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 and the four months ended 30 April 2018 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 and the four months ended 30 April 2018, we recorded revenue of approximately RMB182.9 million, RMB267.9 million, RMB370.2 million and RMB181.2 million, respectively, and profit attributable to owners of our Company of approximately RMB14.0 million, RMB22.1 million, RMB28.5 million and RMB13.9 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 30 April 2018, 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 (the "**[REDACTED] Business**"), were controlled by the same ultimate controlling party immediately before and after the Reorganisation with no change in their business substance or management. 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 by including the financial information of the companies now comprising the Group engaged in the [REDACTED] Business, as if the current group structure had been in existence throughout the years presented.

The net assets of the combining companies were combined using the existing book values before the Reorganisation. 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 each of the two years ended 31 December 2016 and 2017 and the four months ended 30 April 2018, with the revenue generated from the sales to Customer B amounted to approximately 17.0%, 41.1%, 44.9% and 61.3% 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 and the four months ended 30 April 2018, 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, RMB264.3 million and RMB131.3 million respectively, representing approximately 28.9%, 60.1%, 71.4% and 72.5% 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 and the four months ended 30 April 2018, the cost of raw materials used amounted to RMB73.8 million, RMB166.0 million, RMB239.4 million and RMB128.0 million, respectively, representing 49.7%, 75.4%, 77.3% and 83.5% 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 9.0% during the period between 2013 and 2017. 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
Four months ended 30 April 2018	-/+6,402	-/+12,804	-/+19,206

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%, 91.0% and 92.6% 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 Use of [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 transferred at a point in time are recognised when control of the goods has transferred, being when our Group has delivered the products to the customers and the customers have accepted the products. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

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

For the years ended 31 December 2015, 2016 and 2017

Our Group classifies its 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 classification 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.

For the period ended 30 April 2018

Our Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss) and;

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether our Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

Our Group reclassifies debt investments when and only when its business model for managing those assets changes.

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			For the four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Revenue	182,925	267,890	370,162	134,351	181,174
Cost of sales	(148,334)	(220,360)	(309,824)	(112,643)	(153,326)
Gross profit	34,591	47,530	60,338	21,708	27,848
Other income	93	694	828	—	1,626
Other (losses)/gains, net	(132)	(983)	1,223	81	265
Selling and distribution expenses	(3,673)	(6,687)	(9,534)	(2,747)	(3,853)
Administrative expenses	(10,327)	(12,795)	(18,404)	(7,719)	(8,667)
Operating profit	20,552	27,759	34,451	11,323	17,219
Finance income	24	32	99	16	22
Finance costs	(1,982)	(1,098)	(800)	(287)	(224)
Finance costs, net	(1,958)	(1,066)	(701)	(271)	(202)
Profit before income tax	18,594	26,693	33,750	11,052	17,017
Income tax expense	(4,602)	(4,612)	(5,239)	(2,281)	(3,083)
Profit for the year/period	13,992	22,081	28,511	8,771	13,934
Other comprehensive losses:					
Items that may be subsequently reclassified to profit or loss					
Currency translation differences	(125)	(10)	(250)	12	(272)
Total comprehensive income for the year/period	13,867	22,071	28,261	8,783	13,662
Total comprehensive income attributable to:					
Owners of our Company	13,867	22,071	28,261	8,783	13,662

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 and the four months ended 30 April 2018, our revenue amounted to approximately RMB182.9 million, RMB267.9 million, RMB370.2 million and RMB181.2 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 the four months ended 30 April 2018, our Group's revenue recorded an increase of approximately 34.9% as compared to the four months ended 30 April 2017. The increase was mainly contributed by higher demand from Customer B for our mPOS during the four months ended 30 April 2018 in response to the increasing trend towards cashless payments in the PRC and the increasing sales orders for the tablets from an overseas customer, Customer I. 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						For the four months ended 30 April			
	2015		2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
PCBAs *(Note 1)*										
Banking and finance	19,221	10.5	50,657	18.9	62,084	16.7	20,365	15.2	14,198	7.8
Smart device	5,530	3.0	16,289	6.1	42,547	11.5	6,876	5.1	13,669	7.6
Telecommunication	53,612	29.3	24,247	9.1	12,844	3.5	2,285	1.7	6,542	3.6
Others *(Note 2)*	660	0.4	667	0.2	694	0.2	164	0.1	189	0.1
Subtotal	79,023	43.2	91,860	34.3	118,169	31.9	29,690	22.1	34,598	19.1
Fully-assembled electronic products *(Note 3)*										
mPOS	33,615	18.4	110,283	41.2	202,177	54.6	90,239	67.2	117,092	64.6
Tablets	—	—	—	—	12,185	3.3	6,247	4.6	21,054	11.6
Mobile phones	62,548	34.2	50,973	19.0	8,307	2.3	3,377	2.5	2,134	1.2
Digital projectors	5,586	3.0	6,432	2.4	3,478	0.9	825	0.6	1,970	1.1
Photovoltaic inverters	919	0.5	3,311	1.2	487	0.1	143	0.1	179	0.1
Others *(Note 4)*	1,234	0.7	5,031	1.9	25,359	6.9	3,830	2.9	4,147	2.3
Subtotal	103,902	56.8	176,030	65.7	251,993	68.1	104,661	77.9	146,576	80.9
Total	182,925	100.0	267,890	100.0	370,162	100.0	134,351	100.0	181,174	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 sales of PCBAs for banking and finance for the three years ended 31 December 2017 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. However, our Group recorded a decrease in revenue derived from sales of PCBAs for banking and finance from approximately RMB20.4 million for the four months ended 30 April 2017 to approximately RMB14.2 million for the four months ended 30 April 2018. Since Customer D will be launching a new generation of one of its ATM products, it resulted in a decrease in order size for the PCBAs applied in its old generation ATM products during the four months ended 30 April 2018. Subsequent to the Track Record Period, we received purchase order from Customer D to assemble PCBAs for embedding in its new generation ATM products in June 2018.

The increase in our revenue derived from sales of PCBAs for smart device from approximately RMB5.5 million for the year ended 31 December 2015 to approximately RMB42.5 million for the year ended 31 December 2017 was primarily due to (i) our increase focus on targeting markets 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. Our Group recorded an increase in revenue derived from sales of PCBAs for smart device from approximately RMB6.9 million for the four months ended 30 April 2017 to approximately RMB13.7 million for the four months ended 30 April 2018, contributed by the increase in order demand from Customer J to accommodate its organic business growth during the four months ended 30 April 2018.

Decreases in revenue generated from the PCBAs for telecommunication for the three years ended 31 December 2017 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. Our Group recorded an increase in revenue derived from sales of PCBAs for telecommunication from approximately RMB2.3 million for the four months ended 30 April 2017 to approximately RMB6.5 million for the four months ended 30 April 2018, contributed by our effort put into expanding client base. Such increase was attributable to the sales orders received from a customer which engaged in the production of communication terminals, for our PCBAs for telecommunication.

Fully-assembled electronic products

During the three years ended 31 December 2017, our revenue derived from sales of 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. Our Group was capable to retain the revenue growth during the four months ended 30 April 2018. Our Group's revenue derived from sales of mPOS increased from approximately RMB90.2 million for the four months ended 30 April 2017 to approximately RMB117.1 million for the four months ended 30 April 2018, which accounted for approximately 67.2% and 64.6% 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 increasing trend towards cashless payments in the PRC. In addition, the growth of our revenue derived from fully-assembled electronic products for the four months ended 30 April 2018 was also attributable to the increasing sales orders of tablets from an overseas customer, Customer I.

