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## RISK FACTORS

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*Prospective [REDACTED] should consider carefully all the information set forth in this document and, in particular, should consider the following risks and special considerations in connection with an [REDACTED] in our Company before making any [REDACTED] decision in relation to our Company. Potential [REDACTED] should pay particular attention to the fact that our Company is incorporated in the Cayman Islands, and that our Group's business is mainly located in China. The occurrence of any of the following events may have a material adverse effect on the business, results of operations, financial conditions and prospects of our Group. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your [REDACTED].*

### RISKS RELATING TO OUR BUSINESS

**Our Group had a concentration of customers during the Track Record Period and any decrease or loss of business from these major customers could adversely and substantially affect our operations and financial conditions.**

For each of the three years ended 31 December 2017, our five largest customers accounted for approximately 75.3%, 76.4% and 80.3% of our total revenue, respectively. These major customers may continue to account for similar or even higher proportion of our revenue in the future. In particular, Customer B, being our second largest customer for the year ended 31 December 2015 and our largest customer for each of the two years ended 31 December 2017, accounted for approximately 17.0%, 41.1% and 44.9% of our total revenue for each of the three years ended 31 December 2017, respectively. Such significant increase in revenue from Customer B was due to the increase in Customer B's purchase orders of our mPOS arising from the trend for mobile payment demand and the need for transaction security and personal information protection in the PRC. We expect to continue to derive a significant amount of revenue from Customer B in the near future given our stable and sustainable business relationship with Customer B and the difficulties faced by Customer B in engaging other EMS providers in the PRC in place of our Group. Please refer to the paragraph headed "Business — Relationship with Customer B" in this document for further details.

In light of the above, we face the risks associated with having customer concentration in the future. There is no assurance that any of our major customers, particularly, Customer B will continue to engage us as they do currently or the revenue generated from dealings with them can be maintained or increased in the future. If there is a reduction or cessation of purchase orders from these major customers for whatever reasons and we are unable to obtain purchase orders of a comparable size and terms in substitution or our plan to diversify or expand our customer base does not succeed or the demand for our mPOS from Customer B reduces substantially, our business, financial conditions, results of operation and gross profit may be materially and adversely affected.

**Fluctuations in the price of raw materials may affect our cost of sales and adversely affect our business operations and profitability.**

Our EMS business, to a large extent, depends on a reliable and stable supply of a wide variety of key production materials and supplies from our suppliers including (i) electronic components and ancillary materials (including PCBs, semiconductors, ICs, magnetic heads and other consumables) and (ii) casing (plastic and metal parts), packaging materials, LCD screens and consumables. For each of the three years ended 31 December 2017, the cost of raw materials used amounted to approximately

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RMB73.8 million, RMB166.0 million and RMB239.4 million, respectively, representing approximately 49.7%, 75.4% and 77.3% of our total cost of sales respectively. Furthermore, there were getting more customers who requested us to select and provide raw materials for them in the course of our PCB assembly services and full electronic product assembly services at a fixed price and we are generally responsible for all the cost, we have to bear the risk of cost fluctuations and may not be able to shift such risk to our customer. Hence, any increase in the price of the raw materials will directly affect our profitability if we fail to accurately estimate the cost of the raw materials to fulfil the purchase orders when we fixed the price with our customers. Please refer to the paragraph headed "Financial Information — Key factors affecting our results of operations and financial condition — Production costs" in this document for the sensitivity analysis of the impact of hypothetical fluctuations in the cost of raw materials.

Since we do not enter into long-term procurement agreement with our suppliers, there is no assurance that our suppliers will not significantly increase the prices of raw materials in the future, in particular when the market prices of or the market demand for such raw materials increase. There is also no assurance that we will be able to pass the increase in the costs of raw material to our customers in a timely manner or at all to avoid adverse impacts on our profitability.

**Delay in the delivery of raw materials or defect in the raw materials supplied to us may materially and adversely affect our business operations.**

The supply of raw materials is subject to a variety of factors that are beyond our control, including interruptions in the supplier's business operations, market supply and demand of the raw materials, industry conditions and overall economic condition; whereas the quality of raw materials is dependent on the supplier's production capabilities, production facilities and the effectiveness of its quality control system.

Our ability to complete a customer's purchase order on time is therefore dependent on the timely delivery and the quality of raw materials. There is no assurance that our suppliers will be able to supply and deliver the required raw materials to us in a timely manner or that the raw materials will not be defective or sub-standard. Any delay in the delivery of raw materials or any defect in the raw materials supplied to us may materially and adversely affect or delay our production schedule and, if we cannot secure raw materials of similar quality and at reasonable prices from alternative suppliers in a timely manner or at all, we may not be able to deliver our products to our customers on time. In such circumstances, we may lose customer loyalty and confidence on our services and products. This may also harm our reputation and our results of operations and financial condition may be materially and adversely affected.

