shares in issue and to be issued immediately following completion of the [REDACTED] and the [REDACTED].

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the sub-section headed “*Appendix IV – Statutory and General Information – A. Further Information about Our Company – Repurchase of Shares of Shares by Our Company*” of this [REDACTED].

This mandate will expire at the earliest of:

- (a) the conclusion of the next annual general meeting of our Company; or
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held to hold its next annual general meeting; or
- (c) the passing of any ordinary resolution of our Shareholders in a general meeting revoking, varying or renewing such mandate.

CIRCUMSTANCES WHERE MEETINGS OF THE COMPANY ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

There are certain circumstances where annual general meetings or extraordinary general meetings of our Company are required under our Articles and the Listing Rules. A general summary of such circumstances are set out below:

- an annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the Board.

SHARE CAPITAL

- the Board may, at its discretion, call extraordinary general meetings. However, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of our Company (the “**requisitionist**”) shall have the right, by written requisition to the Board or the secretary of our Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/herself/itself/ themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by our Company.

Other than the above circumstances, certain corporate actions may require the approval of members, which would be obtained at a general meeting. For details, please refer to the section headed “*Appendix III – Summary of the Constitution of our Company and Cayman Islands Companies Law*” of this [REDACTED].

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the sub-section headed “*Appendix IV – Statutory and General Information – D. Other Information – 1. Share Option Scheme*” of this [REDACTED].

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, the following persons will, immediately following the completion of the [REDACTED] and the [REDACTED] (but taking no account of any Shares to be issued upon exercise of options granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the issued voting shares of any member of our Group other than our Company:

<u>Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares⁽¹⁾</u>	<u>Approximate percentage of shareholding in the issued share capital of the Company</u>
Platinum Dynamic	beneficial owner	[REDACTED]	[REDACTED]
Mr. Chow Hin Keong	corporate interest ⁽²⁾	[REDACTED]	[REDACTED]
Ms. H’ng Siew Hoong	interest of spouse ⁽³⁾	[REDACTED]	[REDACTED]
Silver Dynamic	beneficial owner	[REDACTED]	[REDACTED]
Mr. Chow Hin Kok	corporate interest ⁽⁴⁾	[REDACTED]	[REDACTED]
Ms. Ong Siew Ning	interest of spouse ⁽⁵⁾	[REDACTED]	[REDACTED]

Notes:

- (1) The letter “L” denotes the person’s long position in such Shares.
- (2) Platinum Dynamic is wholly-owned by Mr. Chow Hin Keong and Mr. Chow Hin Keong is deemed to be interested in all of the Shares held by Platinum Dynamic.
- (3) Ms. H’ng Siew Hoong is the spouse of Mr. Chow Hin Keong and is therefore deemed to be interested in the [REDACTED] Shares in which Mr. Chow Hin Keong is interested.
- (4) Silver Dynamic is wholly-owned by Mr. Chow Hin Kok and Mr. Chow Hin Kok is deemed to be interested in all of the Shares held by Silver Dynamic.
- (5) Ms. Ong Siew Ning is the spouse of Mr. Chow Hin Kok and is therefore deemed to be interested in the [REDACTED] Shares in which Mr. Chow Hin Kok is interested,

Except as disclosed in this [REDACTED], none of our Directors is aware of any other person who will, immediately following the completion of the [REDACTED] and the [REDACTED] (but taking no account of any Shares to be issued upon exercise of options granted under the Share Option Scheme), have an interest or short position in any Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the issued voting shares of any member of our Group other than our Company.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

Our Board consists of five Directors, including two executive Directors and three independent non-executive Directors.

The table below sets out information regarding our Board of Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining our Group</u>	<u>Date of Appointment as Director</u>	<u>Principal Responsibilities⁽¹⁾</u>	<u>Relationship among director(s) and/or senior management</u>
Mr. Chow Hin Keong	52	Chairman and Executive Director	November 2012	10 September 2014	Formulating our Group’s overall strategic plans and overseeing its overall business development and policy-setting	Brother of Mr. Chow Hin Kok
Mr. Chow Hin Kok	49	Chief Executive Officer and Executive Director	November 2012	10 September 2014	Overseeing our Group’s business operations, its overall sales and marketing strategies and its engineering, production and product development	Brother of Mr. Chow Hin Keong
Ms. Wong Sau Ying	45	Independent non-executive Director	[•]	[•]	Provide independent opinion and judgment on the issues of strategy, performance, resources and standard of conduct of our Group	N/A
Ms. Chan Mei Po	44	Independent non-executive Director	[•]	[•]	Provide independent opinion and judgment on the issues of strategy, performance, resources and standard of conduct of our Group	N/A
Ms. Man Oi Yuk Yvonne	46	Independent non-executive Director	[•]	[•]	Provide independent opinion and judgment on the issues of strategy, performance, resources and standard of conduct of our Group	N/A

Note:

- (1) Other than serving on the audit, remuneration and nomination committees, independent non-executive Directors do not have specific operational responsibility but rather, with the benefit of their particular experience, provide strategic guidance to the Board.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Mr. Chow Hin Keong

Mr. Chow Hin Keong, aged 52, is a co-founder of the Group, the chairman of the Board and an executive Director. Mr. Chow Hin Keong is responsible for formulating the Group’s overall strategic plans and overseeing its overall business development and policy-setting. He has also been a director of TD Int’l (BVI) since November 2012 and director of TD Enterprises, TD Electronics and Top Empire since 29 December 2014.

Mr. Chow Hin Keong has over 25 years of experience in the semiconductor industry. Mr. Chow Hin Keong co-founded the Group in 2012 with Mr. Chow Hin Kok, his younger brother. Prior to the establishment of our Group, Mr. Chow Hin Keong founded SAG Components Sdn Bhd, a trading company in Malaysia in 1994 which is principally engaged in the trading of diode and bridge rectifier to markets such as Malaysia, Singapore and Indonesia. In 1989, Mr. Chow Hin Keong commenced working for Goldentech Discrete Semiconductor Co., Ltd., an electronic components production company and acquired his first experience in the semiconductor industry through his then responsibilities in sales and marketing. Mr. Chow Hin Keong obtained a degree of bachelor of arts in economics from Tunghai University, Taiwan in June 1988.

Mr. Chow Hin Keong was a director of the companies below, which were struck off and dissolved as these companies ceased to carry on business. As confirmed by Mr. Chow Hin Keong, each of these companies was either inactive or dormant at the time when they were dissolved and so far as he was aware, the dissolution of these companies has not resulted in any liability or obligation being imposed against him.

<u>Name of Company</u>	<u>Place of incorporation</u>	<u>Date of dissolution</u>	<u>Nature of business before dissolution</u>
True Glamour Sdn Bhd	Malaysia	14 October 1999	Dormant
Century Matrix Sdn Bhd	Malaysia	27 March 2008	Inactive
Cherrydeer Intertrade Sdn Bhd	Malaysia	21 October 2011	Inactive

Immediately following completion of [REDACTED] and the [REDACTED] (not taking into account (i) any options which may be granted under the Share Option Scheme; and (ii) any Shares which may be allotted and issued to be repurchased by the Company under the Issue Mandate and Repurchase Mandate), Platinum Dynamic will hold [REDACTED] of the entire issued Shares of the Company. Platinum Dynamic is a company wholly owned by Mr. Chow Hin Keong and is one of our Controlling Shareholders. As such, Mr. Chow Hin Keong is deemed to be interested in the Shares held by Platinum Dynamic in our Company pursuant to Part XV of the SFO.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Save as disclosed above, as at the Latest Practicable Date, Mr. Chow Hin Keong (i) had no interests in Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management of the Company, Substantial Shareholders or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

Mr. Chow Hin Kok

Mr. Chow Hin Kok, aged 49, is a co-founder of the Group, an executive Director and our Chief Executive Officer. Mr. Chow Hin Kok is responsible for overseeing the Group’s business operations, its overall sales and marketing strategies and its engineering, production and product development. Mr. Chow Hin Kok co-founded the Group in 2012 with Mr. Chow Hin Keong, his elder brother. He has also been a director of TD Enterprises, TD Electronics, Top Empire since January 2014, Dongguan Jia Jun since April 2013, and TD Int’l (BVI) since November 2012.

In 1995, Mr. Chow Hin Kok joined SAG Components Sdn Bhd, the Malaysian trading company founded by Mr. Chow Hin Keong, which is principally engaged in the sale of diode and bridge rectifier, first as its sales manager and subsequently as its sales director.

Mr. Chow Hin Kok was a director of Cherrydeer Intertrade Sdn Bhd, which was a company incorporated in Malaysia and dissolved by striking off on 21 October 2011 as it ceased to carry on business. As confirmed by Mr. Chow Hin Kok, the company was inactive at the time of its dissolution and so far as he was aware, the dissolution of Cherrydeer Intertrade Sdn Bhd has not resulted in any liability or obligation being imposed against him.

Immediately following completion of [REDACTED] and the [REDACTED] (not taking into account (i) any options which may be granted under the Share Option Scheme; and (ii) any Shares which may be allotted and issued to repurchased by the Company under the Issue Mandate and Repurchase Mandate, Silver Dynamic will hold [REDACTED] of the entire issued Shares of the Company. Silver Dynamic is a company beneficially and wholly owned by Mr. Chow Hin Kok and is one of our Controlling Shareholders. As such, Mr. Chow Hin Kok is deemed to be interested in the Shares held by Silver Dynamic in our Company pursuant to Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, Mr. Chow Hin Kok (i) had no interests in Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management of the Company, Substantial Shareholders or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Sau Ying

Ms. Wong Sau Ying, aged 45, has been appointed as an independent non-executive Director of our Company on [•] and is responsible for providing independent opinion and judgment on the issues of strategy, performance, resources and standard of conduct of our Group.

Ms. Wong became an associate member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in October 1995, and a fellow member of the Association of Chartered Certified Accountants in November 2000. After graduating from City Polytechnic of Hong Kong (now known as the City University of Hong Kong) with a Bachelor’s Degree in Accountancy in November 1992, she commenced her career working with Horwath & Company, an international audit firm. From 1993 to 1997, she worked at New Horizon Associates Ltd., a Hong Kong-based management consultancy company firstly as an accountant and subsequently as an Accounting Manager. She graduated in February 1999 with a Master’s Degree in Business Administration at the University of Hull of the United Kingdom. In 1999, she joined the Hong Kong office of G4S (Hong Kong – Holding) Ltd (previously known as Jardine Securicor Ltd/Securicor Hong Kong Holdings Ltd/G4S Holdings (Hong Kong) Ltd), a multi-national security solutions service provider, firstly as its finance manager and subsequently as its finance director for the Hong Kong and Macau region. Apart from finance functions, she had a broad range of responsibilities during her employment with G4S including contract management, information technology, business support services and company secretarial functions. From June 2014 up to the present, she has been managing a group of companies with business in property investment, consultancy and management services, with accounting, taxation, company secretarial and other consultancy responsibilities.

Ms. Wong Sau Ying was a director of the companies below, which were dissolved by way of striking off or deregistration as these companies ceased to carry on business. As confirmed by Ms. Wong Sau Ying, each of these companies was inactive at the time when they were dissolved and so far as she was aware, the dissolution of these companies has not resulted in any liability or obligation being imposed against her.

<u>Name of Company</u>	<u>Place of incorporation</u>	<u>Date of dissolution</u>	<u>Nature of proceeding</u>	<u>Nature of business before dissolution</u>
Kenstar Properties Limited (僑星置業有限公司)	Hong Kong	18 May 2001	striking off	Inactive
Gate Link Limited (浩機有限公司)	Hong Kong	18 February 2015	Deregistration	Inactive

DIRECTORS, SENIOR MANAGEMENT AND STAFF

As at the Latest Practicable Date, Ms. Wong (i) had no interests in Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management of the Company, Substantial Shareholders or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

Ms. Chan Mei Po

Ms. Chan Mei Po, aged 44, has been appointed as an independent non-executive Director of our Company on [•] and is responsible for providing independent opinion and judgment on the issues of strategy, performance, resources and standard of conduct of our Group. Ms. Chan has over 13 years of operation and business management experience. Since March 2001, she has been responsible for formulating the business strategies, as well as managing the day-to-day operations of AB Creative Depot Limited, a company engaged in public relation service, promotions, consultancy services and consignment of goods, as its director. In January 2010, she joined I & M International Limited and worked as its general manager, a company providing public relations, market research and event organisation services. Her responsibilities include formulating business strategies and overseeing its business operations. In April 2012, Ms. Chan founded 4448 Limited, a brand management company providing brand building and related services and has acted as its director.

Ms. Chan obtained a Master degree in Business Administration from the University of South Australia in October 2009. She also holds a diploma in general business awarded by the Seneca College of Applied Arts and Technology, Canada, in August 1995.

Save as disclosed above, as at the Latest Practicable Date, Ms. Chan (i) had no interests in Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management of the Company, Substantial Shareholders or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

Ms. Man Oi Yuk Yvonne

Ms. Man Oi Yuk Yvonne, aged 46, has been appointed as an independent non-executive Director of our Company on [•] and is responsible for providing independent opinion and judgment on the issues of strategy, performance, resources and standard of conduct of our Group.

Ms. Man became a fellow member of the Hong Kong Institute of Certified Public Accountants in March 2001, an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in October 2003, and the Institute of Chartered Accountants in England and Wales in February 2008. Ms. Man has over 25 years of experience in the accounting and audit field and since 2001, she became an audit manager of F.S. Li & Co., certified public accountants, for whom Ms. Man has worked for more than 20 years. From February 2013 to March 2014, she worked as the company secretary of

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Amax International Holdings Limited, a company listed on the Stock Exchange (stock code: 959). Ms. Man is the holder of a degree of Master of Professional Accounting awarded by the Hong Kong Polytechnic University in November 2000.

Save as disclosed above, as at the Latest Practicable Date, Ms. Man (i) had no interests in Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management of the Company, Substantial Shareholders or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above and in the section headed “*Appendix IV – Statutory and General Information*” of this [REDACTED] and below, there are no other matters concerning each of the Directors’ directorship with our Company that is required to be disclosed pursuant to 17.50(2)(h) to (v) of the GEM Listing Rules and there are no other material matters relating to our Directors that need to be brought to the attention of the Shareholders.

Each of our Directors has confirmed that he/she does not have any interest in a business apart from ours which competes or is likely to compete, directly or indirectly, with us.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of the business of our Group. The following table sets out certain information concerning our senior management personnel:

<u>Name</u>	<u>Age</u>	<u>Present Position</u>	<u>Date of joining our Group</u>	<u>Principal Responsibility</u>	<u>Relationship among senior management</u>
Ms. Lam Yuk Yee	48	Chief Financial Officer and Company Secretary	4 February 2014	Overseeing and monitoring the daily financial operation of our Group; managing our accounting and internal control departments, as well as investment and legal affairs of the Group	N/A
Mr. Lou Zongyou	39	Quality and Processes Manager	1 August 2014	Monitoring the quality of our products and factory staff training	N/A
Mr. Liu Yuantian	39	Production Manager	1 July 2013	Coordinating and supervising the Group’s production process	N/A

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. Lam Yuk Yee

Ms. Lam Yuk Yee, aged 48, is our Chief Financial Officer and Company and Secretary. Ms. Lam joined our Group on 4 February 2014 and is responsible for overseeing and controlling the daily financial operation of our Group, managing our accounting and internal control departments, as well as investment and legal affairs of the Group.

Ms. Lam has over 20 years of experience in the financial and management accounting and information system management in the manufacturing field. Prior to joining the Group, Ms. Lam was employed first as a senior accounting manager (2004-2011) and then the assistant financial controller (2011-2013) of a subsidiary of Sino-Tech International Holdings Limited, a company listed on the Stock Exchange (stock code: 724), which is principally engaged in, among other things, manufacture and trading of electronic and electrical parts and components. From 1995 to 2002, Ms. Lam worked for Yu-Me (H.K.) Limited, currently a subsidiary of Perfectech International Holdings Ltd, a company listed on the Stock Exchange (stock code: 765), which is engaged in the manufacture and sale of novelties and decorations products and toy products, with accounting responsibilities.

Ms. Lam graduated with a Master’s Degree in Business Administration from the University of South Australia in October 2009. She was admitted as a fellow member of the Association of Chartered Certified Accountants in May 2012, and an associate member of the Hong Kong Institute of Certified Public Accountants in September 2007.

