The following discussion and analysis of our Group's financial condition and results of operations should be read in conjunction with our consolidated financial information as of and for each of the three years ended 31 December 2017 together with the accompanying notes as set out in the Accountant's Report in Appendix I to this document. The financial statements have been prepared in accordance with HKFRS. The following discussion contains forward-looking statements that involve risks and uncertainties. However, whether our actual results and developments will meet our expectations and projection depend on a number of risks and uncertainties over which our Group does not have control. For further information regarding the factors that could cause or contribute to such differences, you should refer to "Risk Factors" and "Business" in this document.

OVERVIEW

We are an established EMS provider in the PRC offering integrated manufacturing services which include provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery and after-sale services to our customers in respect of our assembling and production of PCBAs and fully-assembled electronic products.

Our products comprise PCBAs and fully-assembled electronic products that are primarily embedded with our PCBA produced in-house. PCBAs are produced by assembling, populating and soldering of electronic components onto a bare PCB (which is used as an electronic circuit interconnecting medium and a mechanical mounting substrate) to form and produce a functional PCBA. Our PCBAs are either sold as stand-alone products or assembled with other product parts and casing (both plastic and metal) and packaging materials to form a fully-assembled electronic products under the brands of our customers or the brands of their ultimate customers. Our PCBAs are currently mainly applied for production of electronic products that are used in the banking and finance, telecommunication and smart devices industries. Our fully-assembled electronic products that are embedded primarily with our PCBAs mainly include digital projectors, mPOS, mobile phones and photovoltaic inverters.

During the Track Record Period, our customers mainly include manufacturers of electronic products, brand owners, OEMs and trading companies of electronic products such as mobile phones and mPOS which are mainly located in the Guangdong Province and Wuhan city of Hubei Province, the PRC. Most of our customers are in the PRC with a few customers based mainly in Hong Kong, United States and Mexico. For each of the three years ended 31 December 2017, we recorded revenue of approximately RMB182.9 million, RMB267.9 million and RMB370.2 million, respectively, and profit attributable to owners of our Company of approximately RMB14.0 million, RMB22.1 million and RMB28.5 million, respectively. Going forward, we will continue to achieve sustainable growth in our current business and strengthen our production capacity to secure more business opportunities.

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospect since 31 December 2017, being the date to which our latest audited financial information was prepared, and there is no event which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report set out in Appendix I to this document. Further details of our Group's indebtedness position have been set out under "Indebtedness" in this section.

For further information about our business and operations, please refer to the "Business" section in this document.

BASIS OF PRESENTATION

The companies now comprising our Group, engaging in the businesses of EMS and trading of electronic products, were under common control of Mr. Ma, our Controlling Shareholder, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, the financial information included in the Accountant's Report set forth in Appendix I to this document has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The financial information has been prepared, under the common control of Mr. Ma immediately before and after the Reorganisation and now comprising our Group as if the current group structure had been in existence throughout the years presented, or since the date when the combining companies first came under the control of Mr. Ma, whichever is a shorter period.

The net assets of the combining companies were combined using the existing book values from Mr. Ma's perspective. No amount is recognised in 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 business combination under common control, to the extent of the continuation of the controlling party's interest.

Inter-company transactions, balances and unrealised gains/losses on transactions between companies of our Group are eliminated on consolidation.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition of our Group have been and will continue to be, affected by a number of factors, including those set out below and in the section headed "Risk Factors" in this document.

Change in market demand of our customers

Our Group's revenue is dependent on the orders from our customers. Demand from our customers may change from time to time due to various reasons, for instance, if the prices of our products are not as competitive as those set by our competitors for comparable products or if the quality of our products does not meet our customers' expectations or requirements, our customers may reduce their purchase volume or may not make purchases from us. Since we are not their exclusive supplier, there is no assurance that our existing customers will continue to purchase our products at current level or at all in the future. In these circumstances, our results of operations and financial performance may be affected.

Our relationship with Customer B

During the Track Record Period, Customer B, a company listed on ChiNext Board and is engaged in the research, development, production and distribution of various kinds of smart cards, payment-related terminals and related application systems, was our second largest customer for the year ended 31 December 2015 and our largest customer for the two years ended 31 December 2017, the revenue generated from the sales to Customer B amounted to approximately 17.0%, 41.1% and 44.9% of our total revenue, respectively. Consequently, changes in relationship with Customer B may materially affect our results of operation and financial condition.

Composition of our product

Our PCBAs are either sold as stand-alone products or assembled with other product parts and casing (both plastic and metal) and packaging materials to form a fully-assembled electronic product under the brands of our customers or the brands of their ultimate customers. Our PCBAs are currently mainly applied for production of electronic products that are used in the banking and finance, telecommunication and smart devices industries. Our fully-assembled electronic products that are embedded primarily with our PCBAs mainly include digital projectors, mPOS, mobile phones and photovoltaic inverters. For each of the three years ended 31 December 2017, the amount of revenue generated from payment-related terminals for banking and finance sectors (including banking and finance PCBAs and mPOS) was approximately RMB52.8 million, RMB160.9 million and RMB264.3 million respectively, representing approximately 28.9%, 60.1% and 71.4% of our total revenue respectively. Such a change in demand may be driven by a number of factors, including but not limited to customers' preferences, customer base, market conditions and industry environment. Our results of operations may vary significantly from period to period as a result of changes in the composition of our sales in the future.

Production costs

The raw materials we use for the provision of assembly services can generally be divided into (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. Cost of raw materials used is one of the major components in our cost of sales. For each of the three years ended 31 December 2017, the cost of raw materials used amounted to RMB73.8 million, RMB166.0 million and RMB239.4 million, respectively, representing 49.7%, 75.4% and 77.3% of our total costs of sales respectively. As such, any significant fluctuation in the price of raw materials may have a significant impact on our Group's profitability.

Since the raw materials accounted for the largest portion of our Group's cost of sales during the Track Record Period, a sensitivity analysis on the fluctuation in raw material costs during the Track Record Period is set out below to illustrate the impact of hypothetical fluctuations in purchase price of raw materials on our profit before tax for the Track Record Period, assuming all other variables remained constant. According to the Frost & Sullivan Report, the price of our key raw materials, ICs, recorded at a growth rate ranging from approximately -5.8% to 9.5% during the period between 2012 and 2016. For the sake of prudence, our Group adopted hypothetical fluctuations of 5.0%, 10.0% and 15.0% in performing the sensitivity analysis below:

Hypothetical fluctuations	**+/-5%**	**+/-10%**	**+/-15%**
	RMB'000	*RMB'000*	*RMB'000*
Decrease/increase in profit before income tax			
Year ended 31 December 2015	-/+3,689	-/+7,378	-/+11,067
Year ended 31 December 2016	-/+8,302	-/+16,604	-/+24,905
Year ended 31 December 2017	-/+11,972	-/+23,945	-/+35,917

To effectively control the cost of raw materials and mitigate the effect of price fluctuation of raw materials on our profitability, we maintain a good relationship with a group of qualified suppliers and procure raw materials from geographically-diversified sources. The price and availability of raw materials may vary from period to period due to factors such as consumer demand and market conditions. However, we cannot completely avoid fluctuation in the prices of raw materials and are exposed to market risk of raw material price fluctuation. We do not have any hedging policy against any risk of fluctuation in the raw material costs. Any increase in our cost of raw materials would negatively impact our gross profit margin if we are unable to pass on the increased cost to our customers by increasing the selling price of our products on time or at all.

Production capacity

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 production overhead are fixed in nature. Increasing production capacity and maintaining a high utilisation rate are essential to reduce our per unit cost of production and maintaining our competitiveness. Hence, if we are unable to continuously maintain a high utilisation of our production machinery and equipment, our profit margin would be adversely affected. During the Track Record Period, the utilisation rate of our SMT assembly lines was approximately 90.2%, 90.0% and 91.0% respectively. For more details, please refer to the section headed "Business — Production facilities and utilisation" in this document.

Our results of operations are directly affected by our sales volume, which in turn is a function of our production capacity and market demand. Growth in our revenue and the diversification of our product mix, depends to a large extent on our ability to expand our production capacity and manage our production planning. We aim to maintain and increase our production capacity and efficiency by way of increasing the level of automation in our production lines to seize market opportunities. Details of our future plans are set forth in the section headed "Future Plans and [REDACTED]" in this document.

Taxation

As a result of our research and development capabilities, initiatives and achievements, in 2016, Shenzhen Hengchang Sheng has been granted the status of "High and New Technology Enterprise* (高新技術企業)" by the relevant PRC governmental authorities and, according to the applicable PRC laws and regulations, has since been entitled to a preferential EIT rate of 15%. Under the relevant PRC laws and regulations, the 15% reduced EIT rate is subject to review and approval by the tax authorities. The current status of Shenzhen Hengchang Sheng as High and New Technology Enterprise and its entitlement to the reduced EIT rate will expire in 2018. If Shenzhen Hengchang Sheng cannot continue to enjoy such preferential treatment upon the expiry of the existing preferential tax treatments, our profitability and financial performance will be negatively affected.

SIGNIFICANT ACCOUNTING POLICIES

A summary of our significant accounting policies is set forth in Note 2 to the Accountant's Report in Appendix I to this document. Critical accounting policies are those that require our management to exercise judgement in applying assumptions and making estimates that would yield materially different results if our management applied different assumptions or made different estimates. Estimates and judgements are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. We believe the following critical accounting policies involve the most significant judgements in the preparation of our consolidated financial statements.

Revenue Recognition

Sales of goods

Sales of goods are recognised when our Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Properties, plant and equipment

Properties, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation of properties, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual value, over their estimated useful lives, as follows:

Buildings	20 years
Furniture and fixtures	5 years
Office equipment	3 to 5 years
Plant and machinery	3 to 10 years
Motor vehicles	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

Financial assets

Our Group classifies our financial assets as financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classifications of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Our Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. held for trading. They are presented as current assets if they are expected to be sold within twelve months after the end of the reporting period; otherwise they are presented as non-current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Our Group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

RESULTS OF OPERATIONS

The consolidated income statements and the consolidated statements of comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountant's Report set out in Appendix I to this document. As such, the following sections should be read in conjunction with the Accountant's Report set out in Appendix I to this document.