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 periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2015		2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
The PRC	145,676	79.6	219,183	81.8	333,650	90.1	121,827	90.7	155,069	85.6
Mexico	—	—	—	—	16,502	4.5	6,246	4.6	21,054	11.6
United States	6,340	3.5	37,488	14.0	6,828	1.8	4,658	3.4	2,040	1.1
Hong Kong	8,962	4.9	3,898	1.5	38	0.1	38	0.1	—	—
Others *(Note)*	21,947	12.0	7,321	2.7	13,144	3.5	1,582	1.2	3,011	1.7
Total	182,925	100.0	267,890	100.0	370,162	100.0	134,351	100.0	181,174	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%, nil to 2.8% and nil to 1.0% for each of the three years ended 31 December 2017 and the four months ended 30 April 2018, respectively.

For each of the three years ended 31 December 2017 and the four months ended 30 April 2018, the revenue generated from the PRC accounted for approximately RMB145.7 million, RMB219.2 million, RMB333.7 million and RMB155.1 million respectively, which accounted for approximately 79.6%, 81.8%, 90.1% and 85.6% of our total revenue for the corresponding periods, respectively. The fluctuation in revenue derived from overseas market was mainly due to the fluctuation in sales of mobile phones and tablets during the three years ended 31 December 2017 and the four months ended 30 April 2018. For the year ended 31 December 2015, our overseas sales were mainly derived from Customer C, a Spanish company, for the sales of mobile phones. Our Group experienced an increase in sales in U.S. for the year ended 31 December 2016 which was mainly derived from sales to Customer F, a U.S. company, for the mobile phones. For the year ended 31 December 2017 and the four months ended 30 April 2018, our overseas sales were mainly derived from sales of tablets to a Mexican customer. The increase in our sales in the PRC as a percentage of our revenue for the three years ended 31 December 2017 was mainly due to the change in our Group's product mix towards certain products with better margins such as the mPOS products for Customer B in the PRC given the increased competition of the mobile phones market that has resulted in a decrease in profit margin of the mobile phones products.

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 and the four months ended 30 April 2018, our cost of sales were approximately RMB148.3 million, RMB220.4 million, RMB309.8 million and RMB153.3 million respectively, representing approximately 81.1%, 82.3%, 83.7% and 84.6% 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%, 77.3% and 83.5% 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						**For the four months ended 30 April**			
		2015		**2016**		**2017**		**2017**		**2018**	
		RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
								(Unaudited)			
Cost of sales											
Cost of raw materials used	(i)	73,782	49.7	166,036	75.4	239,449	77.3	86,512	76.8	128,042	83.5
Direct labour	(ii)	48,427	32.6	34,781	15.8	22,026	7.1	8,642	7.7	6,291	4.1
Factory overhead	(iii)	25,896	17.5	18,576	8.4	47,277	15.3	17,012	15.1	18,843	12.3
Provision for inventories	(iv)	229	0.2	967	0.4	1,072	0.3	477	0.4	150	0.1
Total		148,334	100.0	220,360	100.0	309,824	100.0	112,643	100.0	153,326	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); (ii) casing (plastic and metal parts), packaging materials, LCD screens and consumables; and (iii) full-assembled mobile phone and tablets. 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, to approximately 77.3% for the year ended 31 December 2017 and further to approximately 83.5% for the four months ended 30 April 2018. 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 (including our employees and dispatched staff engaged by our Group) 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 headcounts (including our employees and dispatched staff engaged by our Group) for the SMT production. For the year ended 31 December 2017, in view of the increasing labour cost and to reduce the number of dispatched staff to rectify the non-compliance incident of the Interim Provisions on Labour Dispatch* (勞務派遣暫行規定), 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 and further decreased to approximately 4.1% for the four months ended 30 April 2018.

(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 subcontracting part of our full electronic product assembly to Independent Third Party subcontractors. 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 and the four months ended 30 April 2018, 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						For the four months ended 30 April			
	2015		**2016**		**2017**		**2017**		**2018**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(Unaudited)*	*%*	*RMB'000*	*%*
Depreciation and amortisation	8,237	31.8	4,370	23.5	2,030	4.3	730	4.3	623	3.3
Consumption of consumables	3,171	12.2	5,471	29.5	3,464	7.3	1,369	8.0	890	4.7
Utilities	3,747	14.5	2,862	15.4	2,927	6.2	736	4.3	788	4.2
Operating lease rental in respect of production plant and warehouses	1,588	6.1	1,702	9.2	1,709	3.6	561	3.3	565	3.0
Operating lease rentals in respect of machineries	4,223	16.3	1,476	7.9	8,658	18.3	309	1.8	3,284	17.4
Subcontracting charges	2,527	9.8	600	3.2	22,950	48.5	10,360	60.9	10,348	54.9
Repair and maintenance of properties, plant and equipment	874	3.4	122	0.7	281	0.6	70	0.4	387	2.1
Product development cost	—	—	447	2.4	2,531	5.4	2,172	12.8	1,553	8.3
Other tax and surcharges	1,227	4.7	1,376	7.4	2,079	4.4	598	3.5	234	1.2
Others	302	1.2	150	0.8	648	1.4	107	0.7	171	0.9
Total	25,896	100.0	18,576	100.0	47,277	100.0	17,012	100.0	18,843	100.0

(iv) Provision for inventories

Provision for inventories represented provision for obsolete inventories. For each of the three years ended 31 December 2017 and the four months ended 30 April 2018, our inventories provision was approximately RMB0.2 million, RMB1.0 million, RMB1.1 million and RMB0.2 million respectively, which was generally stable and accounted for approximately 0.2%, 0.4%, 0.3% and 0.1% 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, RMB60.3 million and RMB27.8 million, respectively, representing gross profit margins of approximately 18.9%, 17.7%, 16.3% and 15.4% 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						For the four months ended 30 April			
	2015		2016		2017		2017		2018	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
PCBAs *(Note 1)*										
Banking and finance	4,504	23.4	9,731	19.2	10,689	17.2	3,507	17.2	2,432	17.1
Smart device	1,123	20.3	3,255	20.0	7,530	17.7	1,192	17.3	2,322	17.0
Telecommunication	9,895	18.5	4,836	19.9	2,218	17.3	394	17.2	1,113	17.0
Others *(Note 2)*	532	80.6	400	60.0	134	19.3	31	18.9	37	19.6
Subtotal	16,054	20.3	18,222	19.8	20,571	17.4	5,124	17.3	5,904	17.1
Fully-assembled electronic products *(Note 3)*										
mPOS	6,139	18.3	20,346	18.4	34,926	17.3	15,139	16.8	18,894	16.1
Tablets	—	—	—	—	1,224	10.0	623	10.0	2,113	10.0
Mobile phones	10,643	17.0	5,738	11.3	822	9.9	319	9.4	196	9.2
Digital projectors	1,246	22.3	1,446	22.5	601	17.3	143	17.3	346	17.6
Photovoltaic inverters	242	26.3	873	26.4	95	19.5	28	19.6	34	19.0
Others *(Note 4)*	267	21.6	905	18.0	2,099	8.3	332	8.7	361	8.7
Subtotal	18,537	17.8	29,308	16.6	39,767	15.8	16,584	15.8	21,944	15.0
Total	34,591	18.9	47,530	17.7	60,338	16.3	21,708	16.2	27,848	15.4

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%, 57.9% and 67.8% of our gross profit for each of the three years ended 31 December 2017 and the four months ended 30 April 2018, 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 and further decreased to approximately 9.2% for the four months ended 30 April 2018. 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 and further reduced to approximately 1.2% of our total revenue for the four months ended 30 April 2018.