As at the Latest Practicable Date, Ms. Lam (i) had no interests in Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management of the Company, Substantial Shareholders or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

Mr. Lou Zongyou

Mr. Lou Zongyou, aged 39, is our Quality and Processes Manager. Mr. Lou joined our Group on 1 August 2014 and is responsible for monitoring the quality of our products and factory staff training and other product quality-related responsibilities, such as evaluation of suppliers and product research and development. Mr. Lou has 18 years of working experience in the electronic component production field. From 1997 to 2014, he worked for (Dongguan) Broad Electronics Co., Ltd. (科廣電子(東莞)有限公司), a company established in the PRC and a manufacturer of electronic components, first as technician and, from 2005, as its quality and process manager.

As at the Latest Practicable Date, Mr. Lou (i) had no interests in Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management of the Company, Substantial Shareholders or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Liu Yuantian

Mr. Liu Yuantian, aged 39, is our Production Manager. Mr. Liu joined our Group on 1 July 2013 and is responsible for coordinating and supervising the Group’s production process, as well as overseeing the maintenance of our production facilities. Mr. Liu has 17 years of working experience in the electronic component production field. From 1997 and until joining our Group in 2013, he worked for (Dongguan) Broad Electronics Co., Ltd. (科廣電子(東莞)有限公司), a company established in the PRC and a manufacturer of electronic components. Mr. Liu first worked as its technician and customer technical support manager and, from 2012, as its production process manager.

Mr. Liu obtained a degree of Electrical Engineering and Automation and an associate degree in Business Administration from the Guangdong Ocean University (廣東海洋大學) in January 2014 and January 2011, respectively.

As at the Latest Practicable Date, Mr. Liu (i) had no interests in Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management of the Company, Substantial Shareholders or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

COMPANY SECRETARY

Ms. Lam Yuk Yee is the Company Secretary of our Company. Details of her qualifications and experience are set out in the sub-section headed “– *Senior Management*” in this section.

COMPLIANCE OFFICER

Mr. Chow Hin Kok was appointed as the compliance officer of our Company.

AUTHORISED REPRESENTATIVES

Mr. Chow Hin Keong and Ms. Lam Yuk Yee were appointed as the authorised representatives of our Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Our Company will, upon [REDACTED], comply with the Corporate Governance Code in accordance with Rule 17.101(1) of the GEM Listing Rules with a view to achieving a high standard of corporate governance and safeguarding Shareholders’ interests.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD COMMITTEES

Pursuant to a resolution of our Directors passed on [•], our Company established audit committee, remuneration committee and nomination committee. The memberships of our Directors in each of the committees are set out below:

<u>Name</u>		<u>Audit Committee</u>	<u>Remuneration Committee</u>	<u>Nomination Committee</u>
Mr. Chow Hin Keong	Executive Director			✓
Mr. Chow Hin Kok	Executive Director		✓	
Ms. Wong Sau Ying	Independent Non-executive Director	✓	Chairperson	✓
Ms. Chan Mei Po	Independent Non-executive Director	✓	✓	Chairperson
Ms. Man Oi Yuk Yvonne	Independent Non-executive Director	Chairperson	✓	✓

Audit Committee

Our Company established an audit committee on [•] in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with Rule 5.29 and paragraph C3.3 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules have been adopted. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor, monitor the integrity of the financial statements, annual reports and interim reports and review significant financial reporting judgments contained in them, and oversee financial reporting system and internal control procedures of our Company. At present, the audit committee of our Company consists of three members, namely Ms. Wong Sau Ying, Ms. Chan Mei Po and Ms. Man Oi Yuk Yvonne. Ms. Man Oi Yuk Yvonne is the chairperson of the audit committee.

Remuneration Committee

Our Company established a remuneration committee on [•] in compliance with Rule 5.34 of the GEM Listing Rules. Written terms of reference in compliance with paragraph B1.2 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules have been adopted. The primary duties of the remuneration committee are mainly to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review remuneration proposals of the management with reference to

DIRECTORS, SENIOR MANAGEMENT AND STAFF

the Board’s corporate goals and objectives; and ensure none of our Directors or any of their associates determine their own remuneration. At present, the remuneration committee of our Company consists of four members, namely Mr. Chow Hin Kok, Ms. Wong Sau Ying, Ms. Chan Mei Po and Ms. Man Oi Yuk Yvonne. Ms. Wong Sau Ying is the chairperson of the remuneration committee.

Nomination Committee

Our Company established a nomination committee on [•]. Written terms of reference in compliance with paragraph A5.2 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules have been adopted. The primary function of the nomination committee is to review the structure, size, composition and diversity of the Board and make recommendations to the Board on the selection of individuals nominated for directorships, appointment or re-appointment of Directors and succession planning for Directors. The nomination committee consists of four members, namely Mr. Chow Hin Keong, Ms. Wong Sau Ying, Ms. Chan Mei Po and Ms. Man Oi Yuk Yvonne. Ms. Chan Mei Po is the chairperson of the nomination committee.

EMPLOYEES

As at 31 March 2015, we had 220 full-time employees (including our two executive Directors but excluding our three independent non-executive Directors). Throughout the Track Record Period, our total staff costs (excluding any contributions to pension scheme) were approximately HK\$1.6 million, HK\$13.9 million and HK\$5.0 million, respectively. The relationship and cooperation between our management and employees have been good and are expected to remain amicable in the future. There has not been any incidence of work stoppages or labour disputes, which adversely affected our operations.

For further information in relation to our Group’s employees and their benefits are set out in the sub-section headed “*Business – Employees*” of this [REDACTED].

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses related to the performance of our Company. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and senior management and the performance of our Company.

After [REDACTED], our Directors and senior management may also receive options that may be granted under the Share Option Scheme.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS’ AND SENIOR MANAGEMENT’S REMUNERATION DURING THE TRACK RECORD PERIOD

Remuneration packages of our Directors are generally structured by reference to market terms and individual merits. Salaries are normally reviewed and discretionary bonuses are paid on annual basis based on our results, individual performance and other relevant factors.

For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, the aggregate amount of the remuneration paid and benefits in kind granted to the Directors by us and our subsidiaries was approximately HK\$0.2 million, HK\$1.0 million and HK\$0.6 million, respectively. For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, the aggregate contribution to applicable pension scheme for our Directors was approximately nil, HK\$10,000 and HK\$10,000, respectively.

Save as disclosed in this [REDACTED], no other emoluments have been paid, or are payable, by us to our Directors in respect of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

Going forward, our remuneration committee will review and determine the remuneration and compensation of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and senior management and performance of our Group.

For additional information on Directors’ remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to “*Appendix I – Accountants’ Report*” of this [REDACTED].

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme to provide us with a flexible means of rewarding potential participants including among others, employees and directors of any member of our Group. The principal terms of the Share Option Scheme are summarised in the sub-section headed “*Appendix IV – Statutory and General Information – D. Other Information – 1. Share Option Scheme*” of this [REDACTED].

DIRECTORS, SENIOR MANAGEMENT AND STAFF

COMPLIANCE ADVISER

We have appointed Celestial Capital as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the [REDACTED] in a manner different from that detailed in this [REDACTED] or where our business activities, developments or results deviate from any forecast, estimate, or other information in this [REDACTED]; and
- (d) where the Stock Exchange makes any inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the [REDACTED] and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the [REDACTED], or when the appointment of Celestial Capital is terminated, whichever is earlier. Such appointment may be subject to extension by mutual agreement.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the sub-section headed “*Business – Our Business Objectives and Strategies*” of this [REDACTED] for a detailed description of our business objectives and future plans.

IMPLEMENTATION PLAN

With a view to achieving our business objectives, our Directors have drawn up an implementation plan for the periods from the Latest Practicable Date up to 31 December 2017. Our actual course of business may vary from the business objectives set out in this [REDACTED], due to, amongst other things, changes in circumstances beyond our control. There can be no assurance that our plans will materialise in accordance with our expected time frame or that our objectives will be accomplished at all. Investors should also note that the following implementation plan is formulated on the bases and assumptions as set out in the paragraph headed “*Bases and key assumptions of the business plans*” below. These bases and assumptions are subject to many uncertainties and unpredictable factors, in particular the risk factors set out in the section headed “*Risk Factors*” of this [REDACTED]. Details of the implementation plan in relation to expansion of our existing production facilities and establishment of new product lines to further increase our customers in the PRC, Hong Kong and overseas markets are set out below:

From the Latest Practicable Date to 31 December 2015	For the six months ending 30 June 2016	For the six months ending 31 December 2016	For the six months ending 30 June 2017	For the six months ending 31 December 2017
Purchase additional equipment for production of SOT26	Set up DFN0603 product line	Further increase high- profit-margin DFN1006 production capacity	Set up SOT563 and SOT723 production line to minimise outsourcing	Further increase high- profit-margin DFN0603 production capacity

FUTURE PLANS AND USE OF PROCEEDS

BASES AND KEY ASSUMPTIONS OF THE BUSINESS PLANS

Potential investors should note that the attainability of our business objective depends on the following assumptions:

- (a) there will be no material changes in the existing political, legal, fiscal or economic conditions in the PRC and Hong Kong in which any members of our Group carries on or will carry on business and provides or will provide products;
- (b) there will be no material changes in the bases or rates of taxation in the PRC and Hong Kong or in any other places in which any members of our Group operates or is incorporated;
- (c) the [REDACTED] will be completed as described in the section headed “*Structure and Conditions of the [REDACTED]*” of this [REDACTED];
- (d) we will be able to retain key staff in the management and the professional team;
- (e) we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objective relates;
- (f) our Group is not materially and adversely affected by any risk factor set out in the section headed “*Risk Factors*” of this [REDACTED];
- (g) there are no wars, military incidents, pandemic diseases or natural disasters that would have a material impact on our Group’s business and operating activities;
- (h) we will be able to continue our operation in substantially the same way as we have been operating and we will also be able to carry out our development plans without disruptions;
- (i) there will be no change in the effectiveness of the licenses and permits obtained by our Group; and
- (j) there will be no material changes in the bases or rates of taxation applicable to the activities of our Group.

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR THE [REDACTED] AND USE OF PROCEEDS

Our Directors believe that the [REDACTED] will enhance our Group’s corporate profile and image which should strengthen our competitiveness. As our Group is actively exploring opportunities to strengthen our market position and expand our business, the [REDACTED] will offer us access to capital markets for corporate finance exercise to assist in future business development. Furthermore, the net proceeds from the [REDACTED] will strengthen our financial position to implement our future plan to strengthen our market position as set out in the sub-section headed “– *Implementation Plan*” in this section.

Based on the [REDACTED] of [REDACTED] per [REDACTED] (being the mid-point of the stated range of the [REDACTED]), the net proceeds from the [REDACTED], after deducting underwriting commission and estimated expenses payable by our Company in connection thereto, are estimated to be approximately [REDACTED]. Our Company presently intends to apply such net proceeds from the [REDACTED] as follows:

- approximately [REDACTED] (or [REDACTED]% of the net proceeds) for purchase of equipment and machinery for expansion of product line; and
- approximately [REDACTED] (or [REDACTED]% of the net proceeds) as our general working capital.

In line with our business strategies, the proceeds from the [REDACTED] will [REDACTED] be used for purchase of equipment and machinery for expansion of our production capacity.

FUTURE PLANS AND USE OF PROCEEDS

In summary, the application of the net proceeds from the [REDACTED] for the implementation of our future plans for the periods from the Latest Practicable Date to 30 June 2017 is as follows:

From the Latest Practicable Date to 31 December 2015	For the six months ending 30 June 2016	For the six months ending 31 December 2016	For the six months ending 30 June 2017	For the six months ending 31 December 2017
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

Expansion on our existing production facilities and establish new product lines to further increase our customers in PRC, Hong Kong and overseas markets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
---	------------	------------	------------	------------	------------

If the final [REDACTED] is set at the high end or low end point of the indicative [REDACTED] range, the net proceeds of the [REDACTED] will increase or decrease by approximately [REDACTED], respectively. In such event, the net proceeds will be used in the same proportions as disclosed above irrespective of whether the [REDACTED] is determined at the highest or lowest point of the indicative [REDACTED] range.

To the extent that the net proceeds from the [REDACTED] are not immediately required for the above purposes, it is the present intention of our Directors that such proceeds will be [REDACTED].

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new project of our Group to a material extent or there is to be any material modification to the use of proceeds as described above, we will issue an announcement in accordance with the GEM Listing Rules.

UNDERWRITING

UNDERWRITERS

[REDACTED]

[•]

UNDERWRITING ARRANGEMENTS AND EXPENSES

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

Commissions and Expenses

In connection with the [REDACTED], the Underwriters will receive an underwriting commission of not less than [REDACTED] on the aggregate [REDACTED] of all the [REDACTED] now being offered, out of which they will pay any sub-underwriting commission and/or selling concession. Our Company has agreed to pay to the [REDACTED] a fee of [REDACTED] of the gross proceeds from the [REDACTED]. The underwriting commission, Stock Exchange [REDACTED] fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the [REDACTED] are estimated to be approximately [REDACTED] in aggregate (assuming a [REDACTED] of [REDACTED]), being the mid-point of the stated range of the [REDACTED] between [REDACTED] and [REDACTED], which will be payable by our Company.

UNDERWRITING

Underwriter’s Interests in Our Company

Save for its interests and obligation under the Underwriting Agreement and save as disclosed in this [REDACTED], none of the Underwriters or any of their respective associates is interested beneficially or non-beneficially in any shares in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of our Group.

Compliance Adviser’s Agreement

Under a compliance adviser’s agreement dated 24 June 2015 and made between Celestial Capital and our Company (the “**Compliance Adviser’s Agreement**”), our Company appoints Celestial Capital and Celestial Capital agrees to act as the compliance adviser to our Company for the purpose of the GEM Listing Rules for a fee from the [REDACTED] and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the [REDACTED], or until the Compliance Adviser’s Agreement is terminated, whichever is earlier.

Sole Sponsor’s Interest in Our Company

Celestial Capital, being the Sole Sponsor, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules.

Save for the sponsor’s fee paid and to be paid to Celestial Capital as the Sole Sponsor to the [REDACTED], its obligations under the Underwriting Agreement and the Compliance Adviser’s Agreement and any interests in securities that may be subscribed by it and/or its associates pursuant to the [REDACTED] or as otherwise disclosed in this [REDACTED], neither Celestial Capital Limited nor any of its associates has or may, as a result of the [REDACTED], have any interest in any class of securities of our Company or any other company in our Group (including options or rights to subscribe for such securities).

No director or employee of Celestial Capital Limited who is involved in providing advice to our Company has or may, as a result of the [REDACTED], have any interest in any class of securities of our Company or other company in our Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the [REDACTED]).

No director or employee of Celestial Capital Limited has a directorship in our Company or any other company in our Group.

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report prepared for the purpose of incorporation in this [REDACTED], received from the Company’s reporting accountants, SHINEWING (HK) CPA Limited.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

[DATE]

The Directors
Top Dynamic International Holdings Limited
Office A, 31st Floor
Billion Plaze II
10 Cheung Yue Street
Cheng Sha Wan, Kowloon
Hong Kong

Celestial Capital Limited
21/F, Low Block,
Grand Millennium Plaza,
181 Queen’s Road Central,
Hong Kong

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the “Financial Information”) regarding Top Dynamic International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015 (the “Track Record Period”) for inclusion in the [REDACTED] of the Company dated [•] (the “[REDACTED]”) in connection with the initial [REDACTED] of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company, principally engaged in investment holding, was incorporated in the Cayman Islands on 10 September 2014 as an exempted company with limited liability under the Cayman Companies Law, Chapter 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. Pursuant to a group reorganisation as detailed in the section headed “*History, Development and Group Structure – The Reorganisation*” of the [REDACTED] (the “Reorganisation”), which was

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ACCOUNTANTS’ REPORT

completed on [DATE], the Company became the holding company of the companies now comprising the Group, details of which are set out below. The Company has not carried on any business since the date of its incorporation.