**Our quality control system may not be as effective as we expect, which may lead to our failure to conform with both international and domestic quality standards in relation to our products and give rise to product returns and replacement.**

The quality of our products depends significantly on the effectiveness of our quality control systems, which in turn, rely on a number of factors, including the design of our quality control systems, the quality control training programmes organised by us for our employees, and our employees' awareness in adhering to our quality control policies and guidelines from time to time. Any significant failure or deterioration of our Group's quality control systems could result in the production of defective or substandard products, delay in delivery of our products, replacement of defective or substandard products, product returns and damage to our reputation.

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As a EMS provider, if our PCBAs or fully-assembled electronic products do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, or result in our customers suffering losses as a result of product liability claims, we may be subject to demands for product return, product liability claims and litigations, claims for indemnity by our customers and other claims for compensation. Any reimbursement of a substantial amount of repair cost or any large-scale product return or replacement will not only damage our reputation in the industry and erode our customers' confidence in the quality of our products, but will also materially and adversely affect our financial condition and results of operations. We may also incur significant legal costs regardless of the outcome of any claim of alleged defect. Product failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales of our products, or claims or litigation against us regarding the quality of our products. As a result, it would have a material adverse effect on our business, reputation, financial conditions and results of operations.

### **Our operations may be subject to transfer pricing adjustments by competent authorities.**

During the Track Record Period, we provide EMS for mobile phones, tablets and other telecommunication devices through Shenzhen Hengchang Sheng to a few overseas customers under their brands or the relevant brand owners. Upon receipt of purchase orders from our oversea customers, Eternity Technology would place corresponding purchase orders to Shenzhen Hengchang Sheng. The inter-group transactions involving the sales of our finished products by Shenzhen Hengchang Sheng to Eternity Technology were on normal commercial terms with selling prices being determined based on the prevailing market prices of such finished products. During the Track Record Period, Shenzhen Hengchang Sheng and Eternity Technology had not received a demand or challenge by PRC or Hong Kong tax authority for additional tax payment arising from our transfer pricing arrangement.

There is no assurance that the relevant tax authorities would not subsequently challenge the appropriateness of our Group's transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. If the relevant tax authorities later find that the transfer prices and the terms that our Group has applied are not appropriate, such authorities may require our Group to re-assess the transfer prices and re-allocate the income or adjust the taxable income. Any such reallocation or adjustment could result in a higher tax liability for our Group and may adversely affect the business, financial condition and results of operation of our Group.

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**Unexpected disruptions to our production facilities or production process may materially and adversely affect our business operations.**

Our business operations are heavily dependent on the smooth operations of our Shenzhen Production Plant, where all our production machinery and equipment are situated. These production machinery and equipment are subject to operating risks, such as equipment failures, disruptions in power supply, industrial accidents, labour shortage, strike, fire or natural disasters. If any unanticipated or prolonged interruption of our operations at our Shenzhen Production Plant happens due to any of the aforesaid risks, we may not be able to deliver our products to our customers in a timely manner or at all. As a result, our relationship with our customers could be adversely affected due to our failure and we may also be subject to contractual claims for compensation from our customers, which may materially and adversely affect our business, financial conditions and results of operations.

**Any slowdown of the industry where our PCBA may materially and adversely affect our results of operations, financial condition and business prospects.**

As an EMS provider specialising in offering customised PCB assembly services and full electronic product assembling services; and production of PCBAs and full electronic assembled products, our business performance depends, to a large extent, on the performance and condition of the industrial electronics industry and the relevant industries to which our PCBAs or fully-assembled products apply for instance, banking and finance, telecommunication and smart devices industries.

These industries may experience slowdown or downturn due to market or industry conditions, global economic environment or other factors beyond our control. Any decrease in the demand for electronics products or equipment such as banking and finance related devices, telecommunication devices and smart devices may reduce the demand for our customised PCB assembly services and full electronic product assembly services through our vertically integrated EMS solution platform. In such circumstances, our sales may decline and our results of operations, financial condition and business prospects may be materially and adversely affected.