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 and further decreased to approximately 16.1% for the four months ended 30 April 2018.

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/(loss) on disposal of properties, plant and equipment and exchange differences.

Selling and distribution expenses

For each of the three years ended 31 December 2017 and the four months ended 30 April 2018, we recorded selling and distribution expenses of approximately RMB3.7 million, RMB6.7 million, RMB9.5 million and RMB3.9 million, respectively, representing approximately 2.0%, 2.5%, 2.6% and 2.1% 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						For the four months ended 30 April			
	2015		**2016**		**2017**		**2017**		**2018**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Selling and distribution expenses										
Employee benefit expenses	1,064	28.9	3,320	49.6	4,815	50.5	1,539	56.0	1,697	44.0
Transportation costs	873	23.8	1,633	24.4	2,114	22.2	543	19.8	1,448	37.6
Commission expenses	852	23.2	801	12.0	1,381	14.5	390	14.2	200	5.2
Other expenses	884	24.1	933	14.0	1,224	12.8	275	10.0	508	13.2
Total	3,673	100.0	6,687	100.0	9,534	100.0	2,747	100.0	3,853	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%, 50.5% and 44.0% of our selling and distribution expenses for each of the three years ended 31 December 2017 and the four months ended 30 April 2018, 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. The employee benefit expenses increased to approximately RMB1.7 million for the four months ended 30 April 2018 from approximately RMB1.5 million for the four months ended 30 April 2017, which was mainly due to the increase in basic salary of our sales and marketing staff during the four months ended 30 April 2018.

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. 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 and the transportation costs increased from approximately RMB0.5 million for the four months ended 30 April 2017 to approximately RMB1.4 million for the four months ended 30 April 2018. The increase in transportation costs is in line with the increase in revenue over the three years ended 31 December 2017 and the four months ended 30 April 2018.

Commission expenses represent sales commission paid to independent third-party sales agent for the customers they referred. During the Track Record Period, 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 and further decreased to approximately 5.2% for the four months ended 30 April 2018.

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 and the four months ended 30 April 2018, we recorded administrative expenses of approximately RMB10.3 million, RMB12.8 million, RMB18.4 million and RMB8.7 million, respectively, representing approximately 5.6%, 4.8%, 5.0% and 4.8% 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						For the four months ended 30 April			
	2015		2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Administrative expenses										
Employee benefit expenses	6,879	66.6	9,367	73.2	8,139	44.2	2,512	32.5	2,465	28.4
[REDACTED] expenses	—	—	—	—	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Professional fee	136	1.3	234	1.9	221	1.2	19	0.3	616	7.1
Operating lease payments	1,121	10.9	910	7.1	991	5.4	328	4.3	431	5.0
Depreciation and amortisation	471	4.6	462	3.6	546	3.0	160	2.1	183	2.1
Office expenses	414	4.0	360	2.8	337	1.8	122	1.6	161	1.9
Utilities	447	4.3	307	2.4	299	1.6	72	0.9	43	0.5
Other expenses	859	8.3	1,155	9.0	2,229	12.1	906	11.7	488	5.6
Total	10,327	100.0	12,795	100.0	18,404	100.0	7,719	100.0	8,667	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, accounting for the largest portion for each of the three years ended 31 December 2017 and the second largest portion for the four months ended 30 April 2018 of our administrative expenses. It represented approximately 66.6%, 73.2%, 44.2% and 28.4% of our administrative expenses for each of the three years ended 31 December 2017 and the four months ended 30 April 2018, 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%, 5.4% and 5.0% of our administrative expenses for each of the three years ended 31 December 2017 and the four months ended 30 April 2018, 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, the PRC only incurred for the 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 and the four months ended 30 April 2018, we incurred net finance costs of approximately RMB2.0 million, RMB1.1 million, RMB0.7 million and RMB0.2 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			For the four months ended 30 April	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Finance income					
Interest income on cash and cash equivalents	24	32	99	16	22
Finance costs					
Interest expense on borrowings	(1,830)	(950)	(615)	(211)	(166)
Bank charges	(152)	(148)	(185)	(76)	(58)
	(1,982)	(1,098)	(800)	(287)	(224)
Finance costs, net	(1,958)	(1,066)	(701)	(271)	(202)

Taxation

The below table sets forth a breakdown of our taxation during the Track Record Period:

	Year ended 31 December			For the four months ended 30 April	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income tax					
- PRC corporate income tax	4,029	3,378	4,724	2,043	1,905
- Hong Kong profits tax	215	262	414	142	981
Total current income tax	4,244	3,640	5,138	2,185	2,886
Deferred income tax	358	972	101	96	197
Income tax expense	4,602	4,612	5,239	2,281	3,083

For each of the three years ended 31 December 2017 and the four months ended 30 April 2018, 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 two years ended 31 December 2017 and the four months ended 30 April 2018.

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 and the four months ended 30 April 2018 were approximately 24.7%, 17.3%, 15.5% and 18.1%, respectively.

During the Track Record Period, we provide EMS for mobile phones and other telecommunication devices through Shenzhen Hengchang Sheng to a few overseas customers under their brands or the relevant brand owners. Upon receipt of purchase orders from our overseas customers, Eternity Technology would place corresponding purchase orders to Shenzhen Hengchang Sheng. The inter-group transactions involving the sales of our finished products by Shenzhen Hengchang Sheng to Eternity Technology were on normal commercial terms with selling prices being determined based on the prevailing market prices of such finished products.

The pricing of the sales of finished products between Shenzhen Hengchang Sheng and Eternity Technology was based on the cost-plus basis. We assessed and referenced similar transactions in the market and are of the view that the transactions are carried out under arm's length basis.

In order to assess whether the sales between Shenzhen Hengchang Sheng and Eternity Technology were carried on an arm's length basis, we have engaged the Tax Consultant, the tax department of one of the largest international auditing, tax and advisory firms, to conduct an analysis of the above transactions by benchmarking the profit margin ranges derived from companies comparable to Eternity Technology during the Track Record Period. Given the functional profile of the parties involved in the transactions, transaction net margin method is selected as an appropriate transfer pricing analysis methodology to test the arm's length nature of the above transactions. The analysis suggested that the transactions between Shenzhen Hengchang Sheng and Eternity Technology are conducted in accordance with the arm's length principle from Hong Kong and PRC perspectives.

Based on the discussion with the Tax Consultant and the above comprehensive assessment basis by reference to similar market transactions and applying the profit margin ranges derived from comparable companies during the Track Record Period by the Tax Consultant, the Directors take the view that the transfer pricing arrangement under the above transactions between Shenzhen Hengchang Sheng and Eternity Technology complies with the applicable transfer pricing rules and regulations in the PRC and Hong Kong, which require related party transactions to be carried out at arm's length basis.