As at 31 December 2013 and 2014 and 31 March 2015 and up to the date of this report, the particulars of the Company’s subsidiaries are set out as follows:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Group			At the date of this report	Principal activities
			At 31 December 2013	At 31 December 2014	At 31 March 2015		
Directly held							
Top Dynamic International (BVI) Limited (“TD International”)	British Virgin Islands (“BVI”) 25 August 2009	Issued and fully paid share capital US\$1,000	100%	100%	100%	100%	Investment holding
Indirectly held							
Top Dynamic (BVI) Limited (“TD (BVI)”)	BVI 13 October 2009	Issued and fully paid share capital US\$100	100%	100%	100%	100%	Investment holding
Top Dynamic Electronics Limited (“TD Electronics”)	Hong Kong 23 August 2013	Issued and fully paid share capital HK\$1	100%	100%	100%	100%	Trademark holding
Top Empire Management Limited (“Top Empire”)	Hong Kong 18 March 2013	Issued and fully paid share capital HK\$1	100%	100%	100%	100%	Provision of management service
Top Dynamic Enterprises Limited (“TD Enterprises ”)	Hong Kong 11 July 2012	Issued and fully paid share capital HK\$1	100%	100%	100%	100%	Trading of electronic and electrical parts and components
東莞市佳駿電子科技有限公司 Dongguan Jia Jun Electronics Technology Company Limited* (“Dongguan Jia Jun”)	People’s Republic of China (“PRC”) 27 April 2013	Registered capital US\$8,000,000	100%	100%	100%	100%	Manufacturing and trading of electronic and electrical parts and components

The Company and all the companies now comprising the Group have adopted 31 December as their financial year end date.

As at the date of this report, no statutory audited financial statements have been prepared for the Company, TD International and TD (BVI) since their respective dates of incorporation as there are no statutory requirements under the relevant rules and regulations in their jurisdictions of incorporation. For the purposes of this report, we have, however, reviewed all the relevant transactions of these companies since their respective dates of incorporation to 31 March 2015 and carried out such procedures as we considered necessary for inclusion of the Financial Information relating to these companies in the Financial Information.

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The statutory audited financial statements of TD Electronics, Top Empire and TD Enterprises for the period from their respective dates of incorporation to 31 December 2013 were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and were audited by us.

The statutory audited financial statements of Dongguan Jia Jun for the period from 27 April 2013 to 31 December 2013 and 2014 was prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by Shenzhen Xinrui Certified Public Accountants* (深圳新睿會計師事務所), certified public accountants registered in the PRC.

The statutory audited financial statements of TD Electronics, Top Empire and TD Enterprises for the year ended 31 December 2014 had not yet been prepared as they are not yet due to be issued.

* *The English name is a translation of its Chinese name and included herein for identification purpose only*

BASIS FOR PREPARATION

For the purpose of this report, the directors of the Company have prepared the financial statements of the Company and the combined financial statements of the Group for the Track Record Period in accordance with HKFRSs issued by the HKICPA (the “Underlying Financial Statements”). We have undertaken independent audits on the Underlying Financial Statements for each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015 in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements on the basis set out on note 1 of Section A below, with no adjustments thereto, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”).

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the GEM Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

APPENDIX I**ACCOUNTANTS’ REPORT**

Our responsibility is to form an independent opinion on the Financial Information and to report our opinion thereon to you. We have also examined the Underlying Financial Statements and carried out additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, for the purpose of this report, and on the basis of preparation set out in note 1 of Section A below, the Financial Information gives a true and fair view of the financial position of the Company as at 31 December 2014 and 31 March 2015 and of the Company and its subsidiaries as at 31 December 2013 and 2014 and 31 March 2015, and of their financial performance and cash flows for the Track Record Period.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited financial information of the Group comprising the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the three months ended 31 March 2014, together with notes thereto (the “March 2014 Financial Information”) have been extracted from the Group’s unaudited combined financial statements for the same period, for which the directors of the Company are responsible for the preparation, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our responsibility is to express a conclusion on the March 2014 Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the March 2014 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the March 2014 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

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ACCOUNTANTS’ REPORT

A. FINANCIAL INFORMATION

**COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	Notes	For the year ended 31 December		For the three months ended 31 March	
		2013 HK\$'000	2014 HK\$'000	2014 HK\$'000	2015 HK\$'000
Turnover.	7	45,685	159,323	23,309	49,023
Cost of sales		<u>(37,105)</u>	<u>(116,422)</u>	<u>(17,672)</u>	<u>(33,056)</u>
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.		<u>(2,083)</u>	<u>(15,654)</u>	<u>(1,496)</u>	<u>(5,807)</u>
Profit before tax.		6,181	21,797	3,772	7,843
Income tax expenses	8	<u>(1,373)</u>	<u>(5,581)</u>	<u>(912)</u>	<u>(2,042)</u>
Profit for the year/period	9	<u>4,808</u>	<u>16,216</u>	<u>2,860</u>	<u>5,801</u>
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		<u>202</u>	<u>27</u>	<u>(226)</u>	<u>(335)</u>
Total comprehensive income for the year/period attributable to owners of the Company		<u>5,010</u>	<u>16,243</u>	<u>2,634</u>	<u>5,466</u>

APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		As at
		2013	2014	31 March
		HK\$'000	HK\$'000	2015
				HK\$'000
Non-current assets				
Plant and equipment	13	22,438	55,741	54,572
Prepayments for plant and equipment		1,200	334	1,168
Rental prepayment	15	212	–	–
		<u>23,850</u>	<u>56,075</u>	<u>55,740</u>
Current assets				
Inventories	14	2,726	11,456	11,678
Trade and other receivables . .	15	28,310	53,770	54,334
Pledged deposit	16	–	5,000	5,009
Bank balances and cash	16	6,162	11,274	16,223
		<u>37,198</u>	<u>81,500</u>	<u>87,244</u>
Current liabilities				
Trade and other payables	17	37,459	52,499	51,915
Amounts due to shareholders . .	18	17,136	60,000	60,000
Tax payables		1,382	3,412	3,970
		<u>55,977</u>	<u>115,911</u>	<u>115,885</u>
Net current liabilities		<u>(18,779)</u>	<u>(34,411)</u>	<u>(28,641)</u>
Total assets less current liabilities		<u>5,071</u>	<u>21,664</u>	<u>27,099</u>
Non-current liability				
Deferred tax liabilities	19	–	350	319
		<u>5,071</u>	<u>21,314</u>	<u>26,780</u>
Capital and reserves				
Share capital	20	8	–	–
Reserves	20	5,063	21,314	26,780
		<u>5,071</u>	<u>21,314</u>	<u>26,780</u>

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ACCOUNTANTS’ REPORT

STATEMENT OF FINANCIAL POSITION

		As at 31 December 2014	As at 31 March 2015
	<i>Notes</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current asset			
Prepayments	15	<u>1,239</u>	<u>537</u>
Current liabilities			
Other payables	17	526	734
Amount due to a related company	18	<u>4,165</u>	<u>5,327</u>
		<u>4,691</u>	<u>6,061</u>
		<u>(3,452)</u>	<u>(5,524)</u>
Capital and reserve			
Share capital	20	–	–
Accumulated losses	20	<u>(3,452)</u>	<u>(5,524)</u>
		<u>(3,452)</u>	<u>(5,524)</u>

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ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF CHANGES IN EQUITY

	<u>Share capital</u>	<u>PRC statutory reserve</u>	<u>Capital reserve</u>	<u>Translation reserve</u>	<u>Retained profits</u>	<u>Total</u>
	<i>HK\$’000</i>	<i>HK\$’000</i> <i>(note 20b(i))</i>	<i>HK\$’000</i> <i>(note 20b(ii))</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At 1 January 2013	8	–	–	–	53	61
Profit for the year	–	–	–	–	4,808	4,808
Other comprehensive income for the year:						
Exchange difference arising on translation of a foreign operation	<u>–</u>	<u>–</u>	<u>–</u>	<u>202</u>	<u>–</u>	<u>202</u>
Total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>202</u>	<u>4,808</u>	<u>5,010</u>
Transfer to PRC statutory reserves	<u>–</u>	<u>236</u>	<u>–</u>	<u>–</u>	<u>(236)</u>	<u>–</u>
At 31 December 2013 and 1 January 2014	8	236	–	202	4,625	5,071
Profit for the year	–	–	–	–	16,216	16,216
Other comprehensive income for the year:						
Exchange difference arising on translation of a foreign operation	<u>–</u>	<u>–</u>	<u>–</u>	<u>27</u>	<u>–</u>	<u>27</u>
Total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>27</u>	<u>16,216</u>	<u>16,243</u>
Transfer to capital reserve . . .	(8)	–	8	–	–	–
Transfer to PRC statutory reserve	<u>–</u>	<u>926</u>	<u>–</u>	<u>–</u>	<u>(926)</u>	<u>–</u>
At 31 December 2014	<u>–</u>	<u>1,162</u>	<u>8</u>	<u>229</u>	<u>19,915</u>	<u>21,314</u>

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	<u>Share capital</u>	<u>PRC statutory reserve</u>	<u>Capital reserve</u>	<u>Translation reserve</u>	<u>Retained profits</u>	<u>Total</u>
	<i>HK\$’000</i>	<i>HK\$’000</i> <i>(note 20b(i))</i>	<i>HK\$’000</i> <i>(note 20b(ii))</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At 1 January 2015	–	1,162	8	229	19,915	21,314
Profit for the period	–	–	–	–	5,801	5,801
Other comprehensive expense for the period:						
Exchange difference arising on translation of a foreign operation	–	–	–	(335)	–	(335)
Total comprehensive income (expense) for the period.	–	–	–	(335)	5,801	5,466
At 31 March 2015	<u>–</u>	<u>1,162</u>	<u>8</u>	<u>(106)</u>	<u>25,716</u>	<u>26,780</u>
At 1 January 2014 (audited)	8	236	–	202	4,625	5,071
Profit for the period	–	–	–	–	2,860	2,860
Other comprehensive expense for the period:						
Exchange difference arising on translation of a foreign operation	–	–	–	(226)	–	(226)
Total comprehensive income (expense) for the period.	–	–	–	(226)	2,860	2,634
At 31 March 2014 (unaudited).	<u>8</u>	<u>236</u>	<u>–</u>	<u>(24)</u>	<u>7,485</u>	<u>7,705</u>

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ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		Three months ended 31 March	
	2013 HK\$'000	2014 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000
OPERATING ACTIVITIES				
Profit before tax	6,181	21,797	3,772	7,843
Adjustments for:				
Bank interest income	(2)	(7)	(1)	(11)
Depreciation of plant and equipment	668	5,052	665	1,774
Operating cash flows before working capital changes	6,847	26,842	4,436	9,606
(Increase) decrease in rental prepayment	(212)	212	212	–
Increase in inventories	(2,611)	(8,722)	(5,834)	(299)
Increase in trade and other receivables	(27,349)	(25,401)	(3,727)	(704)
Increase in trade and other payables	24,000	21,934	23,459	2,970
Cash generated from operations	675	14,865	18,546	11,573
Hong Kong Profits tax paid	–	(559)	–	(232)
PRC Enterprises Income Tax paid	–	(2,648)	(887)	(1,278)
NET CASH GENERATED FROM OPERATING ACTIVITIES	675	11,658	17,659	10,063
INVESTING ACTIVITIES				
Acquisition of plant and equipment	(10,430)	(31,724)	(13,759)	(805)
Settlement of payables for plant and equipment	–	(12,359)	(4,673)	(3,458)
Prepayments for plant and equipment	(1,200)	(334)	(915)	(851)
Interest received	2	7	1	11
NET CASH USED IN INVESTING ACTIVITIES	(11,628)	(44,410)	(19,346)	(5,103)
FINANCING ACTIVITIES				
Advances from shareholders	17,115	42,864	9,525	–
Placement of pledged deposit	–	(5,000)	–	(9)
NET CASH 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
Effect of foreign exchange rate changes	–	–	–	(2)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, represented by bank balances and cash	6,162	11,274	14,000	16,223

NOTES TO THE FINANCIAL INFORMATION

1. General and Basis of presentation of the financial information

General

The Company was incorporated in the Cayman Islands on 10 September 2014 as an exempted company with limited liability under the Cayman Companies, Law Chapter 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The address of the principal place of business of the Company is Office A on 31st Floor, Billion Plaza II, No. 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong. The Company is principally engaged in investment holding. The principal activities of its subsidiaries are the manufacture and trading of electronic and electrical parts and components.

The Financial Information is presented in Hong Kong dollars (“HK\$”) which is the same as the functional currency of the Company.

Basis of preparation

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on [DATE]. The companies now comprising the Group have been under the common control of Mr. Chow Hin Keong and Mr. Chow Hin Kok (the “Controlling Shareholders”) throughout the Track Record Period or since their respective dates of incorporation or establishment and up to [DATE]. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information of the Group has been prepared on the combined basis as if the Company had always been the holding company of the companies comprising the Group throughout the Track Record Period, by applying the principles of merger accounting with reference to Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA as set out in note 3 below.

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 the Group as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position of the 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 the Group as if the current group structure had been in existence as at those dates.

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ACCOUNTANTS’ REPORT

As at 31 March 2015, the Group had net current liabilities of approximately HK\$28,641,000. [As further detailed in sub-section headed “*Financial Information – NET CURRENT LIABILITIES*” in the [REDACTED], subsequent to the end of the Track Record Period, the amounts due by the Group to the Controlling Shareholders of HK\$60,000,000 in aggregate as at 31 March 2015 has been capitalised for the issue of [60,000,000] ordinary shares of HK\$0.01 each in the Company to the Controlling Shareholders.]

Accordingly, the directors of the Company considered that it is appropriate to prepare the Financial Information on a going concern basis.

2. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted all of the new and revised Hong Kong Accounting Standards (“HKASs”), HKFRSs, amendments and interpretations issued by the HKICPA and the annual report requirements of Part 9 “Accounts and Audit” of the Hong Kong Companies Ordinance (Cap. 622) which are effective for the Group’s financial year beginning on 1 January 2015.

The Company has not early applied the following new and revised HKAS, HKFRSs and amendments that have been issued but are not yet effective:

Amendment to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptance Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
HKFRS 9 (2014)	Financial Instruments ³
HKFRS 15	Revenue from Contracts with Customers ²

¹ Effective for annual periods beginning on or after 1 January 2016.

² Effective for annual periods beginning on or after 1 January 2017.

³ Effective for annual periods beginning on or after 1 January 2018.

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The directors of the Company anticipate that, except as described below, the application of the new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

Annual Improvements to HKFRSs 2012-2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 clarify that changing from one of the disposal methods (i.e. disposal through sale or disposal through distribution to owners) to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in HKFRS 5. Besides, the amendments also clarify that changing the disposal method does not change the date of classification.

The amendments to HKFRS 7 clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the additional disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety are required. Besides, the amendments to HKFRS 7 also clarify that disclosures in relation to offsetting financial assets and financial liabilities are not required in the condensed interim financial report, unless the disclosures provide a significant update to the information reported in the most recent annual report.

The amendments to HKAS 19 clarify that the market depth of high-quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high-quality corporate bonds in that currency, government bond rates must be used.

The directors of the Company anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2012-2014 Cycle will not have a material effect on the Financial Information.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for HKFRS 9 to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity’s expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

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HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review has been completed.

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Amendments to HKAS 16 and HKAS 38 Clarification of Acceptance Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of revenue-based depreciation methods for plant and equipment under HKAS 16. The amendments to HKAS 38 introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be rebutted only in the following limited circumstances:

- i) when the intangible asset is expressed as a measure of revenue;
- ii) when a high correlation between revenue and the consumption of the economic benefits of the intangible assets could be demonstrated.

The amendments to HKAS 16 and HKAS 38 will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments should be applied prospectively.

As the Group use straight-line method for depreciation of plant and equipment, the directors of the Company do not anticipate that the application of the amendments to HKAS 16 and HKAS 38 will have a material impact on the Financial Information.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments to HKAS 27 allow an entity to apply the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. As a result of the amendments, the entity can choose to account for these investments either:

- i) at cost;
- ii) in accordance with HKFRS 9 (or HKAS 39); or
- iii) using the equity method as described in HKAS 28.

The amendments to HKAS 27 will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments should be applied retrospectively.

As the Company does not have any investment in associates or joint ventures, the directors of the Company do not anticipate that the application of the amendments to HKAS 27 will have a material impact on the Company’s Financial Information.

Amendments to HKAS 1 Disclosure Initiative

The amendments clarify that companies should use professional judgement in determining what information as well as where and in what order information is presented in the financial statements. Specifically, an entity should decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity does not require to provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contain a list of specific requirements or describe them as minimum requirements.

Besides, the amendments provide some additional requirements for presenting additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity’s financial position and financial performance respectively. Entities, in which they have investments in associates or joint ventures, are required to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Furthermore, the amendments clarify that:

- (i) an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes; and
- (ii) significant accounting policies are not required to be disclosed in one note, but instead can be included with related information in other notes.

The amendments will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The directors of the Company anticipate that the application of Amendments to HKAS 1 in the future may have a material impact on the disclosures made in the Financial Information.