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### **Intense competition in the industry may affect our pricing, which may materially and adversely affect our results of operations and business prospects.**

The EMS industry is competitive. According to the Frost & Sullivan Report, the growing popularity of the products from other cost-competitive countries such as Vietnam, Malaysia, India, Indonesia, Singapore and Mexico have diminished the PRC's participation, as these countries have benefited from a skilled labour pool and the labour wages in these regions are rising more slowly compared to the PRC. Competition among participants of the EMS industry may have a negative impact on our pricing, thereby affecting our business performance and profitability. Should our existing or new competitors offer PCBAs or fully-assembled electronic products or EMS similar to ours at a lower cost or engage in aggressive pricing strategy in order to increase or gain market share, our sales may decline if we are not able to match their lower cost or price. Any of the above may have a material adverse effect on our results of operations, financial condition and business prospects.

### **Risk of shortage of labour or increase in our labour costs.**

Part of our PCB assembly services and full electronic product assembly services have to be carried out manually. Our need for production personnel will increase in aligning with the expansion of our production capacity and increase of our production volume. Moreover, labour costs had been increasing in the PRC in recent years. There is no assurance that we will not experience any labour shortage for our production or that the costs of labour in the PRC will not continue to increase in the future. Furthermore, if labour costs continue to increase in the PRC, our production costs would increase correspondingly and we may not be able to shift these extra costs to our customers due to competitive pricing pressures among our competitors.

If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate any increase in demand for our products or smoothly implement our expansion plans. Hence, our business, prospect, financial conditions and results of operations would be materially and adversely affected.

### **We may be subject to fines and penalties as a result of our non-compliance with certain PRC laws and regulations during the Track Record Period.**

The Interim Provisions on Labour Dispatch\* (勞務派遣暫行規定) has set out the regulatory threshold for the proportion of dispatched staff to be hired by employers in the PRC. Entities failing to develop a scheme for employment adjustments to reduce the proportion to specified level within two years from the effective date of such Interim Provisions will be subject to a fine by the labour authorities.

Furthermore, pursuant to the relevant PRC laws and regulations, employers in the PRC are required to make social insurance and housing provident fund contributions for their employees, and entities failing to make such contributions may be ordered to settle the outstanding contributions within a prescribed time limit and subject to penalties or fines.

During the Track Record Period, we were not in strict compliance with the PRC laws and regulations above. Please refer to the paragraph headed "Business — Legal and Compliance" in this document for further details.

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There is no assurance that we will not be subject to penalties or fines imposed by the relevant PRC authorities as a result of such non-compliance incidents. Any such penalties or fines may harm our corporate image and may have an adverse effect on our financial condition and results of operations.

### **We are exposed to foreign exchange risks.**

Our functional currency is RMB while some of our business transactions between us and our overseas customers and our cost of sales for purchase of raw materials from overseas suppliers, which had increased for the year ended 31 December 2017, are denominated in U.S. dollars. We are exposed, to some extent, to foreign currency risks as a result of sales and purchases that are denominated in a currency other than RMB. Any significant changes in the exchange rate between RMB and other currencies may result in substantial loss for us and our financial condition and results of operations may be materially and adversely affected.

### **We are subject to extensive environmental, occupational health and safety laws, regulations, government policies, and compliance with these laws, regulations and policies may be costly.**

Our business operations are subject to various environmental, occupational health and safety laws, regulations and government policies promulgated by the PRC government. Please refer to the paragraph headed "Regulatory Overview — PRC Laws and Regulations" in this document for further details.

The environmental, occupational health and safety laws, regulations and government policies applicable to our business operations and products are constantly evolving and we cannot predict when or how they will be amended, nor the consequence or impact thereof. There is no assurance that the PRC government or the relevant authorities in the PRC will not impose additional or more stringent laws, regulations or government policies in the future, which may subject us to more onerous duties and obligations. Any change or amendment to these laws, regulations or government policies may require us to incur substantial financial or other resources to adjust our production process, introduce new preventive or remedial measures, purchase new pollution control equipment and update our compliance and monitoring systems in order to ensure compliance, which may have a negative impact on our results of operations and financial condition.