The below table sets forth the reconciliation among current income tax liabilities, tax expenses and tax payments during the Track Record Period.

	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	1,974	6,233	8,905	4,835
Add: Current income tax provision/expense	4,244	3,640	5,138	2,886
Less: Current income tax paid	—	(984)	(9,175)	(2,709)
Currency translation difference	15	16	(33)	(16)
As at 31 December/30 April	6,233	8,905	4,835	4,996

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 and the four months ended 30 April 2018, our income tax expenses were approximately RMB4.6 million, RMB4.6 million, RMB5.2 million and RMB3.1 million, respectively. However, we recorded cash outflow of tax payment of nil, RMB1.0 million, RMB9.2 million and RMB2.7 million for each of the three years ended 31 December 2017 and the four months ended 30 April 2018, respectively. The difference between income tax expense and tax payment was mainly due to (i) the timing difference of recognising revenue, cost of sales and other expenses between the statutory accounts filed with the PRC tax authorities and the historical financial information of the Group as disclosed in Appendix I to this document; (ii) the timing differences between making tax provision and making actual tax payment where tax payments was made in the following year; and (iii) the utilisation of tax losses brought forward from the year ended 31 December 2012 to fully off-set the assessable profits as recorded in the PRC statutory account for the year ended 31 December 2014 and off-set majority of assessable profits as recorded in the PRC statutory account for the year ended 31 December 2015. Despite of the above, the current income tax liabilities brought forward as at 1 January 2015 and together with the tax liabilities arisen from assessable profit for the years ended 31 December 2015 and 2016 were substantially settled during the year ended 31 December 2016 and 2017.

Our Directors confirm that we had made all required tax filings in PRC and Hong Kong and paid all tax liabilities that became due, and we were not subject to any dispute or issue with tax authorities, which would have a material impact on our business, financial condition or results of operation, during the Track Record Period and up to the Latest Practicable Date.

Accumulated loss before the Track Record Period

As at 1 January 2015, our Group recorded an accumulated loss brought forward mainly due to the net loss incurred for the year ended 31 December 2012, mainly resulting from the gross loss incurred during the relevant year being further deteriorated by the operating expenses associated with our Group's business expansion. During the year ended 31 December 2012, our Group underpinned business expansion with relocation of our production facilities to larger premises located in Pingshan

District, Shenzhen, Guangdong Province, the PRC and had confronted considerable business disruption during the relevant year accordingly. Nevertheless, the operation and financial performance of our Group had been improving after the production process being restored to normal operating mode at the Shenzhen Production Plant, and our Group subsequently achieved a profit turnaround in 2013. Given this and with our continuous effort to, among others, (i) broaden our product portfolio to include mPOS and PCBA for smart devices, (ii) diversify our customer base to penetrate into other industries such as banking and finance and smart device and (iii) provide more value-added services (such as raw materials selection and procurement services) to our customers, our Group has sustained continued revenue growth and a net profit position since 2013 and up to the year ended 31 December 2017, enabling our Group to achieve a retained earning position as at 31 December 2017.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Four months ended 30 April 2018 compared with four months ended 30 April 2017

Revenue

Our revenue increased by approximately 34.9% from approximately RMB134.4 million for the four months ended 30 April 2017 to approximately RMB181.2 million for the four months ended 30 April 2018 with the combined effect of the followings:

- PCBAs: Our revenue generated from sales of PCBAs increased by approximately 16.5% from approximately RMB29.7 million for the four months ended 30 April 2017 to approximately RMB34.6 million for the four months ended 30 April 2018, primarily due to the increase in order demand from Customer J for the PCBAs for smart device as a result of Customer J's organic growth and the increase in sales orders received from a customer which engaged in the production of communication terminals, for our PCBAs for telecommunication. Such increase was offset by the decrease in revenue derived from Customer D since Customer D will be launching a new generation of one of its ATM products which resulted in the decrease in order size for its old generation ATM products during the four months ended 30 April 2018.

- Fully-assembled electronic products: Our revenue generated from the sales of fully-assembled electronic products increased by approximately 40.0% from approximately RMB104.7 million for the four months ended 30 April 2017 to approximately RMB146.6 million for the four months ended 30 April 2018, primarily due to the continued increase in orders of the mPOS triggered by the increasing trend towards cashless payments in the PRC and the increasing sales orders of tablets from an overseas customer, Customer I.

Cost of sales

While our revenue increased by approximately 34.9%, our cost of sales increased by approximately 36.1% from approximately RMB112.6 million for the four months ended 30 April 2017 to approximately RMB153.3 million for the four months ended 30 April 2018. The increase was mainly due to the increase in cost of raw materials used from approximately RMB86.5 million for the four months ended 30 April 2017 to approximately RMB128.0 million for the four months ended 30 April 2018. Such increase in cost of raw material used was mainly due to the increase in our purchase of raw materials for the four months ended 30 April 2018 which was in line with our increase in sales.

Gross profit and gross profit margin

As a result of the above, our gross profit increased by approximately 28.3% from approximately RMB21.7 million for the four months ended 30 April 2017 to approximately RMB27.8 million for the four months ended 30 April 2018 and our gross profit margin decreased from approximately 16.2% for the four months ended 30 April 2017 to approximately 15.4% for the four months ended 30 April 2018. The decrease in the gross profit margin for the four months ended 30 April 2018 was mainly attributable to the gross profit margin of mPOS decreased from approximately 16.8% for the four months ended 30 April 2017 to approximately 16.1% for the four months ended 30 April 2018 as we offered a more competitive price to Customer B than that of 2017.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 40.3% from approximately RMB2.7 million for the four months ended 30 April 2017 to approximately RMB3.9 million for the four months ended 30 April 2018, which was primarily due to the increase in employee benefit expenses resulted from increase in the basic salary of our sales and marketing staff for the four months ended 30 April 2018.

Administrative expenses

Administrative expenses increased by approximately 12.3% from approximately RMB7.7 million for the four months ended 30 April 2017 to approximately RMB8.7 million for the four months ended 30 April 2018, which was primarily due to [REDACTED] expenses in relation to the [REDACTED] of approximately RMB[REDACTED] million incurred for the four months ended 30 April 2018 as compared to approximately RMB[REDACTED] million for the four months ended 30 April 2017.

Other income

Other income increased from nil for the four months ended 30 April 2017 to approximately RMB1.6 million for the four months ended 30 April 2018, primarily due to the government grants received by our Group.

Other gains, net

Other gains amounted to approximately RMB0.3 million for the four months ended 30 April 2018 as compared to approximately RMB0.1 million for the four months ended 30 April 2017. Other gains mainly comprised net realised and unrealised gains/(losses) on financial assets at fair value through profit or loss, gain/(loss) on disposal of properties, plant and equipment and exchange differences.

Finance costs, net

Net finance costs decreased by approximately 25.5% from approximately RMB0.3 million for the four months ended 30 April 2017 to approximately RMB0.2 million for the four months ended 30 April 2018. The decrease was mainly due to the decrease in interest expenses on borrowings as a result of the decrease in bank borrowings as at 30 April 2018 as compared to that as at 30 April 2017.