3. Significant accounting policies

The Financial Information have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of combination

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the combined financial statements for like transactions and events in similar circumstances (please specify), appropriate adjustments are made to that subsidiary’s financial statements in preparing the combined financial statements to ensure conformity with the Group’s accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group’s returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group’s voting rights and potential voting right; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Combination of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the combined statement of profit or loss and other comprehensive income from the date the Group gains control and until the date when the Group ceases to control the subsidiary.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

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Merger accounting for business combination involving entities under common control

The Financial Information includes the financial information items of the combining entities or businesses in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party’s perspective. No amount is recognised as consideration for goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The combined statements of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the end of the previous reporting period unless the combining entities or businesses first came under common control at a later date.

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:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

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- it is probable that the economic benefits associated with the transaction will flow to the 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 the Group and the amount of income can be measured reliably. Interest income from a 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.

Leasing

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

The Group as lessee

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

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Foreign currencies

In preparing the financial information of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group’s foreign operation are translated into the presentation currency of the Company (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year/period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from ‘profit before tax’ as reported in the combined statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary difference between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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

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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 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.

Current and deferred tax are recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs 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.

Financial instruments

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

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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

The 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 (see accounting policy on impairment of financial assets below).

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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 the 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.

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For financial assets measured at amortised cost, if, in a subsequent period, the amount of the 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

The 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.

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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.

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

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior period. A reversal of an impairment loss is recognised as income immediately in profit or loss.

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Cash and cash equivalents

Bank balances and cash in the combined statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the combined statements of cash flows, cash and cash equivalents consist of cash at banks and on hand and short-term deposits as defined above.

Retirement benefits costs

Payments to the state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme (the “MPF Scheme”) are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries. In the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

4. Critical accounting judgement and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

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Going concern basis

Although the Group had net current liabilities of approximately HK\$28,641,000 at 31 March 2015, the Group manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Group’s liquidity requirements in the short and long term. Details of the factor that may cast doubt on the Group’s ability to continue as a going concern and the measures taken are disclosed in note 1.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and impairment assessment of plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management’s estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset’s carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the combined statement of profit or loss. 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 plant and equipment were approximately HK\$22,438,000, HK\$55,741,000 and HK\$54,572,000 respectively. No impairment had been recognised during the Track Record Period or as at 31 December 2013 and 2014 and 31 March 2015.

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.

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As at 31 December 2013 and 2014 and 31 March 2015, the carrying amounts of inventories were approximately HK\$2,726,000, HK\$11,456,000 and HK\$11,678,000 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\$28,310,000, HK\$53,770,000 and HK\$54,334,000 respectively. No impairment had been recognised during the Track Record Period or as at 31 December 2013 and 2014 and 31 March 2015.

5. Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholder through the optimisation of the debt and equity balance. The Group’s overall strategy remained unchanged throughout the Track Record Period.

The capital structure of the Group consists of amounts due to shareholders, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues. The directors of the Company will also consider the raise of borrowings as second resource of capital.

The directors of the Company also endeavor to ensure the steady and reliable cash flows from the normal business operation.

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6. Financial risk management

(a) Categories of financial instruments

	The Group			The Company	
	As at 31 December	As at 31 March	As at 31 March	As at 31 December	As at 31 March
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets					
Loans and receivables (including bank balances and cash).	30,406	60,319	68,061	–	–
Financial liabilities					
Financial liabilities measured at amortised cost.	54,595	112,490	110,475	4,691	6,061

(b) Financial risk management objectives and policies

The Group’s and the Company’s major financial instruments include trade and other receivables, bank balances and cash, trade and other payables and amounts due to shareholders and a related company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included credit risk, market risk (currency risk and interest rate risk) and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

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

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In order to minimise the credit risk, the management of the Group 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, the Group reviews 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, the directors of the Company consider that the Group’s credit risk is significantly reduced.

The Group has 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 the Group’s 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 the Group’s five largest customers.

The Group’s concentration of credit risk by geographical locations is mainly in the People’s Republic of China (“PRC”), which accounted for 64%, 44% and 53% of the total trade receivables as at 31 December 2013 and 2014 and 31 March 2015 respectively.

The 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.

Market risk

(i) *Currency risk*

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. For the year ended 31 December 2013 and 2014 and the three months ended 31 March 2015, approximately 59%, 73% and 69% of the Group’s sales are denominated in currencies other than the functional currency of the group entity making the sales respectively, whilst almost 6%, 11% and 22% of costs are not denominated in the respective group entity’s functional currency respectively.

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The carrying amounts of the Group’s foreign currency denominated monetary assets and monetary liabilities as at 31 December 2013 and 2014 and 31 March 2015 are as follows:

	Assets		
	As at 31 December		As at
	2013	2014	31 March
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>2015</i>
			<i>HK\$’000</i>
United States			
dollars (“USD”)	7,495	26,300	29,033
RMB	1,486	7,786	3,393
HK\$	–	–	1,053
	<u>8,981</u>	<u>34,086</u>	<u>33,479</u>
	Liabilities		
	As at 31 December		As at
	2013	2014	31 March
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>2015</i>
			<i>HK\$’000</i>
USD	128	4,520	6,351
RMB	907	–	828
	<u>1,035</u>	<u>4,520</u>	<u>7,179</u>

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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Sensitivity analysis

The Group is mainly exposed to fluctuation against foreign currencies of USD, RMB and HK\$.

The following table details the 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
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
The Group			
Effect on post-tax profit			
USD	308	909	947
RMB	24	325	107
HK\$	–	–	40
	–	–	40

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(ii) Interest rate risk

As at 31 December 2013 and 2014 and 31 March 2015, the Group was exposed to cash flow interest rate risk in relation to variable-rate bank balances. It is the Group’s policy to keep its bank deposits and balances at floating rate of interests so as to minimise the fair value interest rate risk.

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

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The directors of the Company considered that the Group’s 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 the Group are responsible for their own cash management, including cash, current working capital and the raising of funds. The Group’s policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and long term.

As at 31 March 2015, the Group had net current liabilities of approximately HK\$28,641,000 which exposed it to liquidity risk. In the management of the liquidity risk, the Group obtains financing deemed adequate by the management to finance its operations. The factors that may cast doubt on the Group’s ability to continue as a going concern and the measures taken are set out in note 1.

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

(c) ***Fair values of financial instruments***

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximate their fair values due to their short-term maturities.

7. Turnover and segment information

Information reported to the board of directors, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments under HKFRS 8 are trading and manufacturing as follows:

- (i) Trading segment engages in trading of electronic and electrical parts and components sourced from third-party suppliers.
- (ii) Manufacturing segment engages in selling of electronic and electrical parts and components manufactured by the Group.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the method used to distribute the products and/or the nature of production processes.

Despite that all of the Group’s products are of a similar nature, they are subject to dissimilar risk and returns. Accordingly, the Group’s operating activities are attributable to trading and manufacturing segments.

Segment revenue represents revenue derived from the trading and manufacturing of electronic and electrical parts and components.

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Segment revenue and results

The followings are analysis of the Group’s revenue and results by reportable and operating segments:

	<u>Trading</u>	<u>Manufacturing</u>	<u>Total</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
For the year ended			
31 December 2013			
Segment revenue	<u>34,295</u>	<u>11,390</u>	<u>45,685</u>
Segment profit	<u>3,266</u>	<u>4,996</u>	8,262
Unallocated income			2
Unallocated expenses			<u>(2,083)</u>
Combined profit before tax			<u>6,181</u>
For the year ended			
31 December 2014			
Segment revenue	<u>78,578</u>	<u>80,745</u>	<u>159,323</u>
Segment profit	<u>8,047</u>	<u>29,397</u>	37,444
Unallocated income			7
Unallocated expenses			<u>(15,654)</u>
Combined profit before tax			<u>21,797</u>
For the three			
months ended			
31 March 2014			
(unaudited)			
Segment revenue	<u>14,067</u>	<u>9,242</u>	<u>23,309</u>
Segment profit	<u>1,590</u>	<u>3,677</u>	5,267
Unallocated income			1
Unallocated expenses			<u>(1,496)</u>
Combined profit before tax			<u>3,772</u>

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	<u>Trading</u> <i>HK\$’000</i>	<u>Manufacturing</u> <i>HK\$’000</i>	<u>Total</u> <i>HK\$’000</i>
For the three months ended 31 March 2015			
Segment revenue	<u>16,994</u>	<u>32,029</u>	<u>49,023</u>
Segment profit	<u>1,469</u>	<u>12,097</u>	13,566
Unallocated income . .			84
Unallocated expenses .			<u>(5,807)</u>
Combined profit before tax			<u>7,843</u>

The accounting policies of the operating segments are the same as the Group’s accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of administrative expenses and other income. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

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Segment assets and liabilities

The followings are analysis of the Group’s assets and liabilities by reportable and operating segments.

	<u>As at 31 December</u>		As at
	2013	2014	31 March
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
SEGMENT ASSETS			
Trading	17,281	22,883	20,002
Manufacturing.	35,751	95,523	99,187
Unallocated	<u>8,016</u>	<u>19,169</u>	<u>23,795</u>
Total assets	<u>61,048</u>	<u>137,575</u>	<u>142,984</u>
SEGMENT LIABILITIES			
Trading	17,623	25,762	26,412
Manufacturing.	18,838	23,022	21,371
Unallocated	<u>19,516</u>	<u>67,477</u>	<u>68,421</u>
Total liabilities	<u>55,977</u>	<u>116,261</u>	<u>116,204</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than pledged deposit, bank balances and cash and certain other receivables and prepayments as these assets are managed on a group basis; and
- all liabilities are allocated to operating segments other than amounts due to shareholders, tax payables, deferred tax liabilities and certain other payables as these liabilities are managed on a group basis.

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Other segment information

Amounts included in the measure of segments results or segment assets

	<u>Trading</u>	<u>Manufacturing</u>	<u>Unallocated</u>	<u>Total</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Year ended 31 December 2013				
Depreciation of plant and equipment	–	656	12	668
Additions to non-current assets	–	22,903	1,298	24,201
Year ended 31 December 2014				
Depreciation of plant and equipment	–	4,007	1,045	5,052
Additions to non-current assets	–	36,760	664	37,424
Three months ended				
31 March 2014 (unaudited)				
Depreciation of plant and equipment	–	591	74	665
Additions to non-current assets	–	14,899	255	15,154
Three months ended				
31 March 2015				
Depreciation of plant and equipment	–	1,436	338	1,774
Additions to non-current assets	–	1,650	7	1,657

Geographical information

The Group’s operations are located in Hong Kong (the place of domicile of the Group’s operation) and the PRC.

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Information about the Group’s revenue from external customers is presented based on the location of customers. Information about the Group’s non-current assets is presented based on the geographical location of the assets.

	Hong Kong	PRC (excluding Hong Kong)	Asia (excluding PRC and Hong Kong)	Europe and other	Total
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Revenue from external customers					
Year ended 31 December 2013 . . .	<u>7,193</u>	<u>19,191</u>	<u>18,376</u>	<u>925</u>	<u>45,685</u>
Year ended 31 December 2014 . . .	<u>14,876</u>	<u>69,527</u>	<u>63,913</u>	<u>11,007</u>	<u>159,323</u>
Three months ended 31 March 2014 (unaudited) . . .	<u>1,610</u>	<u>11,981</u>	<u>7,378</u>	<u>2,340</u>	<u>23,309</u>
Three months ended 31 March 2015	<u>2,497</u>	<u>20,014</u>	<u>24,428</u>	<u>2,084</u>	<u>49,023</u>
Non-current assets					
As at 31 December 2013	<u>2,264</u>	<u>21,586</u>	<u>–</u>	<u>–</u>	<u>23,850</u>
As at 31 December 2014	<u>2,903</u>	<u>53,172</u>	<u>–</u>	<u>–</u>	<u>56,075</u>
As at 31 March 2015	<u>3,446</u>	<u>52,294</u>	<u>–</u>	<u>–</u>	<u>55,740</u>

Information about major customer

Details of the customer accounting for 10% or more of the total revenue of the Group during the Track Record Period are as follows:

	Year ended 31 December		Three months ended 31 March	
	2013	2014	2014	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Customer A ¹	10,647	16,692	3,788	N/A ²
Customer B ¹	8,652	N/A ²	7,487	N/A ²
Customer C ¹	N/A ²	N/A ²	2,617	N/A ²
Customer D ¹	<u>–</u>	<u>N/A²</u>	<u>–</u>	<u>6,056</u>

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- ¹ This customer is a customer of the Group’s trading and manufacturing operation.
- ² The corresponding revenue did not contribute over 10% of the total revenue of the Group.

8. Income tax expenses

	The Group			
	Year ended 31 December		Three months ended 31 March	
	2013	2014	2014	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
			(unaudited)	
Current tax				
Hong Kong Profits tax	493	2,205	595	886
Statutory tax reduction	(10)	–	–	–
PRC Enterprise Income Tax	<u>890</u>	<u>3,026</u>	<u>306</u>	<u>1,187</u>
	1,373	5,231	901	2,073
Deferred tax (note 19)	<u>–</u>	<u>350</u>	<u>11</u>	<u>(31)</u>
	<u>1,373</u>	<u>5,581</u>	<u>912</u>	<u>2,042</u>

- (a) Pursuant to the rules and regulations of the BVI and Cayman Islands, the Group is not subject to any income tax in these jurisdictions.
- (b) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Track Record Period.
- (c) Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the subsidiary registered in the PRC is 25%.

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The income tax expenses for the year/period can be reconciled to the profit before tax per the combined statements of profit or loss and other comprehensive income as follows:

	The Group			
	Year ended 31 December		Three months ended 31 March	
	2013	2014	2014	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i> (unaudited)	<i>HK\$’000</i>
Profit before tax	<u>6,181</u>	<u>21,797</u>	<u>3,772</u>	<u>7,843</u>
Tax at the domestic income				
tax rate of 16.5%	1,020	3,596	622	1,294
Effect of different tax rate of a subsidiary operating in other jurisdiction	286	958	235	327
Tax effect of expenses not deductible for tax purpose	64	830	51	415
Tax effect of income not taxable for tax purpose	–	–	–	(2)
Tax effect of temporary differences not recognised	–	27	–	12
Utilisation of tax losses previously not recognised	–	–	–	(4)
Tax effect of tax losses not recognised . .	13	170	4	–
Statutory tax reduction	<u>(10)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Income tax expenses for the year/period	<u>1,373</u>	<u>5,581</u>	<u>912</u>	<u>2,042</u>

Details of the deferred tax are set out in note 19.

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9. Profit for the year/period

Profit for the year/period has been arrived at after charging (crediting):

	The Group			
	Year ended 31 December		Three months ended 31 March	
	2013	2014	2014	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i> (unaudited)	<i>HK\$’000</i>
Bank interest income	(2)	(7)	(1)	(11)
Exchange gains, net	—	—	—	(73)
	(2)	(7)	(1)	(84)
[REDACTED] expenses	—	3,373	—	2,038
Auditors’ remuneration	183	325	—	—
Amount of inventories recognised as expenses	37,105	116,422	17,672	33,056
Depreciation of plant and equipment	668	5,052	665	1,774
Exchange losses, net	206	276	50	—
Operating lease rentals in respect of rented premises	411	797	200	199
Emoluments of directors and chief executive (<i>note 12</i>)	158	1,033	76	626
Other staff costs:				
Salaries and allowances	1,163	10,858	1,459	3,711
Retirement benefits scheme contributions	250	2,026	64	682
	<u>1,571</u>	<u>13,917</u>	<u>1,599</u>	<u>5,019</u>

10. Dividend

No dividend was paid or proposed during the Track Record Period and the three months ended 31 March 2014, [nor has any dividend been proposed after 31 March 2015].

11. Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

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12. Emoluments of directors, chief executive and employees

The emoluments paid or payable to each of the directors of the Company, which include the chief executive of the Group, were as follows:

	<u>Year ended 31 December 2013</u>		
	<u>Chow Hin</u>	<u>Chow Hin</u>	
	<u>Kok</u>	<u>Keong</u>	<u>Total</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Emoluments paid or receivable in respect of a person’s services as a director, whether of the Company or its subsidiary undertakings			
– Fees and other emoluments	–	–	–
– Contributions to retirement benefits scheme	–	–	–
Emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the Company or its subsidiary undertakings (<i>note i</i>)			
– Other emoluments	158	–	158
– Contributions to retirement benefits scheme	–	–	–
	<u>158</u>	<u>–</u>	<u>158</u>

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	<u>Year ended 31 December 2014</u>		
	<u>Chow Hin Kok</u>	<u>Chow Hin Keong</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Emoluments paid or receivable in respect of a person’s services as a director, whether of the Company or its subsidiary undertakings			
– Fees and other emoluments	–	–	–
– Contributions to retirement benefits scheme	–	–	–
Emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the Company or its subsidiary undertakings (<i>note i</i>)			
– Other emoluments	623	400	1,023
– Contributions to retirement benefits scheme	<u>5</u>	<u>5</u>	<u>10</u>
	<u><u>628</u></u>	<u><u>405</u></u>	<u><u>1,033</u></u>

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	Three months ended 31 March 2014		
	(Unaudited)		
	Chow Hin Kok	Chow Hin Keong	Total
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Emoluments paid or receivable in respect of a person’s services as a director, whether of the Company or its subsidiary undertakings			
– Fees and other emoluments	–	–	–
– Contribution to retirement benefits scheme	–	–	–
Emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the Company or its subsidiary undertakings (<i>note i</i>)			
– Other emoluments	76	–	76
– Contributions to retirement benefits scheme	–	–	–
	<u>76</u>	<u>–</u>	<u>76</u>

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	<u>Three months ended 31 March 2015</u>		
	<u>Chow Hin Kok</u>	<u>Chow Hin Keong</u>	<u>Total</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Emoluments paid or receivable in respect of a person’s services as a director, whether of the Company or its subsidiary undertakings			
– Fees and other emoluments	–	–	–
– Contribution to retirement benefits scheme	5	5	10
Emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the Company or its subsidiary undertakings (<i>note i</i>)			
– Other emoluments	316	300	616
– Contributions to retirement benefits scheme	<u>5</u>	<u>5</u>	<u>10</u>
	<u><u>321</u></u>	<u><u>305</u></u>	<u><u>626</u></u>

Note i: The emoluments represent the payments to the directors in respect of their services in connection with management of the affairs of the Group.

Mr. Chow Hin Kok is also the chief executive of the Group and his emoluments disclosed above includes those for services rendered by him as chief executive.

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Of the five individuals with the highest emoluments in the Group, one, two, two and one were directors including the chief executive of the Company for the Track Record Period and for the three months ended 31 March 2014 respectively whose emoluments are included in the disclosures above. The emoluments of the remaining four and three, three and four individuals for the Track Record Period and the three months ended 31 March 2014 were as follows:

	The Group			
	Year ended 31 December		Three months ended 31 March	
	2013	2014	2014	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
			(unaudited)	
Salaries and allowances	332	1,684	381	453
Contributions to retirement benefits scheme	<u>11</u>	<u>48</u>	<u>11</u>	<u>12</u>
	<u>343</u>	<u>1,732</u>	<u>392</u>	<u>465</u>

Their emoluments fell within the band of nil to HK\$1,000,000 for the Track Record Period and the three months ended 31 March 2014.

No emoluments were paid by the Group to any of the directors (including the chief executive) or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the Track Record Period and for the three months ended 31 March 2014.

No directors (including the chief executive) or the five highest paid individuals waived any emoluments in the Track Record Period and the three months ended 31 March 2014.

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13. Plant and equipment

	<u>Leasehold improvements</u>	<u>Plant and machinery</u>	<u>Furniture, fixtures and equipment</u>	<u>Total</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
COST				
At 1 January 2013	–	–	–	–
Additions	2,618	19,661	510	22,789
Exchange realignment	<u>30</u>	<u>292</u>	<u>4</u>	<u>326</u>
At 31 December 2013 and				
1 January 2014	2,648	19,953	514	23,115
Additions	335	34,483	3,472	38,290
Exchange realignment	<u>(5)</u>	<u>86</u>	<u>2</u>	<u>83</u>
At 31 December 2014 and				
1 January 2015	2,978	54,522	3,988	61,488
Additions	4	776	43	823
Exchange realignment	<u>(10)</u>	<u>(224)</u>	<u>(4)</u>	<u>(238)</u>
At 31 March 2015	<u>2,972</u>	<u>55,074</u>	<u>4,027</u>	<u>62,073</u>
ACCUMULATED DEPRECIATION				
At 1 January 2013	–	–	–	–
Charge for the year	73	583	12	668
Exchange realignment	<u>1</u>	<u>8</u>	<u>–</u>	<u>9</u>
At 31 December 2013 and				
1 January 2014	74	591	12	677
Charge for the year	663	3,607	782	5,052
Exchange realignment	<u>1</u>	<u>16</u>	<u>1</u>	<u>18</u>
At 31 December 2014 and				
1 January 2015	738	4,214	795	5,747
Charge for the period	180	1,300	294	1,774
Exchange realignment	<u>(2)</u>	<u>(17)</u>	<u>(1)</u>	<u>(20)</u>
At 31 March 2015	<u>916</u>	<u>5,497</u>	<u>1,088</u>	<u>7,501</u>
CARRYING VALUES				
At 31 December 2013	<u>2,574</u>	<u>19,362</u>	<u>502</u>	<u>22,438</u>
At 31 December 2014	<u>2,240</u>	<u>50,308</u>	<u>3,193</u>	<u>55,741</u>
At 31 March 2015	<u>2,056</u>	<u>49,577</u>	<u>2,939</u>	<u>54,572</u>

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ACCOUNTANTS’ REPORT

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

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

14. Inventories

	The Group		
	As at 31 December		As at 31 March
	2013	2014	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Raw materials	1,657	6,547	5,236
Finished goods	<u>1,069</u>	<u>4,909</u>	<u>6,442</u>
	<u>2,726</u>	<u>11,456</u>	<u>11,678</u>

15. Trade and other receivables

	The Group			The Company	
	As at 31 December		As at 31 March	As at 31 December	As at 31 March
	2013	2014	2015	2014	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Trade receivables	24,214	42,601	44,515	-	-
Deposits and other receivables	30	1,444	2,314	-	-
Prepayments	<u>4,278</u>	<u>9,725</u>	<u>7,505</u>	<u>1,239</u>	<u>537</u>
	28,522	53,770	54,334	1,239	537
Less: Non-current rental prepayments*	<u>(212)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>28,310</u>	<u>53,770</u>	<u>54,334</u>	<u>1,239</u>	<u>537</u>

* Balance as at 31 December 2013 represented rental prepayment for the 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.

The Group does not hold any collateral over its 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.

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The Group allows a credit period of 0 to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period.

	The Group		
	As at 31 December		As at 31 March
	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>24,214</u>	<u>42,601</u>	<u>44,515</u>

The 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 be applied to the receivables when there are events or changes in circumstances indicate that the balances may not be collectible. The management of the Group 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 is an aged analysis of trade receivables presented based on the due date at the end of the reporting period:

	The Group		
	As at 31 December		As at 31 March
	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	22,784	41,464	42,758
Overdue within 3 months	1,430	1,137	1,612
Overdue 3 months to 6 months	—	—	145
	<u>24,214</u>	<u>42,601</u>	<u>44,515</u>

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.

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Included in the Group’s trade receivables balance are debtors with aggregate carrying amount of approximately HK\$1,430,000, HK\$1,137,000 and HK\$1,757,000 as at 31 December 2013 and 2014 and 31 March 2015 respectively which were past due at the end of the reporting period for which the Group has not provided for impairment loss. Receivables that were past due but not impaired related to a number of independent customers with no recent history of default.

16. Pledged deposit and bank balances and cash

Cash at banks carried interest at floating rates based on daily bank deposit rates for the Track Record Period. The pledged deposit carries fixed interest rate of 0.75% per annum during the year ended 31 December 2014 and period ended 31 March 2015 and is pledged to a bank to secure short-term banking facilities granted to the Group.

17. Trade and other payables

	The Group			The Company	
	As at 31 December		As at 31 March	As at 31 December	As at 31 March
	2013	2014	2015	2014	2015
	HK\$’000	HK\$’000	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	526	734
	<u>37,459</u>	<u>52,499</u>	<u>51,915</u>	<u>526</u>	<u>734</u>

Included in the Group’s accruals and other payables as at 31 December 2013 and 2014 and 31 March 2015, were accrued directors’ emoluments of approximately HK\$25,000, HK\$385,000 and HK\$205,000 respectively.

The following is an aged analysis of trade payables presented based on the invoice date.

	The Group		
	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	-
	<u>23,731</u>	<u>41,239</u>	<u>42,305</u>

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The credit period on purchases of goods ranged from 30 days to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

18. Amounts due to shareholders/a related company

The amounts are unsecured, interest-free and repayable on demand.

The amount due to a related company represented amount due to TD Enterprises, a company beneficially controlled and owned by the controlling shareholders prior to it became a wholly-owned subsidiary of the Company.

19. Deferred tax

The following is the analysis of the Group’s deferred liabilities (asset), after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	The Group		
	As at 31 December		As at 31
	2013	2014	March
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Deferred tax assets	(25)	–	–
Deferred tax liabilities	<u>25</u>	<u>350</u>	<u>319</u>
	<u>–</u>	<u>350</u>	<u>319</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The following are the major deferred tax (assets) liabilities of the Group recognised and movements thereon during the Track Record Period:

	<u>Tax losses</u>	<u>Accelerated tax depreciation</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2013	–	–	–
(Credited) charged to profit or loss	<u>(25)</u>	<u>25</u>	<u>–</u>
At 31 December 2013 and 1 January 2014	(25)	25	–
Charged to profit or loss	<u>25</u>	<u>325</u>	<u>350</u>
At 31 December 2014 and 1 January 2015	–	350	350
Credited to profit or loss	<u>–</u>	<u>(31)</u>	<u>(31)</u>
At 31 March 2015	<u>–</u>	<u>319</u>	<u>319</u>

At 31 December 2013 and 2014 and 31 March 2015, the Group has unused tax losses of approximately HK\$231,000, HK\$1,109,000 and HK\$1,086,000 respectively available for offset against future profits indefinitely. As at 31 December 2013, 2014 and 31 March 2015, a deferred tax asset had been recognised in respect of tax losses of approximately HK\$151,000, nil and nil respectively. As at 31 December 2013 and 2014 and 31 March 2015, no deferred tax asset had been recognised in respect of remaining tax losses of HK\$80,000, HK\$1,109,000 and HK\$1,086,000 respectively due to the unpredictability of future profit streams.

At 31 December 2013 and 2014 and 31 March 2015, the Group has deductible temporary differences of approximately nil, HK\$162,000 and HK\$232,000. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

At 31 December 2013 and 2014 and 31 March 2015, the aggregate amount of temporary difference associated with undistributed earnings of a subsidiary amounted to approximately HK\$2,494,000, HK\$12,287,000 and HK\$15,959,000 respectively and no deferred tax liability has been recognised in respect of these undistributed earnings because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such difference will not reverse in the foreseeable future.

APPENDIX I**ACCOUNTANTS’ REPORT**

20. Share capital and reserves**(a) Share capital**

The balances of share capital as at 1 January 2013, 31 December 2013 and 1 January 2014 represented share capital of TD International and the balance as at 31 December 2014, 1 January 2015 and 31 March 2015 represented share capital of the Company.

TD International was incorporated in the BVI on 25 August 2009. As at the date of its incorporation, TD International had authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. 1000 ordinary shares of US\$1 each (in aggregate equivalent to approximately HK\$8,000) were issued at par on incorporation.

The Company was incorporated in the Cayman Islands on 10 September 2014. As at the date of its incorporation, the Company had authorised share capital of HK\$5,000 divided into 50,000 shares of HK\$0.1 each. Two ordinary shares of HK\$0.1 each were issued at par on incorporation.

The share capital of TD International was transferred to capital reserve as part of the Reorganisation.

(b) Reserves**(i) PRC statutory reserve**

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of Dongguan Jia Jun. Appropriations to the reserves were determined by the board of directors of Dongguan Jia Jun and can be used to offset accumulated losses and increase capital upon approval from the relevant government authorities.

(ii) Capital reserve

Capital reserve represents the share capital of TD International contributed by the Controlling Shareholders.

(iii) Accumulated losses of the Company

	<i>HK\$'000</i>
At 10 September 2014 (date of incorporation)	–
Loss and total comprehensive expenses for the period	<u>3,452</u>
At 31 December 2014 and 1 January 2015	3,452
Loss and total comprehensive expenses for the period	<u>2,072</u>
At 31 March 2015	<u><u>5,524</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

21. Retirement benefit schemes

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The MPF Scheme is a defined contribution retirement plan and the assets of the MPF Scheme are held separately from those of the Group in funds administered by independent trustee. Under the MPF Scheme, the Group and its employees makes monthly contributions to the MPF Scheme at 5% of the employee’s earnings capped at HK\$1,500 (HK\$1,250 prior to June 2014) per month to the MPF Scheme.

The employees of the Group’s subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of approximately HK\$250,000, HK\$2,036,000, HK\$692,000 and HK\$64,000 represent contributions payable to these schemes by the Group for the Track Record Period and for the three months ended 31 March 2014 respectively.

22. Capital commitments

As at 31 December 2013 and 2014 and 31 March 2015, the Group has the following capital commitments in respect of acquisition of plant and equipment:

	<u>The Group</u>		
	<u>As at 31 December</u>		<u>As at</u>
	<u>2013</u>	<u>2014</u>	<u>31 March</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<u>2015</u>
			<i>HK\$’000</i>
Contracted but not provided for.	<u>1,205</u>	<u>1,482</u>	<u>997</u>

APPENDIX I

ACCOUNTANTS’ REPORT

23. Lease commitment

The Group as lessee

At 31 December 2013 and 2014 and 31 March 2015, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>As at 31 December</u>		<u>As at</u> <u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Within one year	519	517	1,475
In the second to fifth years inclusive	2,076	2,069	3,107
Over five years	<u>2,249</u>	<u>1,724</u>	<u>1,588</u>
	<u>4,844</u>	<u>4,310</u>	<u>6,170</u>

Operating lease payment represents rental payable by the Group for certain of its office and production plant. Lease is negotiated for original terms of 2 to 10 years and rentals are fixed over the lease terms of respective leases.

24. Related party disclosures

Save as disclosed elsewhere in the Financial Information, the Group has the following transactions with its related parties.

(a) During the Track Record Period, the Group was granted the right to use 3 trademarks registered by a company (the “Related Company”) jointly controlled by Mr. Chow Hin Keong, a shareholder and a director of the Company, and an independent third party at nil consideration.

(b) Compensation of key management personnel

The directors of the Company considered that they are the only key management personnel of the Group and their emoluments are disclosed in note 12.

The emoluments of directors and key executives are determined by board of the directors with reference to the performance of individuals and market trends.

APPENDIX I**ACCOUNTANTS’ REPORT**

B. EVENTS AFTER THE REPORTING PERIOD

- (a) Subsequent to the end of the Track Record Period, the Group acquired a trademark from the Related Company for a cash consideration of HK\$2,600,000.
- (b) The Reorganisation was completed on [•] and the Company became the holding company of the Group on the same date.
- (c) Pursuant to a resolution in writing of the Controlling Shareholders of the Company passed on [•], (i) each authorised share of the Company of HK\$0.1 each was subdivided into 10 ordinary shares of HK\$0.01 each, and (ii) the authorised share capital of the Company was increased from 5,000,000 ordinary shares of HK\$0.01 each to 2,000,000,000 ordinary shares of HK\$0.01 each by the creation of 1,995,000,000 ordinary shares of HK\$0.01 each.
- (d) [Subsequent to the end of the Track Record Period, the amounts due to Controlling Shareholders of HK\$60,000,000 as at 31 March 2015 were capitalised for the issue of a total of 60,000,000 ordinary shares of HK\$0.01 each of the Company.]

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of the companies comprising the Group in respect of any period subsequent to the three months ended 31 March 2015.

Yours faithfully,

SHINEWING (HK) CPA Limited

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this appendix does not form part of the Accountants’ Report prepared by the reporting accountants of the Company, SHINEWING (HK) CPA Limited, as set out in Appendix I to this [REDACTED], and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this [REDACTED] and the Accountants’ Report as set out in Appendix I to this [REDACTED].

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group (the “Unaudited Pro Forma Net Tangible Assets”) prepared in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited is for illustrative purposes only, and is set out below to illustrate the effect of the [REDACTED] on the combined net tangible assets of the Group attributable to the owners of the Company as at 31 March 2015 as if the [REDACTED] had taken place on 31 March 2015.

This Unaudited Pro Forma 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 the Group as at 31 March 2015 or at any future dates following the [REDACTED]. It is prepared based on the audited combined net tangible assets of the Group as at 31 March 2015 as set out in the Accountants’ Report of the Group, the text of which is set out in Appendix I to this [REDACTED], and adjusted as described below.

Audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 March 2015	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company immediately after the completion of [REDACTED]	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company per Share as at 31 March 2015
<i>HK\$’000</i> <i>(Note 1)</i>	<i>HK\$’000</i> <i>(Note 2)</i>	<i>HK\$’000</i>	<i>HK\$</i> <i>(Note 3)</i>

Based on the [REDACTED] of
[REDACTED] per [REDACTED] . [REDACTED] [REDACTED] [REDACTED] [REDACTED]

Based on the [REDACTED] of
[REDACTED] per [REDACTED] . [REDACTED] [REDACTED] [REDACTED] [REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2015 has been extracted from the Accountants’ Report as set out in Appendix I to this [REDACTED].
- (2) The estimated net proceeds of the [REDACTED] are based on [REDACTED] and the respective [REDACTED] of [REDACTED] or [REDACTED] per [REDACTED] (being the low end and the high end of the indicative price range of the [REDACTED]), after deduction of the underwriting commission and other related expenses payable by the Company in relation to the [REDACTED], in aggregate of approximately [REDACTED] or [REDACTED] respectively. 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 Option Scheme as described in the sub-section headed “*Appendix IV – D. Other Information – Share Option Scheme*” of this [REDACTED].
- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company per Share is calculated based on [REDACTED] Shares were in issue (including Shares in issue as at the date of this [REDACTED] and those Shares are expected to be issued pursuant to the [REDACTED] and the [REDACTED] 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 the Group entered into subsequent to 31 March 2015.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report prepared for the purpose of inclusion in this [REDACTED], received from the Company’s reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

**SUMMARY OF THE CONSTITUTION OF
OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands Company Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 September 2014 under the Companies Law. The Memorandum of Association and the Articles of Association comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on [•] 2015 conditional upon [REDACTED]. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

APPENDIX III

**SUMMARY OF THE CONSTITUTION OF
OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW**

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

- (ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

- (iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

- (iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

APPENDIX III

**SUMMARY OF THE CONSTITUTION OF
OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW**

- (v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

APPENDIX III

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in

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respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

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(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

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(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

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(x) **Register of Directors and Officers**

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

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- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph i(i) below for further details).

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A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

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Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company,

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demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

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All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

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Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

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(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide that dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company

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that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

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(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money’s worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days’ notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in

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accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under the laws of the Cayman Islands, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the

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paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to the laws of the Cayman Islands. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

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The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not

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lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the Memorandum and Articles of Association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's Articles of Association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under the laws of the Cayman Islands that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under the laws of the Cayman Islands, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

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(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company’s affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company’s capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 30 September 2014.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

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(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company’s Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company’s principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

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A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members’ voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company’s affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator’s duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company’s liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

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As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company’s articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

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4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company’s special legal counsel on the laws of the Cayman Islands, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed “*Appendix V – Documents Delivered to the Registrar of Companies in Hong Kong and Documents Available for Inspection*” of this [REDACTED]. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 10 September 2014. Our Company has established a place of business in Hong Kong at Office A, 31/F., Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong and was registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 8 December 2014, with Ms. Lam Yuk Yee of Office A, 31/F., Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong appointed as our authorised representative for the acceptance of service of process and notices in Hong Kong. As we are incorporated in the Cayman Islands, we operate subject to the Companies Law and to our constitution, which comprises the Memorandum and the Articles. A summary of various provisions of our constitution and relevant aspects of the Companies Law is set out in Appendix III to this [REDACTED].

2. Change in Share Capital

Our authorised share capital as at the date of incorporation was HK\$50,000 divided into 500,000 ordinary shares of HK\$0.1 each.

The following changes in our Company’s share capital have taken place since the date of its incorporation:

- (a) On 10 September 2014, one share of HK\$0.10 in the Company was allotted and issued nil-paid to its initial subscriber, which was subsequently transferred to Platinum Dynamic on the same date. Another one share in the Company was allotted and issued nil-paid to Silver Dynamic on the same date.
- (b) On [•], pursuant to the Sale and Purchase Agreement, our Company acquired from Mr. Chow Hin Keong and Mr. Chow Hin Kok their respective 50% shareholding in TD Int’l (BVI) for HK\$32.3 million, being the net asset value of TD Int’l (BVI) and its subsidiaries as at 31 March 2015, which was settled by (i) the issuance by our Company of one share in the Company to each of Platinum Dynamic and Silver Dynamic as the respective nominees of Mr. Chow Hin Keong and Mr. Chow Hin Kok, and (ii) the Company crediting the one nil-paid share in the Company held by each of Platinum Dynamic and Silver Dynamic as fully paid.
- (c) On [•] 2015, our Shareholders approved the Subdivision, pursuant to which each issued and unissued share in the Company of HK\$0.10 each was sub-divided into ten Shares of HK\$0.01 each.

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- (d) On [•] 2015, the authorised share capital of our Company was increased to HK\$20,000,000 by creation of an additional 1,995,000,000 Shares ranking *pari passu* in all respects with the then existing Shares.

- (e) On [•] 2015, our Company acquired two loans each in the amount of HK\$30,000,000 owed by TD Enterprises to Mr. Chow Hin Keong and Mr. Chow Hin Kok respectively on a dollar-for-dollar basis, and as a result, our Company was indebted to Mr. Chow Hin Keong and Mr. Chow Hin Kok, each in the amount of HK\$30,000,000 (the “Loans”). On the same date, the Loans were respectively capitalised in full by our Company by the issue of (i) 30,000,000 Shares, credited as fully paid, to Platinum Dynamic as nominee of Mr. Chow Hin Keong, and (ii) 30,000,000 Shares, credited as fully paid, to Silver Dynamic as nominee of Mr. Chow Hin Kok.

Assuming the [REDACTED] becomes unconditional and the [REDACTED] are issued immediately following completion of the [REDACTED] and the [REDACTED] but without taking in account any Shares which may be allotted and issued pursuant to any options which may be granted under the Share Option Scheme, the authorised share capital of our Company will be HK\$20,000,000 divided into 2,000,000,000 Shares, of which [REDACTED] Shares will be allotted and issued.

Other than pursuant to the [REDACTED] and the exercise of options which may be granted under the Share Option Scheme, our Company does not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as aforesaid and as mentioned in the sub-section headed “– *Resolutions in writing of all our Shareholders passed on [•] 2015*” of this Appendix IV to this [REDACTED], there has been no alteration in our share capital since the date of incorporation.

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3. Resolutions in Writing of All Our Shareholders Passed on [•] 2015

On [•] 2015, Platinum Dynamic and Silver Dynamic, being all our Shareholders on that date, passed resolutions in writing, pursuant to which:

- (a) our Company approved the sub-division of each issued and unissued share in the share capital of the Company of HK\$0.10 each into ten Shares of HK\$0.01 each;
- (b) our Company approved an increase of its authorised share capital from HK\$50,000 divided into 5,000,000 Shares of HK\$0.01 each to HK\$20,000,000 by the increase of an additional 1,995,000,000 Shares of HK\$0.01 each;
- (c) our Company approved and adopted the Memorandum with immediate effect and approved and adopted the Articles conditional upon [REDACTED];
- (d) our Company approved the issue and allotment of 60,000,000 Shares, credited as fully paid up, by capitalising the sum of HK\$30,000,000 owed to each of Mr. Chow Hin Keong and Mr. Chow Hin Kok arising from the acquisition by our Company from each of them the respective loans owed to them from TD Enterprises in the aggregate sum of HK\$60,000,000.
- (e) conditional upon all conditions as stated in the section headed “*Structure and Conditions of the [REDACTED]*” of this [REDACTED] having been fulfilled:
 - (i) the [REDACTED] was approved and the Directors were authorised to effect the same and to issue and allot the [REDACTED] pursuant to the [REDACTED] on and subject to the terms and conditions stated in this [REDACTED];
 - (ii) conditional on the share premium amount of the Company being credited as a result of the issue of Shares pursuant to the [REDACTED], the issue and allotment of an additional [REDACTED] Shares (“[REDACTED]”), to be credited as fully paid up, by capitalising the amount standing to the credit of the share premium account of our Company to holders of Shares whose names appeared on the register of members of our Company at the close of business on the day before the date of these resolutions (or as they may direct) in proportion as nearly as may be to their respective shareholding in our Company without involving fractions were approved, and our Directors or any committee of the Board were authorised to give effect to the [REDACTED];

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- (iii) the rules of the Share Option Scheme (the principal terms of which are set out in the sub-section headed “– *Share Option Scheme*” of this Appendix IV to this [REDACTED]) were approved and adopted and the Directors were authorised, at their absolute discretion to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with Shares pursuant to exercise of options to be granted thereunder and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;

- (iv) a general and unconditional mandate (the “Issue Mandate”) was given to our Directors to exercise all powers for and on our behalf to allot, issue and deal with (otherwise than by way of rights issue or an issue of Shares upon the exercise of options which may be granted under the Share Option Scheme or under any option scheme or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the [REDACTED]) unissued Shares and securities carrying rights to subscribe for, exchange or convert into Shares (whether the exercise of such rights may take place during or after the period while such mandate remains in effect) not exceeding 20% of the total number of issued Shares of our Company immediately following completion of the [REDACTED] and the [REDACTED] (excluding any Shares that may fall to be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), such mandate to remain in effect from the date of [REDACTED] until whichever is the earliest of:
 - (1) the conclusion of the next annual general meeting of our Company;
 - (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
 - (3) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;

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- (v) a general and unconditional mandate (the “Repurchase Mandate”) was given to our Directors authorising them to exercise all powers for and on our behalf to repurchase on the Stock Exchange or any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares not exceeding 10% of the aggregate number of issued Shares of our Company immediately following completion of the [REDACTED] (excluding any Shares which may fall to be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:
- (1) the conclusion of the next annual general meeting of our Company;
 - (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
 - (3) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate; and
- (vi) the Issue Mandate was extended by the addition to the aggregate number of Shares which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the Repurchase Mandate provided that such extended amount shall not exceed 10% of the total number of Shares of our Company immediately following completion of the [REDACTED] (excluding Shares which may fall to be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme).

4. Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the [REDACTED]. For further information relating to the Reorganisation, please refer to the section headed “*History, Reorganisation and Group Structure*” of this [REDACTED].

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5. Changes in Share Capital of Our Subsidiaries

Our subsidiaries are listed in the Accountants’ Report, the text of which is set out in “Appendix I – Accountants’ Report” to this [REDACTED]. Save for the subsidiaries so listed, our Company has no other subsidiaries. The following sets out the changes to the share capital of our subsidiaries during the two years preceding the date of this [REDACTED]:

(a) TD Int’l (BVI)

TD Int’l (BVI) was incorporated under a former name in the BVI on 25 August 2009 with limited liability and is authorised to issue a maximum of 50,000 shares with no par value. Upon its incorporation, 1,000 shares (without par value) were issued for US\$1,000 to its first shareholder, which were subsequently transferred to Mr. Chow Hin Keong and Mr. Chow Hin Kok on 30 November 2013. On 16 March 2015, the name change to the present company name of TD Int’l (BVI) became effective. On [•], Mr. Chow Hin Keong and Mr. Chow Hin Kok transferred their respective shareholding in TD Int’l (BVI) to our Company under the Sale and Purchase Agreement entered into pursuant to the Reorganisation.

(b) TD (BVI)

TD (BVI) was incorporated under a former name in the BVI on 13 October 2009 with limited liability and is authorised to issue a maximum of 50,000 shares with no par value. Upon its incorporation, 100 shares were issued for US\$100 to TD Int’l (BVI), its only shareholder, for US\$1.00. On 16 March 2015, the name change to the present company name of TD (BVI) became effective.

(c) TD Enterprises

TD Enterprises was incorporated in Hong Kong on 11 July 2012 as a private company with limited liability. On the date of its incorporation, one share in its share capital was allotted and issued to Bosco Consultancy Limited as initial subscriber for a consideration of HK\$1.00, which was subsequent transferred by Bosco Consultancy Limited to TD (BVI) on 14 December 2012.

(d) TD Electronics

TD Electronics was incorporated in Hong Kong on 23 August 2013 as a private company with limited liability. On the date of its incorporation, one share in its share capital was allotted and issued for a consideration of HK\$1.00 to TD (BVI), its sole shareholder for a consideration of HK\$1.00.

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(e) Top Empire

Top Empire was incorporated in Hong Kong on 18 March 2013 as a private company with limited liability. On the date of its incorporation, one share in its share capital was allotted and issued for a consideration of HK\$1.00 to its initial subscriber, which was subsequently transferred to TD (BVI) on 9 July 2013.

(f) Dongguan Jia Jun

Dongguan Jia Jun was established in Dongguan, PRC, with limited liability on 27 April 2013. On the date of its incorporation, the initial registered capital of Dongguan Jia Jun was US\$8,000,000, which was fully paid up on 23 January 2015.

Save as set out above and in the section headed “*History, Reorganisation and Group Structure*” of this [REDACTED], there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this [REDACTED].

6. Repurchase of Shares by Our Company

This section includes the information required by the Stock Exchange to be included in this [REDACTED] concerning the repurchase of our own securities.

(a) Regulations of the GEM Listing Rules

The GEM Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with a primary Listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transaction.

Pursuant to the resolutions in writing of all our Shareholders passed on [•], a general and unconditional mandate (being the Repurchase Mandate referred to above) was given to the Directors authorising any repurchase by us of our Shares on the Stock Exchange, or any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognised by the SFC and the Stock Exchange of such number of Shares not exceeding 10% of the total number of issued Shares immediately following completion of the [REDACTED] and the [REDACTED] (excluding any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme) at any time until

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the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws of Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meeting revoking, varying or renewing such mandate, whichever occurs first.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange prevailing from time to time. Any repurchase may be made out of funds legally permitted to be utilised in this connection, including profits of our Company, share premium account for our Company or out of proceeds of a fresh issue of Shares made for that purpose or, subject to the provisions of the Companies Law, out of capital and in the case of any premium payable on a repurchase over the par value of the Shares to be repurchased, it must be paid out of either or both of the profits of our Company or our Company’s share premium account, or subject to the provisions of the Companies Law, out of capital.

(iii) Trading restrictions

Our Company may repurchase up to 10% of the number of issued Shares of our Company immediately following completion of the [REDACTED] and the [REDACTED] (excluding Shares which may be issued pursuant to exercise of options granted under the Share Option Scheme). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing the Shares on the Stock Exchange if the repurchase would result in the number of [REDACTED] Shares which are in the hands of the public falling below the minimum percentage required by the Stock Exchange. The broker appointed by our Company to effect a repurchase of Shares is required to disclose to the Stock Exchange any information with respect to a Share repurchase as the Stock Exchange may require.

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(iv) Status of repurchased Shares

All repurchased Shares (whether on the Stock Exchange or otherwise) will be cancelled and the certificates for those Shares must be cancelled and destroyed. Under the Cayman Islands law, a company’s repurchased shares shall be treated as cancelled and the amount of the company’s issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly, although the authorised share capital of the company will not be reduced.

(v) Suspension of repurchase

Repurchase of Shares is prohibited after inside information has come to our knowledge until such time as the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the results of our Company for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and (bb) the deadline for our Company to announce its results for any year, half-year or quarter-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules), our Company may not repurchase its securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit repurchases of Shares on the Stock Exchange if our Company has breached the GEM Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchase of securities on GEM or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, we are required to disclose in our Company’s annual report and accounts the details regarding repurchases of Shares made during the financial year under review, including the number of Shares repurchased each month (whether on the Stock Exchange or otherwise) and the purchase price per Share or the highest and lowest prices paid for all such purchases, where relevant, and the aggregate prices paid. The directors’ report shall also contain reference to the purchases made during the year and the directors’ reasons for making such purchases.

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(vii) Core connected persons

According to the GEM Listing Rules, a company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or substantial shareholder of such company or any of its subsidiaries or any of their close associates and a core connected person shall not knowingly sell his securities to the company on the Stock Exchange.

(b) *Reasons for Repurchases*

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or earnings per Share.

(c) *Funding of Repurchases*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles, the applicable laws and regulations of the Cayman Islands and the GEM Listing Rules.

On the basis of our Company’s current financial position as disclosed in this [REDACTED] and taking into account the current working capital position of our Company, the Directors consider that, if the Repurchase Mandate was to be exercised in full, there might be a material adverse effect on the working capital and/or gearing position of our Company as compared with the position disclosed in this [REDACTED]. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or gearing levels of our Company which, in the opinion of the Directors, are from time to time appropriate for our Company.