### **Any decrease of discontinuation of tax rebate towards exported goods would have a negative effect on our profit ability.**

Pursuant to the Measure for the Administration of Tax Refund (Exemption) of Exported Goods (For Trial Implementation) (出口貨物退(免)稅管理辦法(試行)) (Guo Shui Fa [2005] No. 51), as promulgated by SAT on 16 March 2005 and became effective on 1 May 2005 unless otherwise provided by law, for the goods as exported either directly by an exporter or via an export agency, the exporter may, after the export declaration and the conclusion of financial settlement of sales, file a report to the tax authorities for the approval of refund or exemption of VAT. Subject to relevant PRC laws, we are currently entitled to rebates of the VAT from the PRC tax authority in connection with our export sales at a rate of 17% for our PCBAs and from 5% to 17% for our fully-assembled electronic products. The tax rebate comprised a refund of VAT incurred on raw materials we used for production of our products in the PRC, which are subsequently exported to overseas countries. We



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cannot assure you that the PRC governmental policies on tax rebate will not change or that the current policy we enjoy will not be cancelled. If any of such change, cancellation or discontinuation of tax rebate policy occurs, the resulting increase in our tax liability would adversely affect our business and results of operations.

**We engage independent third party logistics service providers to deliver our products, and their failure to provide timely and high quality logistics services to our customers may adversely affect our brand image and our financial condition.**

We engage independent third party logistics service providers to deliver our products to our customers. Delivery disruptions such as transportation bottlenecks, inclement weather and natural disasters, social unrest, vehicle breakdown, labour strikes or other circumstances beyond our control may result in delayed or lost deliveries. There is no assurance that the logistics service providers will be able to deliver our products according to the delivery schedule or provide high quality services to our customers. If the logistics service providers fail to deliver our products to our customers on time or if our products are damaged in the course of delivery, our customers may refuse to accept our products and our reputation and brand image may suffer as a result. We may also be subject to penalties in the event of late delivery, which may materially and adversely affect our financial position. In addition, any significant increase in the cost of transportation, such as fuel cost, will increase our operating expenses.

**There is no assurance that our business strategies and future plans will be successfully implemented.**

The successful implementation of our business strategies and future plans will depend on various factors, including but not limited to our ability to (i) retain our major customers; (ii) enhance our production efficiency; (iii) retain our existing workforce and recruit new staff members at a rate that is consistent with our business growth; (iv) raise additional funds to support our business expansion; and (v) explore new business opportunities. As concerns our plan to expand our production capacity, for each of the three years ended 31 December 2017, the average utilisation rate of our SMT assembly lines was approximately 90.2%, 90.0% and 91.0%, respectively. It is therefore our strategic plan to upgrading three SMT assembly lines, and setting up two additional SMT assembly lines and four automated testing lines in order to meet the increasing demand for EMS for the PRC market and foreign markets. The success of our expansion plan hinges on our ability to capture additional customer demands. However, there is no assurance that we will be able to maintain or establish relationships with our existing or prospective customers or secure new purchase orders to utilise our increased production capacity. There are also other uncertainties and risks, such as delays, cost overrun, shortage of labour and shortage of key materials, which are beyond our control and would increase the costs of implementing our expansion plan. We may even have problems of under-utilisation if demand for our products does not increase at the same rate. In the event that the above-mentioned uncertainties and risks happen or we are unable to achieve high utilisation of our production capacity as planned, there could be a material adverse effect on our performance and results of operation. There is no assurance that we will be able to successfully implement our business strategies or future plans. Even if our business strategies or future plans are implemented, there is no assurance that they will increase our market share or enhance our market position. Our results of operations and financial position may be materially and adversely affected if our business strategies or future plans are not successfully implemented.

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**The future capital expenditure of our Group for the purchase of machinery and equipment may result in an increase in our depreciation expenses.**

Our Group currently plans to use approximately HK\$[REDACTED] million of the [REDACTED] from the [REDACTED] to upgrade three of our existing SMT assembly lines and purchase machinery and equipment to set up two additional SMT assembly lines and four automated testing lines in order to expand our production capacity. For more details, please see the section headed "Future Plans and [REDACTED]" of this document. Such upgrade and addition of SMT assembly lines and automated testing lines may increase our depreciation expenses, and may therefore adversely affect our Group's future results of operations and financial performance. Furthermore, any unexpected requirement for the acquisition of additional SMT assembly lines and automated testing lines would have a negative impact on the cash level of our Group and the additional depreciation expenses may adversely affect our Group's financial performance in the future.

**Our profit margin could be adversely affected if we are unable to continuously maintain a high utilisation rate of our production machinery and equipment.**

Our ability to maintain our profitability depends partly on our ability to maintain a high utilisation rate of our production machinery and equipment in our Shenzhen Production Plant. The level of the utilisation rate of our production machinery and equipment can impact our operating results as a certain percentage of our costs of sales such as direct labour and factory overhead are fixed in nature. A higher utilisation rate of our production machinery and equipment allows us to spread our fixed costs over a larger quantity of product, resulting in a higher profit margin. Hence, if we are unable to continuously maintain a high utilisation of our production machinery and equipment, our profit margin would be adversely affected.