Income tax expense

Income tax expense increased by approximately 35.2% from approximately RMB2.3 million for the four months ended 30 April 2017 to approximately RMB3.1 million for the four months ended 30 April 2018, primarily due to the increase in profit before income tax by approximately 54.0% (as mainly driven by the increase in gross profit resulted from increase in revenue for the four months ended 30 April 2018). Our effective tax rate, which is calculated based on income tax expenses divided by profit before income tax, was approximately 20.6% and 18.1% for the four months ended 30 April 2017 and 2018, respectively.

Profit for the year and net profit margin

As a result of the above, our net profit increased by approximately 58.9% from approximately RMB8.8 million for the four months ended 30 April 2017 to approximately RMB13.9 million for the four months ended 30 April 2018. Our net profit margin increased from approximately 6.5% for the four months ended 30 April 2017 to approximately 7.7% for the four months ended 30 April 2018, primarily due to the our effective cost control on the administrative expenses in which the administrative expenses only accounted for approximately 4.8% of our revenue for the four months ended 30 April 2018 as compared to approximately 5.7% of our revenue for the four months ended 30 April 2017.

Other comprehensive (losses)/income

Other comprehensive losses amounted to approximately RMB272,000 for the four months ended 30 April 2018 as compared to other comprehensive income amounted to approximately RMB12,000 for the four months ended 30 April 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 period increased by approximately 55.6% from approximately RMB8.8 million for the four months ended 30 April 2017 to approximately RMB13.7 million for the four months ended 30 April 2018.

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

Revenue

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

- PCBAs: Our revenue generated from the sales of 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 the sales of 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 our purchase of raw materials for the year ended 31 December 2017 which was in line with our 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 increased 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 the 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 Shenzhen Hengchang Sheng has been granted the status of High and New Technology Enterprise in 2016 and was therefore subject to a preferential income tax rate of 15% during the two years ended 31 December 2017. Our profits tax rate in Hong Kong was 16.5% for the two years ended 31 December 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 approximately 46.4% from approximately RMB182.9 million for the year ended 31 December 2015 to approximately RMB267.9 million for the year ended 31 December 2016 with the combined effect of the followings:

- PCBAs: Our revenue generated from sales of PCBAs increased by approximately 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 the banking and finance industry that has resulted to an increase in orders for our PCBAs.

- Fully-assembled electronic products: Our revenue generated from sales of fully-assembled electronic products increased by 69.4% from approximately RMB103.9 million for the year ended 31 December 2015 to approximately 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 services 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 the increase of employee benefit expenses resulted from the increase in discretionary bonus of approximately RMB1.1 million to administrative staff for the year ended 31 December 2016 and the 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.

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 two years ended 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 Shenzhen Hengchang Sheng 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, 2017 and 30 April 2018 extracted from the Accountant's Report in Appendix I to this document.

Consolidated balance sheets

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Properties, plant and equipment	15,863	11,309	13,853	14,456
Intangible assets	—	1,720	1,478	1,375
Prepayments and deposits	394	336	401	2,433
Deferred tax assets	2,158	1,186	1,085	888
	18,415	14,551	16,817	19,152
Current assets				
Inventories	22,143	21,606	31,449	70,312
Trade and bills receivables	52,987	80,730	71,090	150,170
Prepayments, deposits and other receivables	2,479	3,737	10,425	16,318
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	—	4,045
Cash and cash equivalents	28,901	21,241	53,134	51,183
	122,324	153,058	166,098	292,028
Total assets	140,739	167,609	182,915	311,180
EQUITY				
Share capital	—	—	—	—
Reserves	23,200	45,271	86,359	100,021
Total equity	23,200	45,271	86,359	100,021
LIABILITIES				
Current liabilities				
Trade payables	33,082	53,182	55,632	150,101
Current income tax liabilities	6,233	8,905	4,835	4,996
Bank borrowings	20,628	12,326	5,000	13,466
Receipts in advance, other payables and accruals	28,287	25,543	31,089	42,596
Amounts due to related parties	29,309	22,382	—	—
	117,539	122,338	96,556	211,159
Total liabilities	117,539	122,338	96,556	211,159
Total equity and liabilities	140,739	167,609	182,915	311,180

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 and 30 April 2018, our Group's properties, plant and equipment were approximately RMB15.9 million, RMB11.3 million, RMB13.9 million and RMB14.5 million respectively, representing approximately 11.3%, 6.7%, 7.6% and 4.6% 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. The carrying amount of our properties, plant and equipment increased by approximately RMB0.6 million from approximately RMB13.9 million as at 31 December 2017 to approximately RMB14.5 million as at 30 April 2018 which was primarily due to additions of office equipment, plant and machinery and motor vehicles of approximately RMB1.4 million, partially offset by depreciation charges and disposals of plant and machinery of approximately RMB0.8 million.

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 and 30 April 2018, our Group's inventory levels remained stable as a percentage of our revenue, which accounted for approximately 18.1%, 14.1%, 18.9% and 24.1% of our total current assets for the respective dates. 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 and four months ended 30 April 2018, we recognised inventory provision of approximately RMB0.2 million, RMB1.0 million, RMB1.1 million and RMB0.2 million, respectively.

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	13,811	13,111	25,477	36,935
Work in progress	2,550	2,672	982	4,249
Finished goods	5,782	5,823	4,990	29,128
	22,143	21,606	31,449	70,312

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			For the four months ended 30 April
	2015	**2016**	**2017**	**2018**
Inventory turnover days *(Note)*	28.5	36.2	31.3	39.8

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/period and multiplied by the number of days in the relevant year/period.

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 30 April 2018, our Group recorded an increase in inventory turnover days from approximately 31.3 days for the year ended 31 December 2017 to approximately 39.8 days for the four months ended 30 April 2018 due to preparation of raw materials and finished goods to meet the needs of increased sales volume during and subsequent to the Track Record Period.

As at the Latest Practicable Date, inventories with the carrying amounts of approximately RMB54.1 million, representing approximately 77.0% of the inventories balance as at 30 April 2018, has been sold or utilised.

Trade and bills receivables

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our Group's trade and bills receivables were approximately RMB53.0 million, RMB80.7 million, RMB71.1 million and RMB150.2 million respectively, representing approximately 43.3%, 52.7%, 42.8% and 51.4% 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			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	47,292	69,663	61,490	146,115
Bills receivables	5,695	11,067	9,600	4,055
Less: allowance for impairment of trade and bills receivables	—	—	—	—
	52,987	80,730	71,090	150,170

Our Group's trade and bills receivables represented the receivables from our customers, and 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. Our trade and bills receivables further increase to approximately RMB150.2 million as at 30 April 2018 as compared to approximately RMB71.1 million as at 31 December 2017, which was mainly due to the strong demand from Customer B around the first quarter of the year in anticipation of strong market demands.

As at 31 December 2015, 2016 and 2017 and 30 April 2018, the aging analysis of trade and bills receivables, based on due date, was as follows:

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	48,025	71,367	62,684	133,673
1 to 3 months	4,903	7,886	6,564	12,629
Over 3 months	59	1,477	1,842	3,868
	52,987	80,730	71,090	150,170

As at 31 December 2015, 2016 and 2017 and 30 April 2018, trade receivables of approximately RMB5.0 million, RMB9.4 million, RMB8.4 million and RMB16.5 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			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Past due but not impaired:				
- 1 to 3 months	4,903	7,886	6,564	12,629
- Over 3 months	59	1,477	1,842	3,868
	4,962	9,363	8,406	16,497

As at 31 December 2015, 2016 and 2017 and 30 April 2018, the trade and bills receivables of approximately RMB48.0 million, RMB71.4 million, RMB62.7 million and RMB133.7 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			For the four months ended 30 April
	2015	**2016**	**2017**	**2018**
Trade and bills receivables turnover days *(Note)*	119.5	91.1	74.9	73.3

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/period divided by revenue and multiplied by the number of days in the relevant year/period.