(d) *Share Capital*

Exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately after completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may fall to be issued pursuant to exercise of options that may be granted under the Share Option Scheme), would result in up to [REDACTED] Shares being repurchased by our Company during the period prior to the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;

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- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles and applicable laws and regulations of the Cayman Islands to be held; or
- (iii) the revocation, variation or renewal of the Repurchase Mandate by an ordinary resolution of the Shareholders in general meeting.

(e) General

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates, have any present intention to sell any Shares to our Company or its subsidiaries in the event that the Repurchase Mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

No core connected person of our Company has notified us that he/she or it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code.

Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholders’ interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made immediately after the [REDACTED] of the Shares on the Stock Exchange. Based on the shareholding structure of the Company immediately after completion of the [REDACTED] and the [REDACTED] (without taking into account Shares which may be fall to be issued pursuant to the exercise of options that may be granted under the Share Option Scheme), if the Repurchase Mandate is exercised in full, the shareholding of Platinum Dynamic and Silver Dynamic would increase by more than 2% and, as a result, they and parties acting in concert with them would, in the absence of a waiver from the Executive Director of the SFC, be required to make a general offer for all Shares not already held or agreed to be acquired by them.

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7. Further information about Dongguan Jia Jun

A summary of the corporate information of Dongguan Jia Jun as at the Latest Practicable Date is set out as follows:–

Name:	東莞市佳駿電子科技有限公司 (Dongguan Jia Jun Electronic Technology Company Limited*)
Date of Establishment:	27 April 2013
Corporate Nature:	Limited liability company (wholly-owned by Taiwan, Hong Kong or Macau Corporation (台港澳法人獨資))
Legal representative:	Chow Hin Kok
Total registered and paid-up capital:	US\$8,000,000
Term of operation:	From 27 April 2013 to 27 April 2063
Attributable interest to our Group:	100%
Business scope:	production and sale of electronic products and semi-conductor products (excluding those which are subject to restriction, permission and macroeconomic industry control policies by the PRC government authorities; and those subject to specific regulations shall comply with the relevant regulations); research and development of electronic products and semi-conductor products (those subject to governmental approval under law shall be approved before commencement of operations).

* for identification purpose only

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this [REDACTED] and are or may be material:

- (a) the Underwriting Agreement dated [•], details of which are set out in the section headed “*Underwriting*” of this [REDACTED];
- (b) the Deed of Non-Competition dated [•] between the Controlling Shareholders and our Company, details of which are set out in the sub-section headed “*Relationship with the Controlling Shareholders – Deed of Non-Competition*” of this [REDACTED];

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- (c) the Deed of Indemnity dated [•] executed by the Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries) containing the indemnities more particularly referred to in the sub-section headed “*Appendix IV – D. Other Information – 2. Estate Duty, Tax and Other Indemnity*” of this Appendix IV to this [REDACTED];
- (d) the Sale and Purchase Agreement dated [•], details of which are set out in the section headed “*History, Reorganisation and Group Structure*” of this [REDACTED];
- (e) deed of assignment dated [•] among Mr. Chow Hin Keong, our Company and TD Enterprises under which our Company acquired the loan owed by TD Enterprises to Mr. Chow Hin Keong in the sum of HK\$30,000,000, details of which are set out in the section headed “*History, Reorganisation and Group Structure*” of this [REDACTED];
- (f) deed of assignment dated [•] among Mr. Chow Hin Kok, our Company and TD Enterprises under which our Company acquired the loan owed by TD Enterprises to Mr. Chow Hin Kok in the sum of HK\$30,000,000, details of which are set out in the section headed “*History, Reorganisation and Group Structure*” of this [REDACTED];
- (g) lease agreement dated 28 February 2014 entered into between 東莞中之光電科技有限公司 (Dongguan Zhongzhi Guan Dian Technology Co., Ltd*) and Dongguan Jia Jun in respect of the lease of dormitory for use by employees of Dongguan Jia Jun from 1 March 2014 to 30 April 2023 for a monthly rental of RMB450 per person;
- (h) lease agreement dated 25 March 2015 entered into between Lion Throne Limited 南智有限公司 and Top Empire in respect of the lease by Top Empire of the Group’s premises in Hong Kong from 1 April 2015 to 31 March 2017 for a monthly rental of HK\$87,250 (excluding management fees, rates and government rent);
- (i) lease agreement dated 30 September 2013 entered into between Lea Tai Property Development Limited and Top Empire in respect of the lease by Top Empire of the premises previously used as the Group’s office in Hong Kong with a monthly rental of HK\$23,508 (exclusive of management fees, rates and government rent);
- (j) the Transfer Agreements dated 15 June 2015 between TD Electronics and SEL, pursuant to which TD Electronics acquired the ST Mark for a consideration of HK\$2,600,000, details of which are set out in the sub-section headed “*History, Reorganisation and Group Structure – The Group’s Business Development*” of this [REDACTED]; and
- (i) Deed of Undertaking dated 22 June 2015 given by SEL in favour of our Company (for itself and on behalf of its subsidiaries), which is described in more detail in the sub-section headed “*History, Reorganisation and Group Structure and – The Group’s Business Development*” of this [REDACTED].



* for identification purpose only

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2. Intellectual Property Rights

(a) Trademarks

As at the Latest Practicable Date, our Group was the registrant of the following trademarks that are material to the business of our Group:

<u>Trademark</u>	<u>Place of registration</u>	<u>Registrant</u>	<u>Class</u>	<u>Registration no.</u>	<u>Duration of validity</u>
1. 	Hong Kong	TD Electronics	9 (Note 1)	302742679	19 September 2013 – 18 September 2023
2. 	Hong Kong	TD Electronics	9 (Note 1)	302742688	19 September 2013 – 18 September 2023

As at the Latest Practicable Date, our Group had the following existing trademark applications:–

<u>Trademark</u>	<u>Place of registration</u>	<u>Applicant</u>	<u>Class</u>	<u>Application no.</u>	<u>Date of application</u>
1. 	PRC	TD Electronics	9 (Note 2)	Not applicable	11 March 2015
2. TOP DYNAMIC	PRC	TD Electronics	9 (Note 2)	Not applicable	10 February 2015
3. 	Malaysia	TD Electronics	9 (Note 3)	2015053376	6 March 2015
4. 	Malaysia	TD Electronics	9 (Note 3)	2015053387	6 March 2015
5. 	Korea	TD Electronics	9 (Note 4)	4020150012181	13 February 2015

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<u>Trademark</u>	<u>Place of registration</u>	<u>Applicant</u>	<u>Class</u>	<u>Application no.</u>	<u>Date of application</u>
6. 	Korea	TD Electronics	9 (Note 4)	4020150012180	13 February 2015
7. 	Singapore	TD Electronics	9 (Note 5)	40201502458P	12 February 2015
8. 	Singapore	TD Electronics	9 (Note 5)	40201502465X	12 February 2015
9. 	Taiwan	TD Electronics	9 (Note 6)	104008653	12 February 2015
10. 	Taiwan	TD Electronics	9 (Note 6)	104008652	12 February 2015
11. 	PRC	TD Electronics	9	not applicable	17 June 2015

Notes:

- (1) The specific products under class 9 in respect of which the trademark was registered are scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signaling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus.
- (2) The specific products under class 9 in respect of which the trademark registrations were applied for are scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signaling, checking (supervision), life-saving (rescuing) and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs

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and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus.

- (3) The specific products under class 9 in respect of which the trademark registrations were applied for are computers; computer peripheral devices; monitors (computer hardware); mouse (data processing equipment); printers for use with computers; scanners (data processing equipment); disk drives for computers; notebook computers; pocket calculators and laptop computers.
- (4) The specific products under class 9 in respect of which the trademark registrations were applied for are (as translated from Korean into English) mouse, scanner, computer, computer memory, computer monitor, disk drives for computers, printers for computers, desktop computer and communication computer.
- (5) The specific products under class 9 in respect of which the trademark registrations were applied for are computers; peripheral control devices for computers; monitors (computer hardware); mouse (computer peripheral); printers for use with computers; scanners (data processing equipment); disk drives (for computers); notebook computers; pocket calculators and laptop computers.
- (6) The specific products under class 9 in respect of which the trademark registrations were applied for are (as translated from Chinese into English) computers; processors; monitors; computer hardware; mouse; printer; scanners; disk drives; notebook computers; electronic calculators; laptop computers and pocket computers.

(b) Domains

As at the Latest Practicable Date, our Group was the registered owner of the following domain names that are material to the business of our Group:

<u>Domain name</u>	<u>Expiry date</u>
topdynamicintl.com	17 June 2016
top-dynamic.net	11 January 2018
top-dynamic.cn	19 January 2018
top-dynamic.com.cn	19 January 2018
top-dynamic.com.hk	8 November 2015
top-dynamic.net.cn	19 January 2018

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Save as disclosed herein, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the business of our Group.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Disclosure of Interest – interests and short positions of the Directors and the chief executives of our Company in the shares, underlying shares and debentures of our Company and its associated corporations*

Immediately following completion of the [REDACTED] and the [REDACTED], the interests and short positions of Directors and chief executives of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, will be as follows:

Interests in our Company

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number and class of securities</u> <i>(Note 1)</i>	<u>Approximate shareholding percentage in the issued share capital of the Company</u> <i>(%)</i>
Mr. Chow Hin Keong	Interest in a controlled corporation ^(Note 2)	[REDACTED]	[REDACTED]
Mr. Chow Hin Kok	Interest in a controlled corporation ^(Note 3)	[REDACTED]	[REDACTED]

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Notes:

- (1) The letter “L” denotes the person’s long position in such Shares.
- (2) Platinum Dynamic is wholly owned by Mr. Chow Hin Keong. Under the SFO, Mr. Chow Hin Keong is deemed to be interested in all of the [REDACTED] Shares held by Platinum Dynamic.
- (3) Silver Dynamic is wholly owned by Mr. Chow Hin Kok. Under the SFO, Mr. Chow Hin Kok is deemed to be interested in all of the [REDACTED] Shares held by Silver Dynamic.

(b) *Particulars of Service Contracts*

Each of the executive Directors [has entered] into a service contract with our Company for a term of three years commencing from the [REDACTED], which may be terminated in accordance with the provisions of the service contract or by not less than three months’ notice in writing served by either party on the other. Particulars of the service contracts of the executive Directors are in all material respects the same.

Each of Ms. Wong Sau Ying, Ms. Chan Mei Po and Ms. Man Oi Yuk Yvonne [has been appointed] as an independent non-executive Director pursuant to a letter of appointment for a term of three years commencing from the [REDACTED]. The appointments are subject to the provisions of retirement by rotation of Directors under the Articles.

(c) *Directors’ Remuneration*

For each of the two years ended 31 December 2013 and 2014 and the three months ended 31 March 2015, the aggregate amount of the remuneration paid and benefits in kind granted to the Directors by us and our subsidiaries was approximately HK\$0.2 million, HK\$1.0 million and HK\$0.6 million, respectively.

Under the arrangement currently in force, the estimated aggregate amount of remuneration payable by our Group to our Directors for the year ending 31 December 2015 will be approximately HK\$2.8 million.

Save as disclosed above, none of the Directors has or is proposed to have a service contract with any member of our Group, save for contracts expiring or determinable by any member of our Group within one year without the payment of compensation other than statutory compensation.

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2. Substantial Shareholders

So far as the Directors are aware, immediately following completion of the [REDACTED] and the [REDACTED] and taking no account of any Shares that may fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, the following persons other than a director or chief executive of our Company will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, interested in 10% or more of the issued voting shares of any other members of our Group:

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares</u> <i>(Note 1)</i>	<u>Approximate percentage of shareholding in the issued share capital of our Company</u> <i>(%)</i>
Platinum Dynamic ^(Note 2)	Beneficial interest	[REDACTED]	[REDACTED]
Ms. H’ng Siew Hoong ^(Note 3)	Interest of spouse	[REDACTED]	[REDACTED]
Silver Dynamic ^(Note 4)	Beneficial interest	[REDACTED]	[REDACTED]
Ms. Ong Siew Ning ^(Note 5)	Interest of spouse	[REDACTED]	[REDACTED]

Notes:

- (1) The letter “L” denotes the person’s long position in such Shares.
- (2) Platinum Dynamic is wholly owned by Mr. Chow Hin Keong. Under the SFO, Mr. Chow Hin Keong is deemed to be interested in all of the [REDACTED] Shares held by Platinum Dynamic.
- (3) Ms. H’ng Siew Hoong is the spouse of Mr. Chow Hin Keong and is therefore deemed to be interested in the [REDACTED] Shares in which Mr. Chow Hin Keong is interested.
- (4) Silver Dynamic is wholly owned by Mr. Chow Hin Kok. Under the SFO, Mr. Chow Hin Kok is deemed to be interested in all of the [REDACTED] Shares held by Silver Dynamic.
- (5) Ms. Ong Siew Ning is the spouse of Mr. Chow Hin Kok and is therefore deemed to be interested in the [REDACTED] Shares in which Mr. Chow Hin Kok is interested,

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3. Directors’ and Shareholders’ Interests in Suppliers and Customers of Our Group

As at the Latest Practicable Date, so far as the Directors are aware, none of the persons who are (1) Directors; (2) their close associates; or (3) Shareholder which to the knowledge of the Directors will own more than 5% of our Company’s issued share capital immediately upon completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares that may fall to be issued upon exercise of options granted under the Share Option Scheme) had interest in the five largest customers or the five largest suppliers of our Group.

4. Disclaimers

Save as disclosed herein, as at the Latest Practicable Date:

- (a) none of the Directors or experts referred to under the sub-section headed “7. *Qualification of Experts*” of this Appendix IV to this [REDACTED] has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this [REDACTED] been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of the Directors or experts referred to under the sub-section headed “7. *Qualification of Experts*” of this Appendix IV to this [REDACTED] is materially interested in any contract or arrangement subsisting at the date of this [REDACTED] which is significant in relation to the business of our Group;
- (c) none of the Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (d) none of the experts referred to under the sub-section headed “7. *Qualification of Experts*” of this Appendix IV to this [REDACTED] is interested beneficially or otherwise has any shareholding in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

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D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme approved by written resolutions of our then Shareholders passed on [•]:

(1) The Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to reward Participants who have contributed or will contribute to the Group and to encourage Participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole, and to maintain or attract business relationships with Participants whose contributions are or may be beneficial to the growth of the Group.

For the purpose of the Share Option Scheme, “Participants” means any person who satisfied the eligibility criteria in paragraph (2) below.

(2) Who May Join

The Board may, at any time during the period for which the Scheme Option Scheme is valid and effective, make an offer for options to:–

- (i) any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group; and
- (ii) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group,

who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

(3) Grant of Option

An offer of the grant of an option shall be made to the Participants by letter in such form as the Board may from time to time determine, requiring the Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The offer shall remain open for acceptance by the Participant concerned for a period of five business days from the date on which it is made provided that the offer shall no longer be open for acceptance after expiry of the Option Period (as defined below), after the Share Option Scheme has been terminated or after the Participant concerned has ceased to be a Participant.

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An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the option-holder together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant of the option shall have been received by our Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Participant.

(4) *Payment on Acceptance of Option Offer*

HK\$1.00 is payable by the Participant to our Company on acceptance of the option offer as consideration for the grant.

(5) *Subscription Price*

The subscription price (“Subscription Price”) shall, subject to any adjustment pursuant to paragraph (14) below, be a price determined by the Board but in any event shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets on the date on which the option is offered to a Participant (“Offer Date”); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Shares.

(6) *Maximum Number of Shares*

(i) Scheme mandate

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number of Shares in issue as at the date upon which the Share Option Scheme takes effect, which shall be deemed to fall on the date on which the Shares first commence trading on GEM (“Scheme Mandate”), which is expected to be [REDACTED] Shares. For the purpose of calculating the Scheme Mandate, options which have lapsed in accordance with the terms of the relevant scheme shall not be counted.

(ii) Refreshment of the Scheme Mandate

Our Company may seek approval by the Shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company under the Scheme Mandate as refreshed must not exceed 10% of the total number of Shares in issue as at the date of Shareholders’ approval. For the foregoing purpose, options previously

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granted under the Share Option Scheme and any other share option schemes of our Company, whether outstanding, cancelled or lapsed in accordance with its applicable rules or already exercised, will not be counted.

(iii) Grant of options beyond Scheme Mandate

Our Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Participants who are specifically identified before such approval is sought. A circular is required to be sent by our Company to the Shareholders in accordance with the GEM Listing Rules in connection with such grant.

(iv) Maximum number of Shares issued pursuant to Options

Notwithstanding any provisions to the contrary, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed such number of Shares as shall represent 30% of the total number of Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded.