**Our research and development in our PCB assembly services and full electronic product assembly services may not be well-received by the market.**

Our Directors believe that our capability to meet our customers' requirements and specifications in our PCB assembly services and full electronic product assembly services in terms of style, quality and performance is the key differentiating factor that sets us apart from the rest of the industry players. That is the reason why we had devoted substantial resources to conduct research and development in (i) enhancing the assembling process; and (ii) expanding the usage of our PCBAs to other electronic products.

However, conducting research and developing products can be a costly process and do not necessarily lead to the launch of a marketable new product. Instead, the results of research and development are sometimes unpredictable, in the sense that we are not able to predict the market's response to our new products before mass production. If our research and development capabilities fail to develop products that meet our customers' expectations, our business and results of operations may be adversely affected.



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### **Reliance on our senior management team.**

Our success has been heavily dependent on the services provided by our key management personnel, and we believe that the senior management team will continue to be essential to the development and success of our business. In particular, Mr. Ma has over 16 years of experience in electronics component industry and he is also one of the founders of our Group. Mr. Ma is responsible for formulating the overall corporate strategies and handling the day to day operation and production management of our Group during the Track Record Period. Mr. Ma and other senior management's knowledge and experience in the EMS industry are a major factor of our Group's success. To a certain extent, the future of our Group relies on our ability to retain the services of key management personnel.

While Mr. Ma and other members of the senior management team entered into or agreed to enter into service agreements with us, there is no assurance that they or any of them will not terminate their service agreement or decline to renew their service agreements with us. If that happens, we may not be able to replace, retain, attract and hire other qualified managerial personnel and there may be a disruption to our business, which may adversely affect our performance.

### **We may not be able to obtain adequate financing for the development of our business in the future.**

The daily operation of our business requires intensive working capital and we also require capital investment to purchase new production equipment for our business growth. During the Track Record Period, we relied on our working capital, registered capital, bank borrowings and amount due to a Director to maintain our cash flow and satisfy the needs of our daily productions. As at 31 December 2015, 2016 and 2017, our bank borrowings repayable within one year was approximately RMB20.6 million, RMB12.3 million and RMB5.0 million, respectively.

We cannot assure that we will be able to obtain bank loans and/or other equity or debt financing on commercially reasonable terms and/or on a timely basis following the [REDACTED]. If we are unable to obtain necessary financing or obtain such financing on favourable terms due to various factors beyond our control, we may not have sufficient funds to develop our business and the future prospect and growth potentials of our Group may be adversely affected.

### **Our cash flow position may deteriorate owing to the mismatch in time between receipt of payments from our customers and payments to our suppliers if we are unable to manage our cash flow mismatch properly.**

As an EMS provider, we have to purchase raw materials from our suppliers from time to time based on our customers' varying requests and our procurement policy. We rely on cash inflow from our customers to meet our payment obligations to our suppliers. Our cash inflow is dependent on prompt settlement of our payments. As at 31 December 2015, 2016 and 2017, our trade payables amounted to approximately RMB33.1 million, RMB53.2 million and RMB55.6 million respectively, whereas the respective trade payables accounted for approximately 28.1%, 43.5% and 57.6% of our total current liabilities respectively.

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In addition, our trade and bills receivable turnover days for each year during the Track Record Period were 119.5 days, 91.1 days and 74.9 days respectively, which were longer than our trade payable turnover days during the corresponding period, being 65.7 days, 71.4 days and 64.1 days respectively. For further details, please refer to the paragraph headed "Trade and bills receivables" and "Trade payables" in the section headed "Financial Information — Analysis on major components of the consolidated balance sheets" in this document.

As a result of the above, our daily operation has to rely on our internal resources and bank borrowings to maintain our cash flow and satisfy the needs of our daily operations.

If we fail to manage the aforesaid cash flow mismatches, or cannot function properly or at all, or if the cash flow mismatch is further aggravated, we may have to resort to reserve further funds from our internal resources and/or obtain banking facilities to meet our payment obligations, and our financial condition may be materially and adversely affected as a result.

### **We are exposed to risks of infringement of our intellectual property rights by third parties.**

We are the registered owner of certain patents and copyrights in the PRC, however, the said registrations may be insufficient to prevent third parties from misappropriating our intellectual property rights. In particular, we are susceptible to infringement of our intellectual property rights as the protection and enforcement of intellectual property rights in the PRC are not as certain and effective as in other developed countries. Even though we have registered our patents and copyrights, there is no assurance that we are free from any infringement of our intellectual property rights by our competitors or other third parties. There is no assurance that there will not be any imitation of our PCBAs and/or fully-assembled electronic products. Any occurrence of imitation of our products may result in a reduction of our market share, a decline in our sales and profitability as well as an increase in the administrative costs in detection and protection of our products, which in turn affects our overall results.