For each of the three years ended 31 December 2017 and four months ended 30 April 2018, trade and bills receivables turnover days were approximately 119.5 days, 91.1 days, 74.9 days and 73.3 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. The trade and bills receivables turnover days for the four months ended 30 April 2018 remained stable to that for the year ended 31 December 2017.

As at the Latest Practicable Date, subsequent settlement of the outstanding balance of trade and bills receivables as at 30 April 2018 amounted to approximately RMB139.2 million, representing approximately 92.7% of the outstanding balance as at 30 April 2018.

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, RMB10.4 million and RMB16.3 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. The following table sets out the balances of the prepayments, deposits and other receivables for the periods indicated:

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total				
Prepayments	821	2,321	3,851	10,773
Deposits	772	416	4,815	4,947
Other receivables	1,280	1,336	674	504
Prepaid [REDACTED] expenses	—	—	[REDACTED]	[REDACTED]
	2,873	4,073	10,826	18,751
Less: non-current portion				
Deposits	(394)	(336)	(401)	(536)
Prepayments for the acquisition of property, plant and equipment	—	—	—	(1,897)
Current portion	2,479	3,737	10,425	16,318

Financial assets 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, nil and nil as at 31 December 2015, 2016 and 2017 and 30 April 2018 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. Accordingly, we generally adopt treasury and investment measures that govern our investments in such financial assets. These measures include, among other things, the following:

(i) investments in financial asset at fair value through profit or loss shall be made when we have surplus cash that is not required for our short-term working capital purposes;

(ii) investments shall generally be short-term (which refers to a period of not more than one year) in order to maintain our liquidity and financial flexibility; and

(iii) our finance director together with chairman of our Board, shall consider the criteria of the investments, which include, but are not limited to, liquidity, risk and expected return.

During the Track Record Period, we primarily considered investing in low-risk short-term trust schemes and private investment funds managed by licensed financial institutions in the PRC that provide reasonable returns while allowing us to maintain adequate level of liquidity.

The following table sets out the fair value of the listed equity securities and unlisted financial products as at the dates indicated:

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*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 and 30 April 2018, our trade payables were approximately RMB33.1 million, RMB53.2 million, RMB55.6 million and RMB150.1 million, respectively, representing approximately 28.1%, 43.5%, 57.6% and 71.1% 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 by our suppliers and subcontractors. 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 US$.

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 increase in trade payables by approximately RMB94.5 million from approximately RMB55.6 million as at 31 December 2017 to approximately RMB150.1 million as at 30 April 2018 was mainly due to the increase in purchase during the four months ended 30 April 2018 to meet the needs of increased sales volume.

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

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	7,502	17,430	24,467	111,362
1 to 2 months	8,946	21,295	13,976	27,024
2 to 3 months	1,258	6,482	11,183	5,045
Over 3 months	15,376	7,975	6,006	6,670
	33,082	53,182	55,632	150,101

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

	For the year ended 31 December			For the four months ended 30 April
	2015	2016	2017	2018
Trade payables turnover days *(Note)*	65.7	71.4	64.1	80.5

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/period divided by cost of sales and multiplied by the number of days in the relevant year/period.

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. The increase in trade payables turnover days to approximately 80.5 days for the four months ended 30 April 2018 was mainly due to the increase in purchase in April 2018 to meet the needs of increased sales volume subsequent to the Track Record Period.

As at the Latest Practicable Date, subsequent settlements of the outstanding balance of trade payables as at 30 April 2018 amounted to approximately RMB102.7 million, representing 68.4% of the outstanding balance as at 30 April 2018.

Receipts in advance, other payables and accruals

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our receipt in advance, other payables and accruals were approximately RMB28.3 million, RMB25.5 million, RMB31.1 million and RMB42.6 million respectively.

The following table sets out the balances of our receipts in advance, other payables and accruals as at the dates indicated:

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	6,952	3,236	2,548	4,492
Other tax payables	5,417	8,548	5,743	8,879
Accruals	9,960	12,079	10,847	9,267
Accrued [REDACTED] expenses	—	—	[REDACTED]	[REDACTED]
Receipts in advance	5,958	1,680	11,389	19,553
	28,287	25,543	31,089	42,596

Other payables mainly represented payable for rental expenses of machineries, payables for consumables and a loan from an independent third party (the "**Lender**"). The Lender is a PRC resident who is a businessman and a friend of Mr. Ma. Since there was a funding need of our Group in 2010, Mr. Ma asked the Lender to borrow RMB1.0 million (the "**Loan**") to our Group as our working capital. Having considered the loan amount was not material and the trustworthiness of Mr. Ma, the Lender did not enter into any loan agreement with our Group. As such, the Loan was on an interest-free, non-trade, unsecured and without fixed repayment term. Our Group repaid the Loan to the Lender in 2016. Our PRC legal advisers confirmed that given the nature of this loan, it did not exist the circumstances of invalidity prescribed in applicable PRC laws, regulations and relevant judicial interpretations, and did not violate any mandatory provisions of PRC laws and regulations.

To the best of our Directors' knowledge, information and belief after having made all reasonable enquiry, the Lender is a third party independent of our Company and its connected persons. Save as the Loan provided by the Lender, our Directors confirmed that there are no any other past or present relationships or transactions (including but not limited to fund flows) between our Group and the Lender as at the Latest Practicable Date.

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. Our other payables increase to approximately RMB4.5 million as at 30 April 2018 as compared to approximately RMB2.5 million as at 31 December 2017. The increase was mainly due to accrued operating lease rentals in respect of machineries and accrued transportation charges payable to an Independent Third Party logistics service provider.

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 increase in other tax payables by approximately RMB3.1 million from approximately RMB5.7 million as at 31 December 2017 to approximately RMB8.9 million as at 30 April 2018 was mainly due to increase in VAT and VAT surcharges payables which was in line with the growth in our revenue during the period.

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 overseas and local customers. As at 30 April 2018, the receipts in advance was increased by approximately RMB8.2 million to approximately RMB19.6 million as compared to that as at 31 December 2017, which was mainly due to the deposit made by various overseas and local customers.

Bank borrowings

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our Group's borrowings were approximately RMB20.6 million, RMB12.3 million, RMB5.0 million and RMB13.5 million respectively, representing approximately 17.5%, 10.1%, 5.2% and 6.4% 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 30 April 2018, our Group's borrowings loans were carried at floating rate ranged from 5.7% to 6.6% per annum.

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our Group's undrawn borrowing facilities amounted to approximately RMB12.7 million, RMB22.0 million, RMB19.0 million and RMB19.0 million, respectively.