	For the year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	182,925	267,890	370,162
Cost of sales	(148,334)	(220,360)	(309,824)
Gross profit	34,591	47,530	60,338
Other income	93	694	828
Other (losses)/gains, net	(132)	(983)	1,223
Selling and distribution expenses	(3,673)	(6,687)	(9,534)
Administrative expenses	(10,327)	(12,795)	(18,404)
Operating profit	20,552	27,759	34,451
Finance income	24	32	99
Finance costs	(1,982)	(1,098)	(800)
Finance costs, net	(1,958)	(1,066)	(701)
Profit before income tax	18,594	26,693	33,750
Income tax expense	(4,602)	(4,612)	(5,239)
Profit for the year	13,992	22,081	28,511
Other comprehensive losses:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences	(125)	(10)	(250)
Total comprehensive income for the year	13,867	22,071	28,261
Total comprehensive income attributable to:			
Owners of our Company	13,867	22,071	28,261

KEY COMPONENTS OF OUR CONSOLIDATED INCOME STATEMENTS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

During the Track Record Period, our revenue was generated by our two principal product types, namely, PCBAs and fully-assembled electronic products. Each of the PCBAs and fully-assembled electronic products were divided into several product categories by their natures and usages. For each of the three years ended 31 December 2017, our revenue amounted to approximately RMB182.9 million, RMB267.9 million and RMB370.2 million respectively. In general, the growth of our revenue during the three years ended 31 December 2017 was mainly attributable to our provision of more value-added services, such as raw materials selection and procurement services, to our customers and the change in product mix with higher sales value in which the average unit price of the PCBAs increased from a range of approximately RMB2.7-RMB55.5 for the year ended 31 December 2015 to approximately RMB5.2-RMB85.4 for the year ended 31 December 2017 and the average selling unit of the fully-assembled electronic products increased from a range of approximately RMB15.2-RMB50.8 for the year ended 31 December 2015 to approximately RMB32.3-RMB600.1 for the year ended 31 December 2017. For further details of our revenue contributed by product types, please see below for details.

By product type

The following table set forth our revenue by our two principal product types in absolute amount and as percentages of our revenue for the periods indicated:

	For the year ended 31 December					
	2015		2016		2017	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
PCBAs *(Note 1)*						
Banking and finance	19,221	10.5	50,657	18.9	62,084	16.7
Smart device	5,530	3.0	16,289	6.1	42,547	11.5
Telecommunication	53,612	29.3	24,247	9.1	12,844	3.5
Others *(Note 2)*	660	0.4	667	0.2	694	0.2
Subtotal	79,023	43.2	91,860	34.3	118,169	31.9
Fully-assembled electionic products *(Note 3)*						
mPOS	33,615	18.4	110,283	41.2	202,177	54.6
Tablets	—	—	—	—	12,185	3.3
Mobile phones	62,548	34.2	50,973	19.0	8,307	2.3
Digital projectors	5,586	3.0	6,432	2.4	3,478	0.9
Photovoltaic inverters	919	0.5	3,311	1.2	487	0.1
Others *(Note 4)*	1,234	0.7	5,031	1.9	25,359	6.9
Subtotal	103,902	56.8	176,030	65.7	251,993	68.1
Total	182,925	100.0	267,890	100.0	370,162	100.0

Note:

(1) These PCBAs are sold as stand-alone products to our customers for their onward production of various kinds of electronic products in the industries set out below.

(2) Others mainly includes PCBAs for medical devices.

(3) The PCBAs embedded in these fully-assembled electronic products are primarily manufactured by us with a small portion being manufactured and supplied by our suppliers based on our requirements and specifications.

(4) Others mainly include signal amplifiers, remote controllers for home applicances and street light controllers.

PCBAs

The growth in our revenue from PCBAs for banking and finance was primarily due to deepening customer relationship with customers engaged in banking and finance industry, especially Customer D, that has resulted to an increase in orders for our PCBAs.

The increase in our revenue derived from the PCBAs for smart device from RMB5.5 million for the year ended 31 December 2015 to RMB42.5 million for the year ended 31 December 2017 was primarily due to (i) our increase focus on targeting additional market with growth potential, including the smart device market and (ii) the release of new products by our customers in the smart device industry that utilised our sweeping robot mainboards and inductors in the sweeping robot and the IOT modules in the smart devices.

Decreases in revenue generated from the PCBAs for telecommunication were primarily due to the maturity of product portfolio offered by brand companies that utilised our telecommunication modules applied to mobile phones and the shift of our product mix towards certain products with better margins, as compared with PCBAs for telecommunication, given the increased competition of the mobile phones market that has resulted in a decrease in profit margin of the mobile phones products.

Fully-assembled electronic products

During the Track Record Period, our revenue derived from the mPOS increased from approximately RMB33.6 million for the year ended 31 December 2015 to approximately RMB110.3 million for the year ended 31 December 2016 and further increased to approximately RMB202.2 million for the year ended 31 December 2017, which accounted for approximately 18.4%, 41.2% and 54.6%, respectively, of our total revenue for the respective period. The growth was primarily attributable to an increase in purchase orders of the mPOS triggered by the trend towards cashless payments in the PRC.

The continuous decrease in our revenue generated from mobile phones during the Track Record Period was primarily due to the change in our Group's product mix towards certain products with better margins such as the mPOS products given the increased competition of the mobile phones market that has resulted in a decrease in profit margin of the mobile phones products.

By geographical location

The following table sets forth our revenue by geographical location of our customers for the years indicated:

	For the year ended 31 December					
	2015		2016		2017	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
The PRC	145,676	79.6	219,183	81.8	333,650	90.1
Mexico	—	—	—	—	16,502	4.5
United States	6,340	3.5	37,488	14.0	6,828	1.8
Hong Kong	8,962	4.9	3,898	1.5	38	0.1
Others *(Note)*	21,947	12.0	7,321	2.7	13,144	3.5
Total	182,925	100.0	267,890	100.0	370,162	100.0

Note: Others mainly include South Korea, Spain, Austria and Taiwan and each of such regions accounted for a nominal percentage of our total revenue ranging from approximately nil to 12.0%, nil to 2.7% and nil to 2.8% for each of the three years ended 31 December 2017, respectively.

For each of the three years ended 31 December 2017, the revenue generated from the PRC accounted for approximately RMB145.7 million, RMB219.2 million and RMB333.7 million respectively, which accounted for approximately 79.6%, 81.8% and 90.1% of our total revenue for the corresponding periods, respectively. The fluctuation in revenue derived from oversea market was mainly due to the fluctuation in sales of mobile phones and tablets during the three years ended 31 December 2017.

Cost of sales

Cost of sales represents costs and expenses directly attributable to our revenue generating activities. For each of the three years ended 31 December 2017, our cost of sales were approximately RMB148.3 million, RMB220.4 million and RMB309.8 million respectively, representing approximately 81.1%, 82.3% and 83.7% of our total revenue, respectively.

Our cost of raw materials used accounted for the largest part of our cost of sales during the Track Record Period which accounted for approximately 49.7%, 75.4% and 77.3% of our total cost of sales respectively. Set out below is a breakdown of the cost of sales by nature of expense for the periods indicated:

		For the year ended 31 December					
		2015		**2016**		**2017**	
		RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cost of sales							
Cost of raw materials used	*(i)*	73,782	49.7	166,036	75.4	239,449	77.3
Direct labour	*(ii)*	48,427	32.6	34,781	15.8	22,026	7.1
Factory overhead	*(iii)*	25,896	17.5	18,576	8.4	47,277	15.3
Provision for inventories	*(iv)*	229	0.2	967	0.4	1,072	0.3
Total		148,334	100.0	220,360	100.0	309,824	100.0

(i) Cost of raw materials used

Our major raw materials can generally be divided into (i) electronic components and ancillary materials (including PCBs, semiconductors, ICs, and magnetic heads); and (ii) casing (plastic and metal parts), packaging materials, LCD screens and consumables. Our raw material costs increased during the Track Record Period primarily due to the increase in purchase, which was in line with the growth in our Group's revenue and cost of raw materials used as a percentage of our total cost of sales increased from approximately 49.7% for the year ended 31 December 2015 to approximately 75.4% for the year ended 31 December 2016 and further to approximately 77.3% for the year ended 31 December 2017. The cost of raw materials used accounted for a higher percentage of our total cost of sales for the year ended 31 December 2016 as compared to that for the year ended 31 December 2015, primarily due to an increase in the purchase of raw materials as more customers required us to provide raw materials selection and procurement services in addition to our assembly services during the year ended 31 December 2016.

(ii) Direct labour

Direct labour costs included wages, social insurance contribution and staff welfare cost for personnel directly involved in our production activities. Since the outsourcing of part of our EMS for mobile phones for the year ended 31 December 2016, our Group reduced two SMT assembly lines and number of employees for the SMT production. For the year ended 31 December 2017, in view of the increasing labour cost, we outsourced part of our assembly process to other third-party assembly services provider while we provided raw materials, technical support and onsite supervising personnel to monitor the production schedule and product quality. As such, our direct labour cost as a percentage of our cost of sales decreased from approximately 32.6% for the year ended 31 December 2015 to approximately 7.1% for the year ended 31 December 2017.

(iii) Factory overhead

Factory overhead cost primarily included depreciation of properties, plant and equipment, consumption of supplies, rental expenses of machineries and production plant, utilities for electricity and water, business tax and surcharges as well as subcontracting charges. The decrease in factory overhead cost for the year ended 31 December 2016 was mainly due to the decrease in depreciation expenses as certain of our Group's production equipment had been fully depreciated, the decrease in rental expenses for machineries given part of the production of our mobile phones was outsourced and the decrease in utilities for electricity and water resulted from reduction of two SMT assembly lines during the year ended 31 December 2016.

For the year ended 31 December 2017, our factory overhead cost increased which was mainly due to the increase in subcontracting charges arising from the outsourcing of part of our assembly process to other third-party assembly services provider. In view of the high utilisation rate of our SMT assembly lines and the increase in our sales orders during the year ended 31 December 2017, we incurred more rental costs for renting additional machineries from external machinery and equipment service providers to cater for our production need.

The following table sets out the breakdown of factory overhead by nature of expenses for the periods indicated:

	For the year ended 31 December					
	2015		**2016**		**2017**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Depreciation and amortisation	8,237	31.8	4,370	23.5	2,030	4.3
Consumption of consumables	3,171	12.2	5,471	29.5	3,464	7.3
Utilities	3,747	14.5	2,862	15.4	2,927	6.2
Operating lease rental in respect of production plant and warehouses	1,588	6.1	1,702	9.2	1,709	3.6
Operating lease rentals in respect of machineries	4,223	16.3	1,476	7.9	8,658	18.3
Subcontracting charges	2,527	9.8	600	3.2	22,950	48.5
Repair and maintenance of properties, plant and equipment	874	3.4	122	0.7	281	0.6
Product development cost	—	—	447	2.4	2,531	5.4
Other tax and surcharges	1,227	4.7	1,376	7.4	2,079	4.4
Others	302	1.2	150	0.8	648	1.4
Total	25,896	100.0	18,576	100.0	47,277	100.0

(iv) Provision for inventories

Provision for inventories represented provision for obsolete inventories. For each of the three years ended 31 December 2017, our inventories provision was approximately RMB0.2 million, RMB1.0 million and RMB1.1 million respectively, which was generally stable and accounted for approximately 0.2%, 0.4% and 0.3% of our total cost of sales, respectively.