Furthermore, as at the Latest Practicable Date, we had applied for the registration of eight utility model patents relating to PCB assembly services and full electronic product assembly services in the PRC. However, there is no assurance that the said patents under applications will be approved or approved on a timely basis. Our success partly depends on our ability to use and develop our know-how copyrights and patents without infringing the intellectual property rights of third parties. However, we cannot assure you that there is no potential risk of infringement claims made by any third party against us regarding our patents and copyrights. If that happens, the defence of intellectual property rights claims, including infringement lawsuits and related legal and administrative proceedings, can be both costly and time consuming and may significantly divert the efforts of our management personnel and financial resources. It would also result in our customers deferring or limiting their purchase or use of our products until the resolution of such lawsuits. If such claims are brought against us, we might also face lengthy and costly litigation that could adversely affect our overall performance.

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### **We are exposed to the risk of industrial accidents at our production site.**

Our Group may be exposed to the risk of industrial accidents at our Shenzhen Production Plant in the PRC. Although we have enforced our safety measures and are covered by insurance under normal market practice, there is no guarantee that industrial accidents may not occur in the future, which may result in suspension of the operation in our Shenzhen Production Plant, damaging our plant or machinery, and giving rise to potential liability to our employees, our customers or third parties.

Nevertheless, we might be exposed to claims in respect of matters that are not covered by the insurance policies we maintained. In addition, as to the insurance policies we maintained, there may be circumstances (such as fraud, gross negligence, natural disasters and acts of God) in which certain loss and claims would not be covered adequately, or at all.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

Owing to the fact that most of our Group's assets, business operations and manufacturing facilities are in the PRC, its economic, political and legal developments would affect the results of our operations, financial position and prospects accordingly. The major risks that we are exposed to are as follows:

#### **We face risks associated with changes in the economic conditions of the PRC.**

For each of the three years ended 31 December 2017, the revenue derived from our customers in the PRC accounted for approximately 79.6%, 81.8% and 90.1% of our total revenue respectively. As we rely heavily on domestic sales in the PRC, our financial performance may be affected by the fluctuations in its economy. If there is any economic downturn or significant changes in consumer preferences or consumers' spending pattern in the PRC resulting in a decline in demand for consumer electronic products, the revenue derived from our PCB assembly services and full electronic product assembly services would be materially affected correspondingly.

There is no assurance that we will be able to predict and respond to changes in economic conditions of the PRC. We may not be able to adopt measures to sufficiently control our costs or maintain our sales volume during the recession period of the PRC. Any failure to do so may have a material adverse effect on our business, financial condition and results of operation.

#### **Uncertainties with respect to China's economic and political policies could affect our performance.**

During the past decades, the PRC's economy has been transitioning from a planned economy to a relatively market-oriented economy. Although the PRC government has implemented measures for economic reform, a substantial portion of productive assets in China is still owned or controlled by the PRC government. The PRC government exercises significant control over the country's economic growth by controlling the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary and industrial policies and providing preferential treatment to certain industries or companies. While some of these measures may benefit the overall economy, they may have a negative impact on our business. Furthermore, changes in the political environment of the PRC may have an adverse effect on our business.

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### **Our business operations are subject to uncertainties with respect to the laws and regulations of the PRC.**

Our business and operations in the PRC are governed by the laws of the PRC. The PRC law is a codified system which comprises of statutory laws, regulations, circulars, administrative directives and internal guidelines. Some of them, and the interpretation, implementation and enforcement thereof, are still at the experimental stage and are therefore subject to policy changes.

In the event that our PRC subsidiary breaches any of the foregoing, whether by omission or not, we will be subject to penalties prescribed therein. Owing to the fact that the legal system and economic system are growing at different paces, some degree of uncertainty exists in connection with whether and how existing laws and regulations are applicable to certain circumstances. Moreover, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are of limited value for decisions, as the higher court decisions in the PRC do not necessarily have binding effect on lower courts. Accordingly, the outcome of dispute resolution may not be as consistent or predictable as in other jurisdictions.