As at 31 December 2015, 2016 and 2017 and 30 April 2018, 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 and 30 April 2018, the total bank borrowings pledged by certain assets and their carrying values are shown as below:

	As at 31 December			**As at 30 April**
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties, plant and equipment	7,597	5,391	4,731	4,631
Trade receivables	2,578	—	—	—
Inventories	2,050	4,326	—	8,466
Pledged bank deposits	615	1,490	—	4,045
	12,840	11,207	4,731	17,142

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 Use of [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 during the Track Record Period:

	For the year ended 31 December			For the four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net cash generated from/(used in) operating activities	37,067	21,513	29,173	22,169	(993)
Net cash (used in)/generated from investing activities	(14,537)	(9,645)	16,234	6,432	(3,579)
Net cash (used in)/generated from financing activities	(10,886)	(19,641)	(12,838)	(1,619)	3,001
Net increase/(decrease) in cash and cash equivalents	11,644	(7,773)	32,569	26,982	(1,571)
Cash and cash equivalents at beginning of the year/period	16,536	28,901	21,241	21,241	53,134
Currency translation differences	721	113	(676)	(81)	(380)
Cash and cash equivalents at end of the year/period	28,901	21,241	53,134	48,142	51,183

Net cash generated from/(used in) 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 our purchase of raw materials, employee benefit expenses, taxes and other operating expenses.

For the four months ended 30 April 2018, our Group's net cash used in operating activities was approximately RMB1.0 million, which was mainly attributable to the cash generated from operations of approximately RMB1.7 million, partially offset by income tax paid of approximately RMB2.7 million. Our operating cash flows before working capital changes was approximately RMB18.3 million which was primarily attributable to profit before tax of approximately RMB17.0 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB0.7 million; (ii) provision for inventories of approximately RMB0.2 million; and (iii) finance expenses of approximately RMB0.2 million. Our change in working capital was attributable to a cash outflow of approximately RMB16.6 million, which was primarily due to the increase in trade and bills receivables of approximately RMB79.1 million, the increase in inventories of approximately RMB39.0 million and the increase in prepayments, deposits and other receivables of approximately RMB5.1 million, partially offset by the increase in trade payables of approximately RMB94.5 million and the increase in receipts in advance, other payables and accruals of approximately RMB12.2 million.

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 approximately 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 the decrease in trade and bills receivables of RMB9.4 million, the 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 the increase in inventories of approximately RMB10.9 million and the 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 approximately 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 the 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 approximately RMB7.8 million, which was primarily due to decrease in trade and bills receivables of approximately RMB13.8 million, the increase in trade payables of approximately RMB13.5 million and the increase in receipts in advance, other payables and accruals of approximately RMB3.4 million, partially offset by the increase in inventories of approximately RMB21.3 million and the increase 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 four months ended 30 April 2018, our net cash used in investing activities was approximately RMB3.6 million, which was primarily due to purchase of properties, plant and equipment of approximately RMB3.6 million.

For the year ended 31 December 2017, our net cash generated from investing activities was approximately RMB16.2 million, which was primarily due to the net proceeds from the disposal of financial assets at fair value through profit or loss of approximately RMB20.3 million and the proceeds from the disposal of properties, plant and equipment of approximately RMB1.1 million, partially offset by the 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)/generated from 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 four months ended 30 April 2018, our net cash generated from financing activities was approximately RMB3.0 million. The net cash generated from financing activities was primarily due to proceeds from bank borrowings of approximately RMB8.5 million, partially offset by change in pledged bank deposits of approximately RMB4.0 million and payment of [REDACTED] expenses of approximately RMB[REDACTED] million.

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 of the date indicated.

	As at 31 December			As at 30 April	As at 30 June
	2015	2016	2017	2018	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
CURRENT ASSETS					
Inventories	22,143	21,606	31,449	70,312	57,889
Trade and bills receivables	52,987	80,730	71,090	150,170	169,882
Prepayments, deposits and other receivables	2,479	3,737	10,425	16,318	44,334
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	—	4,045	7,593
Cash and cash equivalents	28,901	21,241	53,134	51,183	27,674
Total current assets	122,324	153,058	166,098	292,028	307,372
CURRENT LIABILITIES					
Trade payables	33,082	53,182	55,632	150,101	164,489
Current income tax liabilities	6,233	8,905	4,835	4,996	7,365
Bank borrowings	20,628	12,326	5,000	13,466	12,730
Receipts in advance, other payables and accruals	28,287	25,543	31,089	42,596	40,190
Amounts due to related parties	29,309	22,382	—	—	—
Total current liabilities	117,539	122,338	96,556	211,159	224,774
NET CURRENT ASSETS	4,785	30,720	69,542	80,869	82,598

As at 30 June 2018, our net current assets increased by approximately RMB1.7 million to approximately RMB82.6 million as compared to that as at 30 April 2018, primarily due to (i) the increase in current assets of approximately RMB15.3 million, which was primarily driven by the increase in trade and bills receivables of approximately RMB19.7 million and the increase in prepayment, deposits and other receivables of approximately RMB28.0 million and partly offset by the decrease in cash and cash equivalents of approximately RMB23.5 million and the decrease in inventories of approximately RMB12.4 million; and offset by (ii) the increase in current liabilities of approximately RMB13.6 million, which was primarily driven by the increase in trade payables of approximately RMB14.4 million.

As at 30 April 2018, our net current assets increased by approximately RMB11.3 million to approximately RMB80.9 million as compared to that as at 31 December 2017, primarily due to (i) the increase in current assets of approximately RMB125.9 million, which was primarily driven by the increase in trade and bills receivables of approximately RMB79.1 million and the increase in inventories of approximately RMB38.9 million; and offset by (ii) the increase in current liabilities of approximately RMB114.6 million, which was primarily driven by the increase in trade payables of approximately RMB94.5 million, the increase in receipts in advance, other payables and accruals of approximately RMB11.5 million and the increase in bank borrowings of approximately RMB8.5 million.

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) the increase in current assets of approximately RMB13.0 million, which was primarily driven by the increase in cash and cash equivalents of approximately RMB31.9 million and the increase in inventories of approximately RMB9.8 million; and offset while partially offset by the decrease in financial assets at fair value through profit or loss of approximately RMB20.3 million and the decrease in trade and bills receivables of approximately RMB9.6 million; and (ii) the decrease in current liabilities of approximately RMB25.8 million, which was primarily driven by the decrease in amounts due to related parties of approximately RMB22.4 million and the 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) the increase in current assets of approximately RMB30.7 million, which was primarily driven by the increase in trade and bills receivables of approximately RMB27.7 million and the increase in financial assets at fair value through profit or loss of approximately RMB7.6 million, while partially offset by the decrease in cash and cash equivalents of approximately RMB7.7 million; and offset by (ii) the increase in current liabilities of approximately RMB4.8 million, which was primarily driven by the increase in trade payables of approximately RMB20.1 million and the increase in current income tax liabilities of approximately RMB2.7 million, while partially offset by the decrease in bank borrowings of approximately RMB8.3 million, the decrease in amounts due to related parties of approximately RMB6.9 million and the 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 and 30 April 2018, we had capital commitments of nil, approximately RMB0.7 million, nil and RMB1.4 million, 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			As at 30 April
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,563	2,558	7,635	4,829
After 1 year and no later than 5 years	10,689	7,186	5,542	5,944
	12,252	9,744	13,177	10,773

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 approximately RMB2.1 million, RMB2.5 million, RMB5.4 million and RMB3.6 million for each of the three years ended 31 December 2017 and the four months ended 30 April 2018, 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$21.1 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 use of [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			As at 30 April	As at 30 June
	2015	**2016**	**2017**	**2018**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Bank borrowings	20,628	12,326	5,000	13,466	12,730

As at 31 December 2015, 2016 and 2017, 30 April 2018 and 30 June 2018, our Group had bank borrowings of approximately RMB20.6 million, RMB12.3 million, RMB5.0 million, RMB13.5 million and RMB12.7 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 30 April 2018, the above borrowings are secured by properties, plant and equipment with carrying amounts of approximately RMB4.6 million; inventories with carrying amounts of approximately RMB8.5 million; pledged bank deposits with carrying amounts of approximately RMB4.0 million; and personal guarantee from Mr. Ma and Ms. Cheng Lihong.