Gross profit and gross profit margin

During the Track Record Period, we generated gross profits of approximately RMB34.6 million, RMB47.5 million and RMB60.3 million, respectively, representing gross profit margins of approximately 18.9%, 17.7% and 16.3% respectively.

The table below sets forth a breakdown of gross profit and gross profit margin by product categories for the periods indicated:

	For the year ended 31 December					
	2015		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
PCBAs *(Note 1)*						
Banking and finance	4,504	23.4	9,731	19.2	10,689	17.2
Smart device	1,123	20.3	3,255	20.0	7,530	17.7
Telecommunication	9,895	18.5	4,836	19.9	2,218	17.3
Others *(Note 2)*	532	80.6	400	60.0	134	19.3
Subtotal	16,054	20.3	18,222	19.8	20,571	17.4
Fully-assembled electronic products *(Note 3)*						
mPOS	6,139	18.3	20,346	18.4	34,926	17.3
Tablets	—	—	—	—	1,224	10.0
Mobile phones	10,643	17.0	5,738	11.3	822	9.9
Digital projectors	1,246	22.3	1,446	22.5	601	17.3
Photovoltaic inverters	242	26.3	873	26.4	95	19.5
Others *(Note 4)*	267	21.6	905	18.0	2,099	8.3
Subtotal	18,537	17.8	29,308	16.6	39,767	15.8
Total	34,591	18.9	47,530	17.7	60,338	16.3

Notes:

(1) These PCBAs are sold as stand-alone products to our customers for their onward production of various kinds of electronic products in the industries set out below.

(2) Others mainly includes PCBAs for medical devices.

(3) The PCBAs embedded in these fully-assembled electronic products are primarily manufactured by us with a small portion being manufactured and supplied by our suppliers based on our requirements and specifications.

(4) Others mainly include signal amplifiers, remote controllers for home applicances and street light controllers.

Gross profit contribution from mPOS had been increasing during the Track Record Period which accounted for approximately 17.7%, 42.8% and 57.9% of our gross profit for each of the three years ended 31 December 2017, respectively. Such increase was contributed by the increase in demand of mPOS triggered by the trend towards cashless payments in the PRC.

Our Group's operating results are affected by our product mix as gross profit margin varies among different products. The decrease in the gross profit margins during the Track Record Period is mainly attributable to the increased competition of the mobile phones market that has resulted in a decrease in profit margin of the mobile phones products from approximately 17.0% for the year ended 31 December 2015 to approximately 9.9% for the year ended 31 December 2017. In view of the decreasing gross profit margin of the mobile phones products, we refined the proportion in our product mix in which the mobile phones products reduced from approximately 34.2% of our total revenue for the year ended 31 December 2015 to approximately 2.3% of our total revenue for the year ended 31 December 2017.

In view of the increasing trend in the demand for mPOS, we offered a more competitive price than that of 2015 and 2016. As such, the gross profit margin of mPOS decreased from approximately 18.3% for the year ended 31 December 2016 to approximately 17.3% for the year ended 31 December 2017.

Other income

Other income mainly represented government grants and dividend income on financial assets at fair value through profit or loss. We received financial subsidies granted by the local government to support local business enterprises for business development.

Other (losses)/gains, net

Other gains or losses mainly comprised net realised and unrealised gains or losses on financial assets at fair value through profit or loss, gain on disposal of properties, plant and equipment and exchange differences.

Selling and distribution expenses

For each of the three years ended 31 December 2017, we recorded selling and distribution expenses of approximately RMB3.7 million, RMB6.7 million and RMB9.5 million, respectively, representing approximately 2.0%, 2.5% and 2.6% of our revenue for the corresponding periods. Selling and distribution expenses mainly comprised (i) employee benefit expenses; (ii) transportation charges; (iii) sales commission paid to our sales agent in respect of customer introduction; and (iv) other expenses.

The table below is an analysis of the major components of our selling and distribution expenses during the Track Record Period:

	For the year ended 31 December					
	2015		2016		2017	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Selling and distribution expenses						
Employee benefit expenses	1,064	28.9	3,320	49.6	4,815	50.5
Transportation costs	873	23.8	1,633	24.4	2,114	22.2
Commission expenses	852	23.2	801	12.0	1,381	14.5
Other expenses	884	24.1	933	14.0	1,224	12.8
Total	3,673	100.0	6,687	100.0	9,534	100.0

The employee benefit expenses accounted for the largest portion of our selling and distribution expenses during the Track Record Period, which mainly include salaries and allowance, social insurance contributions and staff welfare expenses of our sales and marketing staff. It represented approximately 28.9%, 49.6% and 50.5% of our selling and distribution expenses for each of the three years ended 31 December 2017, respectively. The increase in employee benefit expenses for the year ended 31 December 2016 as compared to that for the year ended 31 December 2015 was mainly due to an increase in year-end discretionary bonus of approximately RMB1.7 million to sales staff and increase in salaries resulted from increase in sales and marketing staff during the year ended 31 December 2016. The employee benefit expenses for the year ended 31 December 2017 further increased to approximately RMB4.8 million which was mainly due to increase in the number and basic salary of our sales and marketing staff during the year ended 31 December 2017.

During the Track Record Period, transportation costs represented expenses incurred for delivery of our products to our customers by our own motor vehicles or by independent third-party logistics service providers. The increase in transportation costs is in line with the increase in revenue over the three years ended 31 December 2017. Transportation costs increased from approximately RMB0.9 million for the year ended 31 December 2015 to approximately RMB2.1 million for the year ended 31 December 2017.

Commission expenses represent sales commission paid to independent third-party sales agent for the customers they referred. During the three years ended 31 December 2017, we employed more staff in the sales and marketing department for sourcing new business. As such, the proportion of commission expenses to our total selling and distribution expenses was decreased from approximately 23.2% for the year ended 31 December 2015 to approximately 14.5% for the year ended 31 December 2017.

Other expenses mainly comprised advertising expenses, entertainment expenses and service fee to independent third-party service companies regarding the provision of custom duty declaration and clearance service.

Administrative expenses

For each of the three years ended 31 December 2017, we recorded administrative expenses of approximately RMB10.3 million, RMB12.8 million and RMB18.4 million, respectively, representing approximately 5.6%, 4.8% and 5.0% of our revenue, respectively.

The table below is an analysis of the major components of our administrative expenses during the Track Record Period:

	For the year ended 31 December					
	2015		2016		2017	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Administrative expenses						
Employee benefit expenses	6,879	66.6	9,367	73.2	8,139	44.2
[REDACTED] expenses	—	—	—	—	[REDACTED]	[REDACTED]
Professional fee	136	1.3	234	1.9	221	1.2
Operating lease payments	1,121	10.9	910	7.1	991	5.4
Depreciation and amortisation	471	4.6	462	3.6	546	3.0
Office expenses	414	4.0	360	2.8	337	1.8
Utilities	447	4.3	307	2.4	299	1.6
Other expenses	859	8.3	1,155	9.0	2,229	12.1
Total	10,327	100.0	12,795	100.0	18,404	100.0

During the Track Record Period, employee benefit expenses included salaries and allowance, social insurance contributions and staff welfare expenses of our administrative staff, accounted for the largest portion of our administrative expenses. It represented approximately 66.6%, 73.2% and 44.2% of our administrative expenses for each of the three years ended 31 December 2017, respectively. Employee benefit expenses increased from approximately RMB6.9 million for the year ended 31 December 2015 to approximately RMB9.4 million for the year ended 31 December 2016 was primarily due to an increase in discretionary bonus of approximately RMB1.1 million to administrative staff for the year ended 31 December 2016 and increase in number of dispatched staff engaged by our Group to provide the function of procurement and inventory in view of more customers required us to provide raw materials selection and procurement services during the year ended 31 December 2016. The employee benefit expenses for the year ended 31 December 2017 decreased to approximately RMB8.1 million which was mainly due to decrease in number of dispatched staff engaged by our Group during the year ended 31 December 2017.

Our Group also incurred operating lease payments in relation to the rental expenses for our office which accounted for approximately 10.9%, 7.1% and 5.4% of our administrative expenses for each of the three years ended 31 December 2017, respectively. The operating lease payments decreased from approximately RMB1.1 million for the year ended 31 December 2015 to approximately RMB0.9 million for the year ended 31 December 2016 as our operating lease payment of one of our offices located in Shenzhen only incurred for nine months during the year ended 31 December 2016 and the reform of the PRC tax system of replacing business tax (as tax included in the rental) with value-added tax (as tax excluded in rental) applicable to leasing of properties with effective from to since 1 May 2016.

Other expenses mainly comprised office expenses, insurance, travelling expenses, postage and courier expenses.

Finance costs, net

For each of the three years ended 31 December 2017, we incurred net finance costs of approximately RMB2.0 million, RMB1.1 million and RMB0.7 million, respectively. Our finance costs mainly comprised interest expense on borrowings and bank charges while our finance income mainly represented interest income on our cash and cash equivalents.

The table below is an analysis of the major components of our net finance costs during the Track Record Period:

	For the year ended 31 December		
	2015	**2016**	**2017**
	RMB '000	*RMB '000*	*RMB '000*
Finance income			
Interest income on cash and cash equivalents	24	32	99
Finance costs			
Interest expense on borrowings	(1,830)	(950)	(615)
Bank charges	(152)	(148)	(185)
	(1,982)	(1,098)	(800)
Finance costs, net	(1,958)	(1,066)	(701)

Income tax expense

Our income tax expense consisted of current and deferred income tax, at the applicable tax rates in accordance with the relevant laws and regulations in the PRC and Hong Kong. For each of the three years ended 31 December 2017, our income tax expense were approximately RMB4.6 million, RMB4.6 million and RMB5.2 million, respectively.

For each of the three years ended 31 December 2017, the applicable Hong Kong profits tax rate for our Group's subsidiary incorporated in Hong Kong was 16.5%.

Our Group's subsidiary in the PRC is subject to corporate income tax at a standard rate of 25% for the year ended 31 December 2015. During the year ended 31 December 2016, Shenzhen Hengchang Sheng, our Group's subsidiary in the PRC, has been granted the status of High and New Technology Enterprise and is therefore subject to preferential income tax rate of 15% for the years ended 31 December 2016 and 2017.