### **Currency conversion and exchange rate risks.**

The PRC's current currency policy allows the exchange rate of RMB to move in a managed way subject to ad hoc measures taken by the relevant government authorities. There can be no assurance that there will not be any substantial fluctuations in the RMB exchange rate. Since a substantial amount of the income and profit of our Group is denominated in RMB, any fluctuations in the value of the RMB may adversely affect the amount of dividends, if any, payable to the Shares in Hong Kong dollars to our Shareholders.

### **Any change or discontinuation of preferential tax treatments we currently enjoy would increase our tax liability and accordingly adversely affect our business and results of operations.**

Our PRC operating subsidiary, Shenzhen Hengchang Sheng, has been granted the status of "High and New Technology Enterprise\* (高新技術企業)" and, accordingly Shenzhen Hengchang Sheng is entitled to the reduced EIT rate of 15% from 2016 to 2018. There is no assurance that the PRC policies on preferential tax treatments will not change or that the current preferential tax treatments we enjoy will not be cancelled. If such change or cancellation occurs, the resulting increase in our tax liability would have an adverse effect on our net profits and cash flow.

### **We may be deemed a PRC "resident enterprise" under the EIT Law and be subject to PRC taxation on our worldwide income.**

The EIT Law and its implementation regulations issued by the State Council (國務院) define the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control of the enterprises". Under the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management organisation" located within the PRC, the enterprise may be recognised as a PRC resident enterprise and thus may be subject to EIT at the rate of 25% on its worldwide income. In April 2009, the SAT further specified certain criteria for the determination of what constitutes "de facto management bodies" for foreign enterprises which are controlled by a PRC enterprise. If all of these criteria are met, the relevant foreign enterprise will be deemed to have its

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“de facto management bodies” located in the PRC and therefore be considered a PRC resident enterprise. These criteria include whether: (i) the enterprise’s day-to-day operational management is primarily exercised in 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. We are currently not treated as a PRC resident enterprise by the relevant tax authorities in the PRC. Since the daily management of our operation, assets and our management are mainly based in the PRC, we cannot guarantee that we will not be considered as a “resident enterprise” under the EIT law and not be subject to the enterprise income tax rate of 25% on our global income. If we are subsequently regarded as a PRC resident enterprise by the relevant tax authorities, this may adversely affect our financial condition and results of operation.

### **Holders of the Shares may be subject to taxation in the PRC.**

Under the current PRC tax laws, regulations and rulings, the dividends we pay to holders of the Shares, who are either individual non-residents of the PRC or foreign enterprises with no permanent establishments in the PRC, are not currently subject to PRC income tax. Additionally, gains currently realised by holders of the Shares from the sale or other disposition of the Shares are not subject to PRC income tax. This treatment could change at any time. If such exemption is revoked and other rates specified in the applicable PRC laws do not apply, holders of the Shares could become subject to the PRC income tax, currently imposed at the rate of 20%, unless reduced or eliminated by an applicable double taxation treaty.

### **PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using [REDACTED] we receive from the [REDACTED] to make loans or additional capital contributions to our PRC subsidiary.**

As an offshore holding company of our PRC subsidiary, our Company may make loans to our PRC subsidiary, or our Company may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary are subject to the PRC laws, regulations and foreign exchange loan registrations. For example, loans by our Company to our PRC subsidiary to finance its activities cannot exceed statutory limits and must be registered with the SAFE, its local counterpart or the competent bank. We may also decide to finance our PRC subsidiary by means of capital contributions. These capital contributions must be registered at the SAIC or its local counterpart and filed at the Ministry of Commerce of the PRC or its local counterpart. There is no assurance that we can complete these government registrations or the filing on a timely basis, if at all, with respect to future loans or capital contributions by our Company to finance our PRC subsidiary. If we fail to complete the filings or receive relevant registrations, approvals or filings our ability to use the [REDACTED] of the [REDACTED] and to capitalise our PRC operations may be negatively affected. This may materially and adversely affect our liquidity and our ability to expand our business.

## **RISK FACTORS**

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**You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bring original actions in the PRC against us, the management or our experts named in this document.**

As our manufacturing process is conducted in the PRC and most of our assets are located in the PRC. In addition, all of our Directors reside within the PRC or Hong Kong. As a result, it may not be possible to effect service of legal processes outside the PRC or Hong Kong (as the case may be) upon them with respect to matters arising under applicable securities laws. Moreover, based on the information provided by the PRC Legal Advisers, our Directors take the view that the PRC has not entered into treaties with the US or a number of countries providing for the reciprocal recognition or enforcement of judgments of foreign courts. In addition, according to the PRC Civil Procedures Law\* (中華人民共和國民事訴訟法), courts in the PRC will not enforce a foreign judgment if they decide that the judgment violates the basic principle of PRC law or national sovereignty, security or public interest. Therefore, it may be difficult for you to enforce against us and/or our management in the PRC any judgment obtained from non-PRC courts.