(7) Maximum Holding by Option-holder

Unless approved by the Shareholders in general meeting in the manner prescribed in the GEM Listing Rules, the Board shall not grant options to any option-holder if it would result in the total number of Shares issued and to be issued to that Participant on exercise of his options (including both exercised and outstanding options) granted and to be granted to such person during any 12-month period exceeding 1% of the total Shares then in issue.

(8) Timing for Exercise of Options

The period during which an option may be exercised in accordance with the terms of the Share Option Scheme (“Option Period”) shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years from the Offer Date.

(9) Rights Personal to Option-holder

An option is personal to the option-holder and shall not be transferable or assignable. No option-holder shall sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or enter into any agreement to do so.

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(10) Rights on Termination of Employment by Dismissal

- (i) If the option-holder ceases to be a Participant by reason of the termination of his employment or directorship on the grounds of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or has become insolvent or has made any arrangements or compromise with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other grounds on which an employer would be entitled to terminate his employment summarily, his option will lapse automatically (to the extent not already exercised) and not be exercisable on or after the date of termination of his employment.

- (ii) If the option-holder who is an employee or a director of the Company or another member of the Group ceases to be a Participant for any reason other than his death or termination of his employment or directorship on one or more of the grounds specified in paragraph (i) above, the option (to the extent not already exercised) shall lapse on the date of cessation or termination of his employment (which date shall be the option-holder’s last actual working day with the Company or the relevant subsidiary whenever salary is paid in lieu of notice or not) and shall on that day cease to be exercisable unless that option holder continues to serve the Group in some other capacity, in which case the Board is authorised to determine the Option Period and, if appropriate, determine that the option shall not lapse on the date of cessation or termination of employment but on another date as the Board may determine.

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(11) Rights on Death

If the option-holder ceases to be a Participant by reason of his death before exercising his option in full and (where the option-holder is an employee of the Group) none of the events which would be a ground for termination of his employment as described in paragraph (10)(i) above have arisen, his legal personal representative(s) may generally exercise the option up to the option-holder’s entitlement as at the date of death (to the extent not already exercised) within a period of 12 months following the date of his death.

(12) Rights on ceasing to be a Participant

If the option-holder who is not an employee or a director of the Company or another member of the Group ceases to be a Participant as and when determined by the Board by resolution for any reason other than his death, the Board may by written notice to such option-holder within one month from the date of such cessation determine the period within which the option (or such remaining part thereof) shall be exercisable following the date of such cessation.

(13) Rights on a Compromise or Arrangement

In the event a compromise or arrangement (other than a scheme of arrangement) between the Company and its members or creditors is proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice to all the option-holders on the same date as it gives notice of the meeting to its members or creditors to consider such a compromise or arrangement, and the option-holder (or his legal personal representative) may at any time thereafter but before such time as shall be notified by the Company exercise the option either to its full extent or to the extent notified by the Company and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders’ meeting, allot, issue and register in the name of the option-holder such number of Shares which fall to be issued on such exercise.

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(14) Effect of Alterations to Share Capital

In the event of an alteration in the capital structure of the Company, whilst any option remains exercisable, by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of Shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), such corresponding adjustments (if any) shall be made to:

- (i) the number or nominal amount of Shares subject to the option so far as unexercised; and/or
- (ii) the Subscription Price; and/or
- (iii) the number of Shares subject to the Share Option Scheme,

or any combination thereof, provided that:

- (a) any such adjustments give an option-holder the same proportion of the equity capital of the Company as that to which that option-holder was previously entitled; and
- (b) notwithstanding paragraph (a) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalisation issue, should be based on a scrip factor similar to the one used in accounting standards in adjusting the earnings per share figures (referred to in Hong Kong Accounting Standards 33) and the acceptable adjustments set out in the supplementary guidance on Rule 23.03(13) of the GEM Listing Rules issued by the Stock Exchange on 5 September 2005 and any future guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time;

but no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value. In respect of any such adjustments, an independent financial advisor or the auditor of the Company must certify in writing that the adjustments satisfy the requirements in paragraphs (a) and (b) above.

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(15) Rights on Winding-up

In the event a notice is given by the Company to the Shareholders to convene a Shareholders’ meeting to consider and, if thought fit, approve a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all option-holders and any option-holder (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by the Company) exercise the option either to its full extent or to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders’ meeting, allot, issue and register in the name of the option-holder such number of Shares to the option-holder which fall to be issued on such exercise.

(16) Rights on a General Offer by way of Takeover

In the event of a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) being made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the Company shall forthwith notify all the option-holders and any option-holder (or his legal personal representative) shall be entitled to exercise the option in full (to the extent not already exercised) or to the extent as notified by the Company at any time within such period as shall be notified by the Company.

(17) Rights on a General Offer by way of Scheme of Arrangement

In the event of a general offer by way of scheme of arrangement being made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, the Company shall forthwith notify all the option-holders and any option-holder (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by the Company) exercise the option either to its full extent or to the extent notified by the Company.

(18) Lapse of Option

An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:

- (i) the expiry of the Option Period (subject to the provisions of the Share Option Scheme);

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- (ii) the expiry of the periods referred to in paragraphs (10) to (13) and (15) to (17) above respectively;
- (iii) the expiry of the period referred to in paragraph (16) above, subject to any court of competent jurisdiction making an order to prohibit the offeror from acquiring the remaining Shares under the option offer;
- (iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (17) above;
- (v) the date of commencement of the winding-up of the Company;
- (vi) the date on which the option-holder ceases to be a Participant as referred to in paragraphs (10)(i) and (ii) above;
- (vii) the date on which the option-holder commits a breach by selling, transferring, charging, mortgaging, encumbering or creating any interest in favour of any other person over or in relation to any option or enter into any agreement to do so; and
- (viii) subject to paragraph (10)(ii), the date the option-holder ceases to be a Participant for any other reason.

(19) Ranking of Shares

The Shares to be allotted upon exercise of an option will be subject to all the provisions of our Company’s Articles for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment. Accordingly, the Shares will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment provided that the record date for the dividend or distribution is a date after the date of allotment.

(20) Life of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing from the date on which the Share Option Scheme takes effect in accordance with its terms, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of such period shall continue to be valid and exercisable after the end of such period in accordance with the terms of the Share Option Scheme.

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(21) Alterations of the Share Option Scheme

- (i) The specific provisions of the Share Option Scheme which relate to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of Participants and changes to the authority of the Board in relation to any alteration of the terms of the Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting (with all option-holders, prospective option-holders and their associates who are Shareholders abstaining from voting).
- (ii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of options granted, must be approved by the Shareholders in general meeting (with all option-holders, prospective option-holders and their associates who are Shareholders abstaining from voting), except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 23 and other relevant requirements of the GEM Listing Rules.

(22) Options to Related Persons

- (i) Any grant of options to a Director, chief executive or substantial Shareholder of our Company or any of their respective associates (“Related Person”) must be approved by our independent non-executive Directors (excluding any independent non-executive Director who or whose associate is also a proposed grantee of such options).
- (ii) Any grant of options to a substantial Shareholder or an independent non-executive Director of our Company or any of their respective associates must be approved by the Shareholders in general meeting if the Shares issued and to be issued upon the exercise of all options already granted and proposed to be granted to him (whether exercised, cancelled or outstanding) in the 12-month period up to and including the proposed Offer Date: (a) would represent in aggregate more than 0.1% of the Shares then in issue; and (b) would have an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000 (or such other amount as shall be permissible under the GEM Listing Rules from time to time).

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- (iii) At the general meeting to approve the proposed grant of options pursuant to this paragraph (22), the grantee, his associates and all core connected persons of our Company must abstain from voting unless they intend to vote against the proposed grant. At such general meeting, the vote to approve the grant of such options must be taken on a poll in accordance with the relevant provisions of the GEM Listing Rules. Our Company will send a circular to our Shareholders containing the information required under the GEM Listing Rules.

(23) Restrictions on Grant of Options

No grant of options shall be made after inside information (as defined under the SFO) has come to our Company’s knowledge until such inside information has been announced pursuant to the requirements of the GEM Listing Rules. Without prejudice to the foregoing, no option shall be granted during the period of 30 days immediately before the earlier of the date of the Board meeting (as such date is first notified to the Exchange) for approving our Company’s results for any yearly, half-yearly or quarter-yearly period or any other interim period (whether or not required under the GEM Listing Rules); and the deadline for our Company to announce our results for any year, half year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement.

(24) Cancellation of Options

- (i) The Board may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant option-holder, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for such cancellation, except that where the option-holder is in breach of paragraph (10) above, the Board may cancel any outstanding option without the relevant option-holder’s agreement.
- (ii) Where the Company cancels options and issues new ones to the same option-holder, the issue of such new options may only be made under the Share Option Scheme with available unissued Shares under the Scheme Mandate limit, excluding the Shares which were the subject of cancelled options.

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(25) Termination

The Company may, by ordinary resolution in general meeting, or the Board may at any time terminate the Share Option Scheme and in such event no further options may be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect in respect of options which are granted during the life of the Share Option Scheme and which remain unexpired immediately prior to termination of the operation of the Share Option Scheme.

The Share Option Scheme is conditional upon the Stock Exchange granting approval of the [REDACTED] of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of any options to be granted under the Share Option Scheme.

As at the date of this [REDACTED], no options have been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Stock Exchange for the [REDACTED] of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

2. Estate Duty, Tax and Other Indemnity

Our Controlling Shareholders (the “Indemnifiers”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being a contract referred to in the sub-section headed “– B. Further Information about the Business – 1. Summary of Material Contracts” of this Appendix IV to this [REDACTED]) to provide indemnities on a joint and several basis in respect of (1) Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property by virtue of section 35 or section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date of commencement of trading in the Shares on GEM; (2) taxation falling on any of our Group companies resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date of commencement of trading in the Shares on GEM which might be payable by any member of our Group; and (3) and any losses which we may suffer in respect of social insurance and housing provident fund contributions.

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The Indemnifiers will, however, not be liable under the deed of indemnity:

- (i) to the extent that provision or allowance has been made for such taxation or taxation claims in the audited combined accounts of our Group for the two years ended 31 December 2013 and 2014 (the “Accounts”); or
- (ii) to the extent that such taxation is in respect of any period commencing on or after 1 January 2015 unless liability for such taxation would not have arisen but for some act or omission of, or transactions entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business before the date on which trading in the Shares on GEM commences (other than pursuant to a binding commitment existing at the date of the deed of indemnity); or
- (iii) to the extent provisions or reserve made such taxation in the Accounts is finally established to be an over-provision or an excessive reserve; or
- (iv) to the extent that the taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law coming into force after the date of the deed of indemnity or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after such date with retrospective effect.

3. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of our Group.

4. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for a [REDACTED] of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this [REDACTED] (including any Shares falling to be issued pursuant to the Share Option Scheme).

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The Sole Sponsor has declared its independence pursuant to Rule 6A.08 of the GEM Listing Rules and confirmed that it satisfies the independence criteria applicable to the Sole Sponsor set out in Rule 6A.07 of the GEM Listing Rules.

The Sole Sponsor’s fee payable by our Group for services provided in a capacity of a sponsor in the applicable for the [REDACTED] of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this [REDACTED] is [REDACTED].

5. Preliminary Expenses

The preliminary expenses of our Company are estimated to be approximately HK\$101,000 and are payable by our Company.

6. Promoter

Our Company has no promoter for the purposes of the GEM Listing Rules.

7. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this [REDACTED]:

<u>Name</u>	<u>Qualifications</u>
Celestial Capital	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
SHINEWING (HK) CPA Limited	Certified Public Accountants
Beijing Jingtian & Gongcheng Law Firm	PRC legal advisers to our Company
Prismark Partners LLC	Industry consultant

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8. Consents of Experts

Each of the experts whose names are set out in sub-section headed “– 7. *Qualification of Experts*” of this Appendix IV to this [REDACTED] has given and has not withdrawn its written consent to the issue of this [REDACTED] with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and the references to its name included herein in the form and context in which it is respectively included.

None of the persons named in sub-section headed “– 7. *Qualification of Experts*” of this Appendix IV to this [REDACTED] is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group.

9. Compliance Adviser

We have appointed Celestial Capital as our compliance adviser upon [REDACTED] in compliance with Rule 6A.19 of the GEM Listing Rules. Further details of the appointment are set out in sub-section headed “*Directors, Senior Management and Staff – Compliance Adviser*” of this [REDACTED].

10. Binding Effect

This [REDACTED] shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provision) Ordinance so far as applicable.

11. Share Registrar

Our Company’s principal register of members will be maintained in the Cayman Islands by our Cayman Islands share registrar, [REDACTED], and a branch register of members will be maintained in Hong Kong by our Hong Kong Share Registrar, [REDACTED]. Unless our Directors otherwise agree, all transfers and other documents of title of the Shares must be lodged for registration with and registered by our share registrar in Hong Kong and may not be lodged in the Cayman Islands.

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12. Taxation

(a) *Hong Kong*

(i) *Profits*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax. Gains from sales of the Shares effected on GEM will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

(ii) *Stamp duty*

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

(iii) *Estate duty*

Estate duty has been abolished in Hong Kong by the Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006.

(b) *Cayman Islands*

No stamp duty is payable in the Cayman Islands on transfers of Shares provided that our Company does not hold any interests in land in the Cayman Islands. The Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands would be likely to fall upon any member of our Group.

Potential investors in our Company are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in the Shares. None of our Company, the Directors, the Sole Sponsor, the [REDACTED], the Underwriters or the other parties involved in the [REDACTED] accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposal of, or dealing in, the Shares or exercise of any rights attaching to them.

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13. Miscellaneous

- (a) Save as disclosed in this [REDACTED], and, where applicable, as at the Latest Practicable Date:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued as fully or partly paid either for cash or a consideration other than cash within the two years preceding the date of this [REDACTED];
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries within the two years preceding the date of this [REDACTED];
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries within the two years preceding the date of this [REDACTED]; and
 - (v) no founder, management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued and no amount or benefit had been paid or given or is intended to be paid or given to any promoter within the two years preceding the date of this [REDACTED].
- (b) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (c) Saved as disclosed in this [REDACTED], none of our Directors or the persons named under “*Qualification of experts*” in this Appendix IV to this [REDACTED] had received any commissions, discounts, brokerages or other special terms or agency fees from our Group in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this [REDACTED].
- (d) The Underwriters will receive such commission(s), fee(s) and/or expense(s) as mentioned in the section headed “*Underwriting*” of this [REDACTED].
- (e) We entered into certain related party transactions within the two years immediately preceding the date of this [REDACTED]. Please refer to note 24 of the Accountants’ Report set out in Appendix I to this [REDACTED].

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14. Bilingual [REDACTED]

The English language and the Chinese language versions of this [REDACTED] are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND DOCUMENTS AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this [REDACTED] delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) the written consents referred to in the sub-section headed “*Appendix IV – Statutory and General Information – D. Other Information – 8. Consents of Experts*” of this [REDACTED]; and
- (b) copies of material contracts referred to in the sub-section headed “*Appendix IV – Statutory and General Information – B. Further Information about the Business – 1. Summary of Material Contracts*” of this [REDACTED].

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company at Office A, 31/F., Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. Monday to Friday up to and including the date which is 14 days from the date of this [REDACTED]:

- (a) the Memorandum of Association and the Articles;
- (b) the Accountants’ Report from SHINEWING (HK) CPA Limited, the text of which is set out in Appendix I to this [REDACTED];
- (c) the audited combined financial statements of our Group for each of the two years ended 31 December 2013 and 2014;
- (d) the report from SHINEWING (HK) CPA Limited on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this [REDACTED];
- (e) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix III to this [REDACTED];
- (f) the legal opinions issued by Beijing Jingtian & Gongcheng Law Firm in respect of our Group;
- (g) the material contracts referred to in the sub-section headed “*Appendix IV – Statutory and General Information – B. Further Information about the Business – 1. Summary of Material Contracts*” of this [REDACTED];

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND DOCUMENTS AVAILABLE FOR INSPECTION

- (h) the service agreements and appointment letters referred to in the sub-section headed “*Appendix IV – C. Further Information about Directors and Substantial Shareholders – 1. Directors – (h) Particulars of Service Contracts*” of this [REDACTED];
- (i) the written consents referred to in the sub-section headed “*Appendix IV – Statutory and General Information – D. Other Information – 8. Consents of Experts*” of this [REDACTED];
- (j) the rules of the Share Option Scheme;
- (k) the Companies Law; and
- (l) the analysis conducted by Prismark Partners LLC referred to in the section headed “Industry Overview” in this [REDACTED].