Saved as Hong Kong and the PRC, our Group had no tax payable in other jurisdictions during the Track Record Period. Income tax is recognised in the consolidated statements of comprehensive income. Our Group's effective income tax rates for each of the three years ended 31 December 2017 were approximately 24.7%, 17.3% and 15.5%, respectively.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2017 compared with year ended 31 December 2016

Revenue

Our revenue increased by 38.2% from approximately RMB267.9 million for the year ended 31 December 2016 to RMB370.2 million for the year ended 31 December 2017 with the combined effect of the followings:

- PCBAs: Our revenue generated from PCBAs increased by approximately 28.6% from approximately RMB91.9 million for the year ended 31 December 2016 to approximately RMB118.2 million for the year ended 31 December 2017, primarily due to deepening customer relationship with customers engaged in banking and finance industry that has resulted to an increase in orders for our PCBAs and the release of new products by our customers in the smart device industry that utilised our sweeping robot mainboards and inductors in the sweeping robot.

- Fully-assembled electronic products: Our revenue generated from fully-assembled electronic products increased by approximately 43.2% from approximately RMB176.0 million for the year ended 31 December 2016 to approximately RMB252.0 million for the year ended 31 December 2017, primarily due to the continued increase in orders of the mPOS triggered by the trend towards cashless payments in the PRC and the new sales order of tablets from a new overseas customer. Such increase was offset by the decrease in revenue from mobile phones resulting from the shift of our product mix towards certain products with better margins.

Cost of sales

While our revenue increased by approximately 38.2%, our cost of sales increased by approximately 40.6% from approximately RMB220.4 million for the year ended 31 December 2016 to approximately RMB309.8 million for the year ended 31 December 2017. The increase was mainly due to the increase in cost of raw materials used from approximately RMB166.0 million for the year ended 31 December 2016 to approximately RMB239.4 million for the year ended 31 December 2017. Such increase in cost of raw material used was mainly due to the increase in the purchase of raw materials for the year ended 31 December 2017 which was in line with the increase in sales.

Gross profit and gross profit margin

As a result of the above, our gross profit increased by approximately 26.9% from approximately RMB47.5 million for the year ended 31 December 2016 to approximately RMB60.3 million for the year ended 31 December 2017 and our gross profit margin decreased from approximately 17.7% for the year ended 31 December 2016 to approximately 16.3% for the year ended 31 December 2017. The decrease in the gross profit margin for the year ended 31 December 2017 was mainly attributable to the gross profit margin of mPOS decreased from approximately 18.4% for the year ended 31 December 2016 to approximately 17.3% for the year ended 31 December 2017 as we offered a more competitive price to Customer B than that of 2015 and 2016.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 42.6% from approximately RMB6.7 million for the year ended 31 December 2016 to approximately RMB9.5 million for the year ended 31 December 2017, which was primarily due to the increase in employee benefit expenses resulted from increase in the number and basic salary of our sales and marketing staff for the year ended 31 December 2017.

Administrative expenses

Administrative expenses increased by approximately 43.8% from approximately RMB12.8 million for the year ended 31 December 2016 to approximately RMB18.4 million for the year ended 31 December 2017, which was primarily due to [REDACTED] expenses in relation to the [REDACTED] of approximately RMB[REDACTED] million incurred for the year ended 31 December 2017.

Other income

Other income increased from approximately RMB0.7 million for the year ended 31 December 2016 to approximately RMB0.8 million for the year ended 31 December 2017, primarily due to the increase in government grants received by our Group.

Other (losses)/gains, net

Other gains amounted to approximately RMB1.2 million for the year ended 31 December 2017 as compared to other losses amounted to approximately RMB1.0 million for the year ended 31 December 2016. Other (losses)/gains mainly comprised net realised and unrealised gains/(losses) on financial assets at fair value through profit or loss, gain on disposal of properties, plant and equipment and exchange differences. For year ended 31 December 2017, the gain on disposal of properties, plant and equipment was approximately RMB0.7 million as compared to approximately RMB0.1 million for the year ended 31 December 2016 and the gain on exchange differences was approximately RMB0.4 million for the year ended 31 December 2017 as compared to the loss on exchange differences of approximately RMB0.9 million for the year ended 31 December 2016.

Finance costs, net

Net finance costs decreased by approximately 34.2% from approximately RMB1.1 million for the year ended 31 December 2016 to approximately RMB0.7 million for the year ended 31 December 2017. The decrease was mainly due to the decrease in interest expenses on borrowings as a result of the decrease in bank borrowings for the year ended 31 December 2017.

Income tax expense

Income tax expense increase by approximately 13.6% from approximately RMB4.6 million for the year ended 31 December 2016 to approximately RMB5.2 million for the year ended 31 December 2017, primarily due to the increase in profit before income tax by approximately 26.4% (as mainly driven by increase in gross profit resulted from increase in revenue for the year ended 31 December 2017). Our effective tax rate, which is calculated based on income tax expenses divided by profit before income tax, was approximately 17.3% and 15.5% for the years ended 31 December 2016 and 31 December 2017, respectively. As our Group's PRC subsidiary has been granted the status of High and New Technology Enterprise in 2016 and was therefore subject to preferential income tax rate of 15% during the years ended 31 December 2016 and 2017. Our profits tax rate in Hong Kong was 16.5% for the years ended 31 December 2016 and 2017.

Profit for the year and net profit margin

As a result of the above, our net profit increased by approximately 29.1% from approximately RMB22.1 million for the year ended 31 December 2016 to approximately RMB28.5 million for the year ended 31 December 2017. Our net profit margin slightly decreased from approximately 8.2% for the year ended 31 December 2016 to approximately 7.7% for the year ended 31 December 2017, primarily due to the decrease in gross profit margin for the year ended 31 December 2017.

Other comprehensive losses

Other comprehensive losses increased from approximately RMB10,000 for the year ended 31 December 2016 to approximately RMB250,000 for the year ended 31 December 2017, which was mainly due to increase in loss of the currency translation differences.

Total comprehensive income

As a result of the above, our total comprehensive income for the year increased by approximately 28.0% from approximately RMB22.1 million for the year ended 31 December 2016 to approximately RMB28.3 million for the year ended 31 December 2017.

Year ended 31 December 2016 compared with year ended 31 December 2015

Revenue

Our revenue increased by 46.4% from approximately RMB182.9 million for the year ended 31 December 2015 to RMB267.9 million for the year ended 31 December 2016 with the combined effect of the followings:

- PCBAs: Our revenue generated from PCBAs increased by 16.2% from RMB79.0 million for the year ended 31 December 2015 to RMB91.9 million for the year ended 31 December 2016, primarily due to deepening customer relationship with customers engaged in banking and finance industry that has resulted to an increase in orders for our PCBAs.

- Fully-assembled electronic products: Our revenue generated from fully-assembled electronic products increased by 69.4% from RMB103.9 million for the year ended 31 December 2015 to RMB176.0 million for the year ended 31 December 2016, primarily due to the increase in orders of the mPOS received triggered by the trend towards cashless payments in the PRC.

Cost of sales

While our revenue increased by approximately 46.4%, our cost of sales increased by approximately 48.6% from approximately RMB148.3 million for the year ended 31 December 2015 to approximately RMB220.4 million for the year ended 31 December 2016. The increase was mainly due to the increase in cost of raw materials used from approximately RMB73.8 million for the year ended 31 December 2015 to approximately RMB166.0 million for the year ended 31 December 2016. Such increase in cost of raw material used was mainly due to the increase in production resulted from the increase in our sales and the increase in the purchase of raw materials for the year ended 31 December 2016 as we provided raw materials sourcing and procurement service to more customers in addition to our assembling services.

Gross profit and gross profit margin

As a result of the above, our gross profit increased by approximately 37.4% from approximately RMB34.6 million for the year ended 31 December 2015 to approximately RMB47.5 million for the year ended 31 December 2016 and our gross profit margin decreased from approximately 18.9% for the year ended 31 December 2015 to approximately 17.7% for the year ended 31 December 2016. The decrease in the gross profit margins for the year ended 31 December 2016 was mainly attributable to the increased competition of the mobile phone market that had resulted in a decrease in profit margin of the mobile phones from approximately 17.0% for the year ended 31 December 2015 to approximately 11.3% for the year ended 31 December 2016. In view of the decreasing gross profit margin of the mobile phones, we refined their proportion in our product mix in which the mobile phones reduced from approximately 34.2% of our total revenue for the year ended 31 December 2015 to approximately 19.0% of our total revenue for the year ended 31 December 2016.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 82.1% from approximately RMB3.7 million for the year ended 31 December 2015 to approximately RMB6.7 million for the year ended 31 December 2016, which was primarily due to the increase in employee benefit expenses resulted from discretionary bonus of approximately RMB1.7 million to sales staff and increase in sales and marketing staff for the year ended 31 December 2016.

Administrative expenses

Administrative expenses increased by approximately 23.9% from approximately RMB10.3 million for the year ended 31 December 2015 to approximately RMB12.8 million for the year ended 31 December 2016, which was primarily due to increase of employee benefit expenses resulted from increase in discretionary bonus of approximately RMB1.1 million to administrative staff for the year ended 31 December 2016 and increase in number of dispatch staff engaged by our Group to provide the function of procurement and inventory in view of more customers required us to provide raw materials selection and procurement services during the year ended 31 December 2016.

Other income

Other income increased from approximately RMB93,000 for the year ended 31 December 2015 to approximately RMB694,000 for the year ended 31 December 2016, primarily due to the increase in government grants received by our Group.

Other (losses)/gains, net

Other losses increased from approximately RMB0.1 million for the year ended 31 December 2015 to approximately RMB1.0 million for the year ended 31 December 2016, which was mainly attributable to the increase in loss on exchange differences.

Finance costs, net

Net finance costs decreased by approximately 45.6% from approximately RMB2.0 million in for the year ended 31 December 2015 to approximately RMB1.1 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in interest expense on borrowings as a result of the decrease in bank borrowings for the year ended 31 December 2016.

Income tax expense

Income tax expense increase slightly by approximately 0.2% to approximately RMB4.6 million for the year ended 31 December 2016. Our effective tax rate, which is calculated based on income tax expenses divided by profit before income tax, was approximately 24.7% and 17.3% for each of the years ended 31 December 2015 and 31 December 2016, respectively. During the year ended 31 December 2015, our Group's PRC subsidiary was subject to EIT of 25% which resulted in a relatively higher effective tax rate. As our Group's PRC subsidiary has been granted the status of High and New Technology Enterprise during the year ended 31 December 2016 and was therefore subject to preferential income tax rate of 15% during the year ended 31 December 2016, we recorded a decrease in the effective tax rate. Our profits tax rate in Hong Kong was 16.5% for the years ended 31 December 2015 and 2016.

Profit for the year and net profit margin

As a result of the above, our net profit substantially increased by approximately 57.8% from approximately RMB14.0 million for the year ended 31 December 2015 to approximately RMB22.1 million for the year ended 31 December 2016. Our net profit margin also increased from approximately 7.6% for the year ended 31 December 2015 to approximately 8.2% for the year ended 31 December 2016.