**The PRC economy may experience inflationary pressure, which may lead to an increase in interest rates and a slowdown in economic growth.**

In response to concerns regarding PRC's high rate of growth in industrial production, bank credit, fixed investment and money supply, the PRC government has taken measures to slow down the economic growth to a more manageable level. Among the measures that the PRC government has taken are restrictions to bank loans in certain sectors. These measures have historically contributed to a slowdown in economic growth in the PRC and a reduction in demand for consumer goods. These measures and any additional measures, including a possible increase in interest rates, could contribute to a further slowdown in the economy of the PRC.

### **RISKS RELATING TO THE [REDACTED]**

**There has been no prior public market for the Shares and an active trading market for the Shares may not develop or be sustained.**

Prior to the [REDACTED], no public market for the Shares existed. Following the completion of the [REDACTED], the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure our [REDACTED] that an active trading market for the Shares will develop or sustained after the [REDACTED]. In addition, we cannot assure our [REDACTED] that the Shares will trade in the public market at or above the [REDACTED] subsequent to the [REDACTED]. The [REDACTED] for the Shares is expected to be fixed by the [REDACTED], and may not be indicative of the market price of the Shares following the completion of the [REDACTED]. If an active trading market for the Shares does not develop or is not sustained after the [REDACTED], the market price and liquidity of the Shares may be materially and adversely affected.



## **RISK FACTORS**

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**The trading price and volume of the Shares may be volatile, which may result in a substantial loss for our [REDACTED].**

The trading price of the Shares may be volatile and may fluctuate widely in response to factors beyond our control, including variations in the level of liquidity of the Shares, changes in securities analysts' (if any) estimates of our financial performance, [REDACTED] perceptions of our Group and the general investment environment, changes in laws, regulations and taxation systems which affect our operations, and general market conditions of the securities markets in Hong Kong. These broad market and industry factors may significantly affect the market price and volatility of the Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for the Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow, success or failure of our efforts in implementing business and growth strategies and involvement in material litigation as well as recruitment or departure of key personnel, may cause the market price of the Shares to change unexpectedly. Any of these factors may result in large and sudden changes in the volume and trading price of the Shares.

Further, there will be a gap of several days between pricing and trading of the [REDACTED]. The [REDACTED] of the Shares is expected to be determined on the [REDACTED] while the Shares will not commence trading on the Stock Exchange until the [REDACTED]. As a result, [REDACTED] may not be able to sell or otherwise deal in the Shares during the period between the [REDACTED] and the [REDACTED] and hence are subject to the risk that the price of the [REDACTED] could fall during the period before trading of the [REDACTED] begins.

**Future disposal or perceived disposal by our existing Shareholders of a substantial number of the Shares in the public market may materially and adversely affect the prevailing market price of the Shares.**

Disposal of substantial amounts of the Shares in the public market after the completion of the [REDACTED], or the perception that disposal may occur and adversely affect the market price of the Shares and materially impair our future ability to raise capital through [REDACTED] of the Shares. There is no assurance that our major Shareholders will not dispose of their shareholdings. Any significant disposal of the Shares by any of the major Shareholders may materially affect the prevailing market price of the Shares. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise further capital. We cannot predict the effect of any significant future disposal on the market price of the Shares.

## **RISK FACTORS**

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**[REDACTED] may experience difficulties enforcing their shareholders' rights because our Company is incorporated in the Cayman Islands, and the protection of minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions.**

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles of Association, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where [REDACTED] may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Companies Law on the protection of minority Shareholders is set out in Appendix III to this document.

### **RISKS RELATING TO STATEMENTS IN THIS DOCUMENT**

**[REDACTED] should read the entire document and should not rely on any information contained in press articles or other media coverage regarding us and the [REDACTED].**

We strongly caution our [REDACTED] not to rely on any information contained in press articles or other media regarding us and the [REDACTED]. Prior to the publication of this document, there may be press and media coverage regarding the [REDACTED] and us. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information to the press or media and do not accept any responsibility for such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and our [REDACTED] should not rely on such information.

**Certain facts, forecasts and other statistics in this document obtained from publicly available sources have not been independently verified and may not be reliable.**

Certain facts, forecast and other statistics in this document are derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information are appropriate 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. Nevertheless, such information has not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED] or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Further, we cannot assure our [REDACTED] that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our [REDACTED] should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.