Other comprehensive losses

Other comprehensive losses decreased by approximately 92.0% from approximately RMB125,000 for the year ended 31 December 2015 to approximately RMB10,000 for the year ended 31 December 2016, which was mainly due to decrease in losses from currency translation differences.

Total comprehensive income

As a result of the above, our total comprehensive income for the year increased by approximately 59.2% from approximately RMB13.9 million for the year ended 31 December 2015 to approximately RMB22.1 million for the year ended 31 December 2016.

ANALYSIS ON MAJOR COMPONENTS OF THE CONSOLIDATED BALANCE SHEETS

The table below presents the summary of consolidated balance sheets of our Group as at 31 December 2015, 2016 and 2017 extracted from the Accountant's Report in Appendix I to this document.

Consolidated balance sheets

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Properties, plant and equipment	15,863	11,309	13,853
Intangible assets	—	1,720	1,478
Deposits	394	336	401
Deferred tax assets	2,158	1,186	1,085
	18,415	14,551	16,817
Current assets			
Inventories	22,143	21,606	31,449
Trade and bills receivables	52,987	80,730	71,090
Prepayments, deposits and other receivables	2,479	3,737	10,425
Financial assets at fair value through profit or loss	12,669	20,254	—
Amount due from a related party	2,530	4,000	—
Pledged bank deposits	615	1,490	—
Cash and cash equivalents	28,901	21,241	53,134
	122,324	153,058	166,098
Total assets	140,739	167,609	182,915
EQUITY			
Share capital	—	—	—
Reserves	23,200	45,271	86,359
Total equity	23,200	45,271	86,359
LIABILITIES			
Current liabilities			
Trade payables	33,082	53,182	55,632
Current income tax liabilities	6,233	8,905	4,835
Bank borrowings	20,628	12,326	5,000
Receipts in advance, other payables and accruals	28,287	25,543	31,089
Amounts due to related parties	29,309	22,382	—
	117,539	122,338	96,556
Total liabilities	117,539	122,338	96,556
Total equity and liabilities	140,739	167,609	182,915

Properties, plant and equipment

Our Group's properties, plant and equipment comprised buildings, furniture and fixtures, office equipment, plant and machinery and motor vehicles. As at 31 December 2015, 2016 and 2017, our Group's properties, plant and equipment were approximately RMB15.9 million, RMB11.3 million and RMB13.9 million respectively, representing approximately 11.3%, 6.7% and 7.6% of our Group's total assets as at the respective dates.

The carrying amount of our properties, plant and equipment decreased by approximately RMB4.6 million from approximately RMB15.9 million as at 31 December 2015 to approximately RMB11.3 million as at 31 December 2016, which was mainly attributable to depreciation charges of approximately RMB5.0 million and disposals of plant and machinery of approximately RMB0.3 million, partially offset by additions of office equipment and plant and machinery of approximately RMB0.7 million. The carrying amount of our properties, plant and equipment increased by approximately RMB2.5 million to RMB13.9 million as at 31 December 2017 which was primarily due to additions of motor vehicles, office equipment and plant and machinery of approximately RMB5.3 million, partially offset by depreciation charges of approximately RMB2.4 million and disposals of office equipment and plant and machinery of approximately RMB0.4 million for the year ended 31 December 2017.

Inventories

Our Group's inventories comprised raw materials, work in progress and finished goods. Our Group stored our inventories in warehouses located in the PRC. As at 31 December 2015, 2016 and 2017, our Group's inventory levels remained stable as a percentage of our revenue, which accounted for approximately 12.1%, 8.1% and 8.5% of our revenue for each of the three years ended 31 December 2017, respectively. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. We write down our inventories to their net realisable values based on a case-by-case assessment. For each of the three years ended 31 December 2017, we recognised inventory provision of approximately RMB0.2 million, RMB1.0 million and RMB1.1 million, respectively.

	For the year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	13,811	13,111	25,477
Work in progress	2,550	2,672	982
Finished goods	5,782	5,823	4,990
	22,143	21,606	31,449

The following table sets out a summary of our Group's average inventory turnover days for the periods indicated:

	For the year ended 31 December		
	2015	**2016**	**2017**
Inventory turnover days *(Note)*	28.5	36.2	31.3

Note: The calculation of inventory turnover days is based on the average of the opening balance and closing balance of inventories divided by cost of sales for the relevant year and multiplied by 365 days.

As at 31 December 2016, our Group recorded an increase in average inventory turnover days from approximately 28.5 days for the year ended 31 December 2015 to approximately 36.2 days for the year ended 31 December 2016. The lower average inventory turnover days for the year ended 31 December 2015 was primarily due to lower opening inventories balance as at 1 January 2015 as compared to that as at 31 December 2015. During the year ended 31 December 2015, more customers requested us to provide raw materials sourcing and procurement service in addition to our assembly services, which led to a higher inventories balance at the end of the year ended 31 December 2015 as compared to that at the beginning of the year. As at 31 December 2017, our Group recorded a decrease in average inventory turnover days from approximately 36.2 days for the year ended 31 December 2016 to approximately 31.3 days for the year ended 31 December 2017. Such decrease was mainly attributable to our Group's effort in enhancing our supply chain management.

As at the Latest Practicable Date, approximately 59.5% of the inventories balance as at 31 December 2017 has been sold or utilised.

Trade and bills receivables

As at 31 December 2015, 2016 and 2017, our Group's trade and bills receivables were approximately RMB53.0 million, RMB80.7 million and RMB71.1 million respectively, representing approximately 43.3%, 52.7% and 42.8% of our Group's total current assets as at the respective dates.

The following table sets out the details of our Group's trade and bill receivables as at the dates indicated:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	47,292	69,663	61,490
Bills receivables	5,695	11,067	9,600
Less: allowance for impairment of trade and bills receivables	—	—	—
	52,987	80,730	71,090

Our Group's trade and bills receivables represented the receivables from our customers, net of allowance for impairment of trade receivables. Save for new customers who are required to make full payment to us before we deliver the products to them, we generally grant credit periods to our customers primarily from 30 to 120 days, depending on the creditworthiness of individual customers, which is determined on a case-by-case basis with reference to the customers' scale of operation and length of business relationship with us. Our customers usually settle payment by way of bank transfer, telegraph transfer or bank acceptance bills.

Our trade and bills receivables gradually increased from approximately RMB53.0 million as at 31 December 2015 to approximately RMB80.7 million as at 31 December 2016, and decreased to RMB71.1 million as at 31 December 2017.

As at 31 December 2015, 2016 and 2017, the aging analysis of trade and bills receivables, based on due date, was as follows:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Current	48,025	71,367	62,684
1 to 3 months	4,903	7,886	6,564
Over 3 months	59	1,477	1,842
	52,987	80,730	71,090

As at 31 December 2015, 2016 and 2017, trade receivables of approximately RMB5.0 million, RMB9.4 million and RMB8.4 million, respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables was as follows:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Past due but not impaired:			
- 1 to 3 months	4,903	7,886	6,564
- Over 3 months	59	1,477	1,842
	4,962	9,363	8,406

As at 31 December 2015, 2016 and 2017, the trade and bills receivables of approximately RMB48.0 million, RMB71.4 million and RMB62.7 million respectively were not yet past due.

The following table sets out the turnover days of our Group's trade and bills receivables for the periods indicated:

	For the year ended 31 December		
	2015	**2016**	**2017**
Trade and bills receivables turnover days *(Note)*	119.5	91.1	74.9

Note: The calculation of trade and bills receivables turnover days is based on the average of the opening balance and closing balance of trade and note receivables for the relevant year divided by revenue and multiplied by 365.

For each of the three years ended 31 December 2017, trade and bills receivables turnover days were approximately 119.5 days, 91.1 days and 74.9 days, respectively. The trade and bills receivables turnover days indicate the average number of days required for us to collect payments from our customers. The trade and bills receivables turnover days decreased from approximately 119.5 days for the year ended 31 December 2015 to approximately 91.1 days for the year ended 31 December 2016 and further decreased to approximately 74.9 days for the year ended 31 December 2017 which was primarily driven by our strengthened collection efforts of trade receivables from customers and the increase in contribution of revenue from Customer B which was required to make 50% down payment for its purchase orders.

As at the Latest Practicable Date, subsequent settlement of the outstanding balance of trade and bills receivables as at 31 December 2017 amounted to approximately RMB34.8 million, representing approximately 49.0% of the outstanding balance as at 31 December 2017.

Prepayments, deposits and other receivables

Prepayments mainly represented prepayments of purchase of inventories. Deposits mainly represented rental and utility deposits. Other receivables mainly represented tax refund of export sales to overseas customers and advance payment to a potential business partner. The current portion of prepayments, deposits and other receivables amounted to approximately RMB2.5 million, RMB3.7 million and RMB10.4 million as at 31 December 2015, 2016 and 2017, respectively. The following table sets out the balances of the prepayments, deposits and other receivables for the periods indicated:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Prepayments	821	2,321	3,851
Deposits	772	416	4,815
Other receivables	1,280	1,336	674
Prepaid [REDACTED] expenses	—	—	[REDACTED]
	2,873	4,073	10,826
Non-current			
Deposits	(394)	(336)	(401)
	2,479	3,737	10,425

Financial asset at fair value through profit or loss

Financial asset at fair value through profit or loss represented fair value of the listed equity securities and unlisted financial products which were trust schemes and private investment funds managed by licensed financial institutions in the PRC. The fair value of the listed equity securities and unlisted financial products was recorded at approximately RMB12.7 million, RMB20.3 million and nil as at 31 December 2015, 2016 and 2017 respectively.

Our financial asset at fair value through profit or loss increased by approximately RMB7.6 million from approximately RMB12.7 million as of 31 December 2015 to approximately RMB20.3 million as at 31 December 2016, reflecting the investment of idle funds in the short-term trust schemes and private investment funds managed by licensed financial institutions in the PRC.

The following table sets out the fair value of the listed equity securities and unlisted financial products for the periods indicated:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Listed equity securities — held-for-trading — PRC	2,169	754	—
Unlisted financial products — held-for-trading — PRC	10,500	19,500	—
	12,669	20,254	—

Trade payables

As at 31 December 2015, 2016 and 2017, our trade payables were approximately RMB33.1 million, RMB53.2 million and RMB55.6 million, respectively, representing approximately 28.1%, 43.5% and 57.6% of our Group's total current liabilities as at the respective dates.

Our Group's trade payables mainly related to the purchases of raw materials and components and provision of subcontracting services from our suppliers. Our Group is generally required to pay for the raw materials upon their delivery to our warehouse or between 30 to 90 days after the date of the invoices. Sometimes, at the request of the suppliers and subject to the demand and supply conditions of the relevant raw materials, we may need to prepay certain amount of the purchase price in order to secure our purchase of the raw materials. Payment is generally made by bank transfer or bank acceptance bills endorsed to us by our customers and settled in RMB or USD.

The increase in trade payables by approximately RMB20.1 million from approximately RMB33.1 million as at 31 December 2015 to approximately RMB53.2 million as at 31 December 2016 was in line with the increase in our purchase of raw materials as more customers required us to provide raw material selection and procurement services in addition to our assembly services for the year ended 31 December 2016. The trade payable slightly increased from approximately RMB53.2 million as at 31 December 2016 to approximately RMB55.6 million as at 31 December 2017 which was in line to the increasing trend of our cost of materials used.

The following table sets out the ageing analysis of trade payables based on invoice date:

	As at 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	7,502	17,430	24,467
1 to 2 months	8,946	21,295	13,976
2 to 3 months	1,258	6,482	11,183
Over 3 months	15,376	7,975	6,006
	33,082	53,182	55,632

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

	For the year ended 31 December		
	2015	2016	2017
Trade payables turnover days *(Note)*	65.7	71.4	64.1

Note: The calculation of trade payables turnover days is based on the average of the opening balance and closing balance of trade payables for the relevant year divided by cost of sales and multiplied by 365.

For each of the three years ended 31 December 2017, trade payables turnover days were approximately 65.7 days, 71.4 days and 64.1 days respectively. The trade payables turnover days were relatively stable for each of the three years ended 31 December 2017. The trade payables turnover days indicate the average number of days that we settle payments to our suppliers and subcontractors. The increase in turnover days from approximately 65.7 days for the year ended 31 December 2015 to approximately 71.4 days for the year ended 31 December 2016 was mainly due to the fact that more customers requested us to provide raw materials sourcing and procurement service in addition to our assembling services, which led to a higher trade payable level as at 31 December 2016. Our trade payables turnover days fell back to approximately 64.1 days for the year ended 31 December 2017 which was within the range of our credit period of 30 to 90 days after the date of invoices.

As at the Latest Practicable Date, subsequent settlements of the outstanding balance of trade payables as at 31 December 2017 amounted to approximately RMB30.3 million, representing approximately 54.5% of the outstanding balance as at 31 December 2017.

Receipts in advance, other payables and accruals

As at 31 December 2015, 2016 and 2017, our receipt in advance, other payables and accruals were approximately RMB28.3 million, RMB25.5 million and RMB31.1 million respectively.

The following table sets out the balances of our receipts in advance, other payables and accruals for the periods indicated:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	6,952	3,236	2,548
Other tax payables	5,417	8,548	5,743
Accruals	9,960	12,079	10,847
Accrued [REDACTED] expenses	—	—	[REDACTED]
Receipts in advance	5,958	1,680	11,389
	28,287	25,543	31,089

Other payables mainly represented payable for rental expenses of machineries, payables for consumables and an unsecured and interest-free loan from an independent third party. The decrease in other payables by approximately RMB3.8 million from approximately RMB7.0 million as at 31 December 2015 to approximately RMB3.2 million as at 31 December 2016 was mainly due to decrease in payable for rental expenses of machineries and the repayment of RMB1.0 million interest-free loan to an independent third party. As at 31 December 2017, the other payables were further decreased by approximately RMB0.7 million to approximately RMB2.5 million as compared to that as at 31 December 2016, which was mainly due to the settlement of relevant payable costs and expenses before the year ended 31 December 2017.

Other tax payables mainly represented VAT and VAT surcharges payables. The increase in other tax payables by approximately RMB3.1 million from approximately RMB5.4 million as at 31 December 2015 to approximately RMB8.5 million as at 31 December 2016 was mainly due to increase in VAT and VAT surcharges payables which was in line with the growth in our revenue for the year ended 31 December 2016. As at 31 December 2017, the other tax payables were decreased by approximately RMB2.8 million to approximately RMB5.7 million as compared to that as at 31 December 2016, which was mainly due to the settlement of relevant VAT and VAT surcharges payable before the year ended 31 December 2017.

The accruals mainly represented accrued salaries and staff benefits and provision for PRC social insurance contribution. The increase in accruals by approximately RMB2.1 million from approximately RMB10.0 million as at 31 December 2015 to approximately RMB12.1 million as at 31 December 2016 was mainly due to the increase in accrued year-end discretionary bonus to our staff for the year ended 31 December 2016.

Receipts in advance represented trade deposits we received from our customers. The decrease in receipts in advance by approximately RMB4.3 million from approximately RMB6.0 million as at 31 December 2015 to approximately RMB1.7 million as at 31 December 2016 was mainly due to the deposit made by Customer C in 2015. As at 31 December 2017, the receipts in advance was increased by approximately RMB9.7 million to approximately RMB11.4 million as compared to that as at 31 December 2016, which was mainly due to the deposit made by various oversea and local customers.

Bank borrowings

As at 31 December 2015, 2016 and 2017, our Group's borrowings were approximately RMB20.6 million, RMB12.3 million and RMB5.0 million respectively, representing approximately 17.5%, 10.1% and 5.2% of our Group's total current liabilities as at the respective dates.

Our Group's bank loans were carried at floating rate ranged from 4.5% to 8.1% per annum as at 31 December 2015, floating rate ranged from 5.7% to 6.3% per annum as at 31 December 2016 and floating rate ranged from 5.7% to 6.6% per annum as at 31 December 2017.

As at 31 December 2015, 2016 and 2017, our Group's undrawn borrowing facilities amounted to approximately RMB12.7 million, RMB22.0 million and RMB19.0 million, respectively.

As at 31 December 2015, 2016 and 2017, our bank borrowings were secured by (i) properties, plant and equipment; (ii) trade receivable; (iii) inventories; (iv) pledged bank deposits; (v) personal guarantee from Mr. Ma or Mr. Ma and Ms. Cheng Lihong; and/or (vi) corporate guarantee from a related company. As at 31 December 2015, 2016 and 2017, the total bank borrowings pledged by certain assets and their carrying values are shown as below:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Properties, plant and equipment	7,597	5,391	4,731
Trade receivables	2,578	—	—
Inventories	2,050	4,326	—
Pledged bank deposits	615	1,490	—
	12,840	11,207	4,731

Our Directors confirm that the personal guarantees from Mr. Ma and Ms. Cheng Lihong will be released and replaced by corporate guarantee provided by our Company upon [REDACTED].

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our Group's operation and capital requirements were financed principally through a combination of internal resources and bank borrowings.

During the Track Record Period, we were able to repay our obligations under bank borrowings when they became due. We expect that there will not be any material change in the sources and uses of the cash of our Group upon completion of the [REDACTED] and in the future, except that we will have additional funds from the [REDACTED] of the [REDACTED] for implementing our future plans as detailed in "Future Plans and [REDACTED]" in this document.

Cash flows of our Group

The following table sets out a condensed summary of our Group's consolidated statements of cash flows as at 31 December 2015, 2016 and 2017:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from operating activities	37,067	21,513	29,173
Net cash (used in)/generated from investing activities	(14,537)	(9,645)	16,234
Net cash used in financing activities	(10,886)	(19,641)	(12,838)
Net increase/(decrease) in cash and cash equivalents	11,644	(7,773)	32,569
Cash and cash equivalents at beginning of the year	16,536	28,901	21,241
Currency translation differences	721	113	(676)
Cash and cash equivalents at end of the year	28,901	21,241	53,134

Net cash generated from operating activities

Our cash from operations was mainly generated from receipts of payments for the sales of our products. Our cash used in operations mainly comprised payment for purchase of raw materials, employee benefit expenses, taxes and other operating expenses.

For the year ended 31 December 2017, our Group's net cash generated from operating activities was approximately RMB29.2 million, which was mainly attributable to the cash generated from operations of RMB38.2 million, partially offset by income tax paid of approximately RMB9.2 million. Our operating cash flows before working capital changes was approximately RMB37.4 million, which was primarily attributable to profit before tax of approximately RMB33.8 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB2.3 million; (ii) provision for inventories of approximately RMB1.1 million; and (iii) finance expenses of approximately RMB0.8 million. Our change in working capital was attributable to a cash inflow of approximately RMB0.8 million, which was primarily due to decrease in trade and bills receivables of RMB9.4 million, increase in receipts in advance, other payables and accruals of approximately RMB5.7 million and increase in trade payables of approximately RMB2.1 million, partially offset by increase in inventories of approximately RMB10.9 million and increase in prepayments, deposits and other receivables of approximately RMB5.6 million.

For the year ended 31 December 2016, our Group's net cash generated from operating activities was approximately RMB21.5 million, which was mainly attributable to the cash generated from operations of RMB22.4 million, partially offset by income tax paid of approximately RMB1.0 million. Our operating cash flows before working capital changes was approximately RMB33.7 million, which was primarily attributable to profit before tax of approximately RMB26.7 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB4.9 million; and (ii) finance expenses of approximately RMB1.1 million and provision for inventories of approximately RMB1.0 million. Our change in working capital was attributable to a cash outflow of approximately RMB11.2 million, which was primarily due to increase in trade and bills receivables of RMB27.6 million and decrease in receipt in advance, other payables and accruals of approximately RMB2.9 million, partially offset by increase in trade payables of approximately RMB20.7 million.

For the year ended 31 December 2015, our Group's net cash generated from operating activities was approximately RMB37.1 million which was mainly attributable to the cash generated from operations. Our operating cash flows before working capital changes was approximately RMB29.3 million, which was primarily attributable to profit before tax of approximately RMB18.6 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB8.7 million; and (ii) finance expenses of approximately RMB2.0 million. Our change in working capital was attributable to a cash inflow of RMB7.8 million, which was primarily due to decrease in trade and bills receivables of approximately RMB13.8 million, increase in trade payables of approximately RMB13.5 million and increase in receipts in advance, other payables and accruals of approximately RMB3.4 million, partially offset by increase in inventories of approximately RMB21.3 million and incease in prepayments, deposits and other receivables of approximately RMB1.7 million.

Net cash (used in)/generated from investing activities

During the Track Record Period, our Group derived cash outflow used in investing activities mainly attributable to purchases of properties, plant and equipment and intangible assets and purchase of financial assets at fair value through profit or loss.

For the year ended 31 December 2017, our net cash generated from investing activities was approximately RMB16.2 million, which was primarily due to net proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB20.3 million and proceeds from disposal of properties, plant and equipment of approximately RMB1.1 million, partially offset by purchase of properties, plant and equipment of approximately RMB5.1 million.

For the year ended 31 December 2016, our net cash used in investing activities was approximately RMB9.6 million, which was primarily due to net proceeds used in purchase of financial assets at fair value through profit or loss of approximately RMB7.8 million and purchase of intangible assets of approximately RMB1.8 million.

For the year ended 31 December 2015, our net cash used in investing activities was approximately RMB14.5 million, which was mainly attributable to net proceeds used in purchase of financial assets at fair value through profit or loss of approximately RMB12.4 million and purchase of properties, plant and equipment of approximately RMB2.2 million.

Net cash used in financing activities

During the Track Record Period, our cash inflow from financing activities was primarily attributable to proceeds from bank borrowings. Our cash outflow from financing activities was mainly attributable to repayments of bank borrowings and interest paid.

For the year ended 31 December 2017, our net cash used in financing activities was approximately RMB12.8 million. The net cash used in financing activities was primarily due to repayments of bank borrowings of approximately RMB21.6 million, consideration paid for the acquisition of our subsidiaries in respect of Reorganisation of approximately RMB19.9 million, repayment of amounts due to related parties of approximately RMB29.7 million and repayment to a related party of approximately RMB2.1 million, partially offset by proceeds from loans from shareholders of approximately RMB19.7 million, proceeds from bank borrowings of approximately RMB14.3 million, proceeds from issuance of ordinary shares of our Company of approximately RMB12.2 million, proceeds from amounts due to related parties of approximately RMB8.1 million and advance from a related party of approximately RMB6.1 million.

For the year ended 31 December 2016, our net cash used in financing activities was approximately RMB19.6 million. The net cash used in financing activities was primarily due to repayments of bank borrowings of approximately RMB29.4 million, repayment of amounts due to related parties of approximately RMB10.1 million, repayment to a related party of approximately RMB4.3 million and interest paid of approximately RMB1.1 million, partially offset by proceeds from bank borrowings of approximately RMB21.1 million, proceeds from amounts due to related parties of approximately RMB2.2 million and advance from a related party of approximately RMB2.8 million.

For the year ended 31 December 2015, our net cash used in financing activities was approximately RMB10.9 million, which was mainly attributable to repayment of bank borrowings of approximately RMB75.4 million, repayment of amounts due to related parties of approximately RMB10.1 million, repayment to a related party of approximately RMB2.5 million and interest paid of approximately RMB2.0 million, partially offset by proceeds from bank borrowings of approximately RMB78.8 million.

NET CURRENT ASSETS

The following table sets out our Group's current assets and liabilities as at 31 December 2015, 2016 and 2017:

	As at 31 December			As at 31 January
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)
CURRENT ASSETS				
Inventories	22,143	21,606	31,449	39,110
Trade and bills receivables	52,987	80,730	71,090	79,633
Prepayments, deposits and other receivables	2,479	3,737	10,425	7,369
Financial assets at fair value through profit or loss	12,669	20,254	—	—
Amount due from a related party	2,530	4,000	—	—
Pledged bank deposits	615	1,490	—	3,000
Cash and cash equivalents	28,901	21,241	53,134	38,803
Total current assets	122,324	153,058	166,098	167,915
CURRENT LIABILITIES				
Trade payables	33,082	53,182	55,632	60,262
Current income tax liabilities	6,233	8,905	4,835	3,941
Bank borrowings	20,628	12,326	5,000	7,937
Receipts in advance, other payables and accruals	28,287	25,543	31,089	22,675
Amounts due to related parties	29,309	22,382	—	—
Total current liabilities	117,539	122,338	96,556	94,815
NET CURRENT ASSETS	4,785	30,720	69,542	73,100

As at 31 December 2017, our net current assets increased by approximately RMB38.8 million to approximately RMB69.5 million as compared to that as at 31 December 2016, primarily due to (i) increase in current assets of approximately RMB13.0 million, which was primarily driven by increase in cash and cash equivalents of approximately RMB31.9 million and increase in inventories of approximately RMB9.8 million; and offset while partially offset by decrease in financial assets at fair value through profit or loss of approximately RMB20.3 million and decrease in trade and bills receivables of approximately RMB9.6 million; and (ii) decrease in current liabilities of approximately RMB25.8 million, which was primarily driven by decrease in amounts due to related parties of approximately RMB22.4 million and decrease in bank borrowings of approximately RMB7.3 million.

Our net current assets increased by approximately RMB25.9 million from approximately RMB4.8 million as at 31 December 2015 to approximately RMB30.7 million as at 31 December 2016, primarily due to (i) increase in current assets of approximately RMB30.7 million, which was primarily driven by increase in trade and bills receivables of approximately RMB27.7 million and increase in financial assets at fair value through profit or loss of approximately RMB7.6 million, while partially offset by decrease in cash and cash equivalents of approximately RMB7.7 million; and offset by (ii) increase in current liabilities of approximately RMB4.8 million, which was primarily driven by increase in trade payables of approximately RMB20.1 million and increase in current income tax liabilities of approximately RMB2.7 million, while partially offset by decrease in bank borrowings of approximately RMB8.3 million, decrease in amounts due to related parties of approximately RMB6.9 million and decrease in receipts in advance, other payables and accruals of approximately RMB2.7 million.

For discussion on material fluctuations of our key balance sheet items during the Track Record Period, please see "Analysis on Major Components of the Consolidated Balance Sheets" in this section.

COMMITMENTS

Capital commitments

As at 31 December 2015, 2016 and 2017, we had capital commitments of nil, approximately RMB0.7 million and nil, respectively, in relation to the purchase of properties, plant and equipment.

Operating lease commitments

Our Group leases premises for our offices, warehouses, production plant and staff quarters under operating lease agreements during the Track Record Period. The lease terms for these premises were negotiated for terms between three to seven years, and the lease agreements are renewable at the end of the lease period.

The table below sets out our future minimum operating lease commitments under non-cancellable operating leases as at the dates indicated:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	1,563	2,558	7,635
After 1 year and no later than 5 years	10,689	7,186	5,542
	12,252	9,744	13,177

CAPITAL EXPENDITURE

During the Track Record Period, we incurred capital expenditure mainly on the additions of office equipment, plant and machinery, motor vehicles and intangible assets. Our capital expenditure amounted to RMB2.1 million, RMB2.5 million and RMB5.4 million for each of the three years ended 31 December 2017, respectively. These capital expenditures were funded by the cash flows from our operating activities. Between 31 December 2017 and the Latest Practicable Date, we did not make any material capital expenditure.

We expect that our total capital expenditures for the year ending 31 December 2018 to be approximately HK$[16.3] million , which will be used for acquisition of additional machinery and equipment to i) expand our production capacity and enhance our production efficiency; and ii) upgrade our existing warehouse to an intelligent warehouse.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed "Future plans and [REDACTED]" in this document for further information.

We intend to fund our planned capital expenditures through a combination of the [REDACTED] from the [REDACTED], bank borrowings and cash flow from operating activities. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

INDEBTEDNESS

Bank borrowings

The following table sets out our Group's interest-bearing borrowings as at the dates indicated:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings	20,628	12,326	5,000

As at 31 December 2015, 2016 and 2017, our Group had bank borrowings of approximately RMB20.6 million, RMB12.3 million and RMB5.0 million respectively which were denominated in RMB.

As at 31 December 2015, the above borrowings are secured by properties, plant and equipment with carrying amounts of approximately RMB7.6 million; trade receivables with carrying amounts of approximately RMB2.6 million; inventories with carrying amounts of approximately RMB2.1 million; pledged bank deposits with carrying amounts of approximately RMB0.6 million; and personal guarantee from Mr. Ma and Ms. Cheng Lihong.

As at 31 December 2016, the above borrowings are secured by properties, plant and equipment with carrying amounts of approximately RMB5.4 million; inventories with carrying amounts of approximately RMB4.3 million; pledged bank deposits with carrying amounts of approximately RMB1.5 million; personal guarantee from Mr. Ma and Ms. Cheng Lihong; and corporate guarantee from a related company.

As at 31 December 2017, the above borrowings are secured by properties, plant and equipment with carrying amounts of approximately RMB4.7 million and personal guarantee from Mr. Ma.

As at 31 December 2017, the personal guarantee provided by Ms. Chen Lihong remains in place but no bank borrowings were drawn from the corresponding bank facilities.

As at 31 December 2015, 2016 and 2017, our Group had unutilised banking facilities amounted to approximately RMB12.7 million, RMB22.0 million and RMB19.0 million, respectively.

As at 31 January 2018, being the latest practicable date for determining indebtedness, our Group had total bank borrowings of approximately RMB7.9 million, which were secured by our properties, plant and equipment, a pledged bank deposit, personal guarantee from Mr. Ma and corporate guarantee from a subsidiary of our Company.

As confirmed by our Directors, our Group had not defaulted or delayed any payment, and/or breached any of the finance covenants of our banking facilities during the Track Record Period and up to the Latest Practicable Date. For details of our borrowings, please see note 25 to the Accountant's Report in Appendix I to this document.

Amounts due to related parties and amount due from a related party

The following table sets out our Group's amounts due to and from related parties as at the dates indicated:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to related parties			
Payable to a Director	26,696	22,382	—
Payable to a company controlled by a Director	2,613	—	—
	29,309	22,382	—
Amount due from a related party			
Receivable from a company controlled by a Director	2,530	4,000	—

The above balances are unsecured, interest free and repayable within the next 12 months after the end of the reporting period. These balances are not derived from operating activities.

Contingent liabilities

As at 31 December 2015, 2016, 2017 and the Latest Practicable Date, we had no significant contingent liabilities.

Save as disclosed in "Indebtedness" in this section, we did not have, at the close of business on 31 January 2018, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group during the Track Record Period:

	As at 31 December		
	2015	**2016**	**2017**
Current ratio(1)	1.0	1.3	1.7
Quick ratio(2)	0.9	1.1	1.4
Gearing ratio(3)	88.9%	27.2%	5.8%
Net debt to equity ratio(4)	N/A	N/A	N/A
Return on asset ratio(5)	9.9%	13.2%	15.6%
Return on equity ratio(6)	60.3%	48.8%	33.0%
Interest coverage ratio(7)	10.4	25.3	43.1

Notes:

(1) Current ratio is calculated by dividing current assets by current liabilities as at the respective year-end date.

(2) Quick ratio is calculated by dividing current assets minus inventories by current liabilities as at the respective year-end date.

(3) Gearing ratio is calculated by dividing total debts (being the total interest-bearing loans including banks borrowings) by total equity as at the respective year-end date.

(4) Net debt to equity ratio is calculated by dividing net debts (being the total interest-bearing loans including banks borrowings less cash and cash equivalents and pledged bank deposits) by total equity as at the respective year-end date.

(5) Return on asset ratio is calculated by dividing profit for the year by the total assets as at the respective year-end date.

(6) Return on equity ratio is calculated by dividing profit for the year by the total equity as at the respective year-end date.

(7) Interest coverage ratio is calculated by dividing profit before interest and tax by the finance expenses for the corresponding year.

Current and quick ratios

Our Group's current ratios were approximately 1.0, 1.3 and 1.7 as at 31 December 2015, 2016 and 2017, respectively while the quick ratios as at the same periods were approximately 0.9, 1.1 and 1.4, respectively.

Current ratio and quick ratio increased from approximately 1.3 and 1.1 as at 31 December 2016 to approximately 1.7 and 1.4 as at 31 December 2017, respectively, primarily due to (i) increase in our current assets primarily driven by increase in cash and cash equivalents of approximately RMB31.9 million and increase in inventories of approximately RMB9.8 million; and offset while partially offset by decrease in financial assets at fair value through profit or loss of approximately RMB20.3 million and decrease in trade and bills receivables of approximately RMB9.6 million and (ii) decrease in current liabilities which was primarily driven by decrease in amounts due to related parties of approximately RMB22.4 million and decrease in bank borrowings of approximately RMB7.3 million. The increase in current assets as well as the decrease in current liabilities resulted in an increase in both current ratio and quick ratio as at 31 December 2017 as compared to that as at 31 December 2016.

Current ratio and quick ratio increased from approximately 1.0 and 0.9 as at 31 December 2015 to approximately 1.3 and 1.1 as at 31 December 2016, respectively, primarily due to the increase in our current assets, which was primarily driven by increase in trade and bills receivables of approximately RMB27.7 million and increase in financial assets at fair value through profit or loss of approximately RMB7.6 million, while partially offset by decrease in cash and cash equivalents of approximately RMB7.7 million, which outweighed the increase in our current liabilities principally attributable by increase in trade payables of approximately RMB20.1 million and increase in current income tax liabilities of approximately RMB2.7 million, while partially offset by decrease in bank borrowings of approximately RMB8.3 million, decrease in amounts due to related parties of approximately RMB6.9 million and decrease in receipts in advance, other payables and accruals of approximately RMB2.7 million. The higher level of increase in current assets than in current liabilities resulted in an increase in both current ratio and quick ratio as at 31 December 2016 as compared to that as at 31 December 2015.

Gearing ratio and net debt to equity ratio

Our gearing ratio is calculated by dividing total debts (being the total interest-bearing loans including banks borrowings) by total equity as at the respective year-end date. Our Group's gearing ratios were approximately 88.9%, 27.2% and 5.8% as at 31 December 2015, 2016 and 2017, respectively.

The decrease in gearing ratio from approximately 27.2% as at 31 December 2016 to approximately 5.8% as at 31 December 2017 was principally attributable to increase in total equity by approximately RMB41.1 million driven by contribution from the profit for the year ended 31 December 2017 and the share premium arising from the issue of ordinary shares during the Reorganisation, as well as decrease in bank borrowings by approximately RMB7.3 million.

The decrease in gearing ratio from approximately 88.9% as at 31 December 2015 to approximately 27.2% as at 31 December 2016 was principally attributable to increase in total equity by approximately RMB22.1 million driven by contribution from the profit for the year ended 31 December 2016, as well as decrease in bank borrowings by approximately RMB8.3 million.

Our net debt to equity ratio is calculated by dividing net debts (being the total interest-bearing loans including banks borrowings less cash and cash equivalents and restricted bank deposits) by total equity as at the respective year-end date. During the Track Record Period, we had cash and cash equivalents and pledged bank deposits in excess of our bank borrowings.

Return on assets ratio

Our Group's return on assets ratios were approximately 9.9%, 13.2% and 15.6% for the three years ended 31 December 2017, respectively.

The increase in return on assets ratio for the year ended 31 December 2017 as compared to that of the year ended 31 December 2016 was principally attributable to the increase in profit for the year by approximately 29.1% (as mainly driven by increase in gross profit resulted from increase in revenue for the year ended 31 December 2017), as well as the increase in total assets by approximately 9.1% (as mainly driven by the increase in cash and cash equivalents, while partially offset by decrease in financial assets at fair value through profit or loss). The higher level of increase in profit for the year than in total assets resulted in an increase in return on asset ratio as at 31 December 2017 as compared to that as at 31 December 2016.

The increase in return on assets ratio for the year ended 31 December 2016 as compared to that of the year ended 31 December 2015 was principally attributable to the increase in profit for the year by approximately 57.8% (as mainly driven by increase in gross profit resulted from increase in revenue for the year ended 31 December 2016), as well as the increase in total assets by approximately 19.1% (as mainly driven by the increase in trade and bills receivables and increase in financial assets at fair value through profit or loss, while partially offset by decrease in cash and cash equivalents and decease in properties, plant and equipment). The higher level of increase in profit for the year than in total assets resulted in an increase in return on asset ratio as at 31 December 2016 as compared to that as at 31 December 2015.

Return on equity ratio

Our Group's return on equity ratios were approximately 60.3%, 48.8% and 33.0% for each of the three years ended 31 December 2017, respectively.

The decrease in return on equity ratio for the year ended 31 December 2017 as compared to that of the year ended 31 December 2016 was principally attributable to the increase in total equity by approximately 90.8% (as mainly driven by contribution from profit for the year ended 31 December 2017 and the share premium arising from the issue of ordinary shares during the Reorganisation), as well as the increase in profit for the year by approximately 29.1% (as mainly driven by increase in gross profit resulted from increase in revenue for the year ended 31 December 2017). The higher level of increase in total equity than increase in profit for the year resulted in a decrease in return on equity ratio as at 31 December 2017 as compared to that as at 31 December 2016.

The decrease in return on equity ratio for the year ended 31 December 2016 as compared to that of the year ended 31 December 2015 was principally attributable to the increase in total equity by approximately 95.1% (as mainly driven by contribution from profit for the year ended 31 December 2016), as well as the increase in profit for the year by approximately 57.8% (as mainly driven by increase in gross profit resulted from increase in revenue for the year ended 31 December 2016). The higher level of increase in total equity than increase in profit for the year resulted in a decrease in return on equity ratio as at 31 December 2016 as compared to that as at 31 December 2015.

Interest coverage ratio

Our Group's interest coverage ratios were approximately 10.4 times, 25.3 times and 43.1 times for each of the three years ended 31 December 2017, respectively.

The increase in interest coverage ratio from approximately 25.3 times for the year ended 31 December 2016 to approximately 43.1 times for the year ended 31 December 2017 was principally attributable to increase in profit before interest and tax by approximately 24.1% (as mainly driven by increase in gross profit resulted from increase in revenue for the year ended 31 December 2017), and decrease in finance expenses by approximately 27.1%.

The increase in interest coverage ratio from approximately 10.4 times for the year ended 31 December 2015 to approximately 25.3 times for the year ended 31 December 2016 was principally attributable to increase in profit before interest and tax by approximately 35.1% (as mainly driven by increase in gross profit resulted from increase in revenue for the year ended 31 December 2016), and decrease in finance expenses by approximately 44.6%.

DISCLOSURE REQUIREMENT UNDER THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the shares been listed on the Stock Exchange on that date.

FINANCIAL RISK MANAGEMENT

Our Group is exposed to foreign exchange risk, credit risk, interest rate risk and liquidity risk in the normal course of business. For further details of our financial risk management, please refer to note 3 of the Accountant's Report in Appendix I to this document.

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to specialise in providing PCB assembly services and full product assembly services to our customers on an EMS basis to maintain our operation in the banking and finance industry.

Also, we continued to explore opportunities for our EMS in other industries. For example, we received an order from a new customer for providing EMS for vibration chairs in January 2018.

We continue to make capital commitment to achieve a higher level of automation in our manufacturing process and recruit engineers to further modify our existing manufacturing system.

Our Directors confirm that, subsequent to the Track Record Period and up to the date of this document, there had been no material adverse change in the financial or trading position or prospects of our Group.

OFF BALANCE SHEET TRANSACTIONS

Our Group has not entered into any material off balance sheet transactions or arrangements during the Track Record Period.

[REDACTED] EXPENSES

Our estimated expenses in relation to the [REDACTED], including [REDACTED], are approximately RMB[REDACTED] million, of which, approximately RMB[REDACTED] million is directly attributable to the issue of Shares to the public and will be accounted for as a deduction from equity upon completion of the [REDACTED]. The remaining estimated [REDACTED] expenses of approximately RMB[REDACTED] million, was or will be charged to profit or loss, of which approximately RMB[REDACTED] million had been recorded in the consolidated income statement and consolidated statement of comprehensive income during the Track Record Period, and approximately RMB[REDACTED] million is expected to be charged to profit or loss for the year ending 31 December 2018.

DIVIDEND AND DIVIDEND POLICY

We do not have any predetermined dividend payout ratio. The declaration of dividend is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our Articles of Association and the Companies Ordinance, including the approval of our Shareholders. Any future declarations of dividend may or may not reflect our historical declarations of dividend and will be at the absolute discretion of our Directors.

We cannot assure you that we will be able to distribute dividend of the amount below or any amount, or at all, in any year. The declaration and payment of dividend may also be limited by legal restrictions and by loan or other agreements that our Company and our subsidiaries have entered into or may enter into in the future.

During the three years ended 31 December 2017, we have not declared or paid any dividend to our then shareholders, and there is no assurance that dividends of any amount will be declared or be distributed in any year.

SUFFICIENCY OF WORKING CAPITAL

Our Directors are of the opinion that after taking into account, the existing financial resources available to our Group including internally generated funds from operating activities, existing banking facilities and the estimated [REDACTED] from the [REDACTED], our Group has sufficient working capital for its present requirements for the next 12 months from the date of this document.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had certain related party transactions in the normal course of business. These transactions were conducted in accordance with terms as agreed between us and the respective related parties. Our Directors have confirmed that all related party transactions during the Track Record Period were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were reasonable and in the interest of our Group as a whole. Our Directors further confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance. For more information on our related party transactions, please refer to note 28 to the Accountant's Report in Appendix I to this document.

[REDACTED] ADJUSTED NET TANGIBLE ASSETS

The [REDACTED] adjusted combined net tangible assets, which was prepared to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of our Group attributable to owners of our Company as of 31 December 2017 as if the [REDACTED] had taken place on 31 December 2017, was approximately HK$[REDACTED] per Share (based on an [REDACTED] of HK$[REDACTED] per Share) and approximately HK$[REDACTED] per Share (based on an [REDACTED] of HK$[REDACTED] per Share). Please refer to Appendix II to this document for details.

DISTRIBUTABLE RESERVES

As at 31 December 2017, distributable reserves of our Company available for distribution to our shareholders, representing share premium net of accumulated losses, amounted to approximately RMB7.0 million.

MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed "[REDACTED] Expenses" in this section, our Directors confirmed that since 31 December 2017 and up to the date of this document, there was no material adverse change in the trading and financial position or prospect of our Group and no event had occurred that would materially and adversely affect the information shown in the Accountant's Report set out in Appendix I to this document.