As at 31 December 2015, 2016 and 2017, and 30 April 2018 our Group had unutilised banking facilities amounted to approximately RMB12.7 million, RMB22.0 million, RMB19.0 million and RMB19.0 million, respectively.

As at 30 June 2018, being the latest practicable date for determining indebtedness, our Group had total bank borrowings of approximately RMB12.7 million, which were secured by our inventories, properties, plant and equipment, a pledged bank deposit, personal guarantee from Mr. Ma and corporate guarantee from a subsidiary of our Company. As at 30 June 2018, our Group had unutilised banking facilities amounted to approximately RMB16.8 million.

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			As at 30 April	As at 30 June
	2015	**2016**	**2017**	**2018**	**2018**
	RMB'000	*RMB'000*	*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, non-trade 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 30 April 2018 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 30 June 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			As at 30 April
	2015	**2016**	**2017**	**2018**
Current ratio(1)	1.0	1.3	1.7	1.4
Quick ratio(2)	0.9	1.1	1.4	1.0
Gearing ratio(3)	88.9%	27.2%	5.8%	13.5%
Net debt to equity ratio(4)	N/A	N/A	N/A	N/A
Return on asset ratio(5)	9.9%	13.2%	15.6%	N/A(8)
Return on equity ratio(6)	60.3%	48.8%	33.0%	N/A(8)
Interest coverage ratio(7)	10.4	25.3	43.1	76.9

Notes:

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

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

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

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

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

(8) Such ratio is not applicable as it is not comparable to annual numbers.

Current and quick ratios

Our Group's current ratios were approximately 1.0, 1.3, 1.7 and 1.4 as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively while the quick ratios as at the same periods were approximately 0.9, 1.1, 1.4 and 1.0, respectively.

Current ratio and quick ratio decreased from approximately 1.7 and 1.4 as at 31 December 2017 to approximately 1.4 and 1.0 as at 30 April 2018, respectively, primarily due to the increase in current liabilities which was primarily driven by increase in trade payables of approximately RMB94.5 million, the increase in receipts in advance, other payables and accruals of approximately RMB11.5 million and the increase in bank borrowings of approximately RMB8.5 million which outweighed the increase in our current assets primarily driven by increase in trade and bills receivables of approximately RMB79.1 million and the increase in inventories of approximately RMB38.9 million while partially offset by the decrease in cash and cash equivalents of approximately RMB2.0 million. The higher level of the increase in current liabilities than in current assets resulted in a decrease in both current ratio and quick ratio as at 30 April 2018 as compared to that as at 31 December 2017.

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) the increase in our current assets primarily driven by the increase in cash and cash equivalents of approximately RMB31.9 million and the increase in inventories of approximately RMB9.8 million, while partially offset by the decrease in financial assets at fair value through profit or loss of approximately RMB20.3 million and the decrease in trade and bills receivables of approximately RMB9.6 million and (ii) the decrease in current liabilities which was primarily driven by the decrease in amounts due to related parties of approximately RMB22.4 million and the 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 the increase in trade and bills receivables of approximately RMB27.7 million and the increase in financial assets at fair value through profit or loss of approximately RMB7.6 million, while partially offset by the decrease in cash and cash equivalents of approximately RMB7.7 million, which outweighed the increase in our current liabilities principally attributable by the increase in trade payables of approximately RMB20.1 million and the increase in current income tax liabilities of approximately RMB2.7 million, while partially offset by the decrease in bank borrowings of approximately RMB8.3 million, the decrease in amounts due to related parties of approximately RMB6.9 million and the decrease in receipts in advance, other payables and accruals of approximately RMB2.7 million. The higher level of the 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 the total debts (being the total interest-bearing loans including banks borrowings) by the total equity as at the respective year/period-end date. Our Group's gearing ratios were approximately 88.9%, 27.2%, 5.8% and 13.5% as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively.

The increase in gearing ratio from approximately 5.8% as at 31 December 2017 to approximately 13.5% as at 30 April 2018 was principally attributable to the increase in bank borrowings by approximately RMB8.5 million.

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 the increase in the 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 the increase in total equity by approximately RMB22.1 million driven by the contribution from the profit for the year ended 31 December 2016, as well as the 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 the 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 the increase in gross profit resulted from the 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 the decrease in financial assets at fair value through profit or loss). The higher level of the increase in profit for the year than in the 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 the increase in gross profit resulted from the increase in revenue for the year ended 31 December 2016), as well as the increase in the 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 the decrease in cash and cash equivalents and decease in properties, plant and equipment). The higher level of the 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 the increase in gross profit resulted from the increase in revenue for the year ended 31 December 2017). The higher level of the increase in the total equity than the 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 the increase in gross profit resulted from the 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, 43.1 times and 76.9 times for each of the three years ended 31 December 2017 and the four months ended 30 April 2018, respectively.

The increase in interest coverage ratio from approximately 43.1 times for the year ended 31 December 2017 to approximately 76.9 times for the four months ended 30 April 2018 was principally attributable to the decrease in finance expenses by approximately 71.2% while the profit before interest and tax decreased by approximately 50.0%.

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 the increase in profit before interest and tax by approximately 24.1% (as mainly driven by the increase in gross profit resulted from the increase in revenue for the year ended 31 December 2017), and the 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 the increase in profit before interest and tax by approximately 35.1% (as mainly driven by the increase in gross profit resulted from the increase in revenue for the year ended 31 December 2016), and the 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 [REDACTED] 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. Furthermore, we have received various purchase orders subsequent to the Track Record Period and up to the Latest Practicable Date which in aggregate required us to produce approximately 4.8 million units of products (inclusive of the purchase orders from Customer B for approximately 0.2 million units of UnionPay card acceptance terminal products). Out of such 4.8 million units of products, we had completed the production of approximately 3.9 million units up to the Latest Practicable Date (inclusive of 0.1 million units of UnionPay card acceptance terminal products for Customer B). In addition, a cooperation agreement in relation to the provision of PCB assembly services and full product assembly services for smart devices was entered into between our Group and a new customer in the PRC subsequent to the Track Record Period and up to the Latest Practicable Date.

Furthermore, we continued to explore more business opportunities for our EMS in other industries. For example, we received an order from a new customer in South Korea for providing EMS for vibration chairs in January 2018. Our Directors estimate that the mass production of these vibration chairs will commence in the second quarter of 2018. In addition, we will deploy more resources on the research and development of smart audio and video solution and mini home appliance solution, and will commence the relevant research and development works in the second quarter of 2018.

The U.S. Government proposes to impose tariffs on certain products of the PRC and the proposed list of products that would be subject to tariffs will include aerospace, information and communication technology, and machinery, etc. Nevertheless, our Directors consider that even if our Group's products, if any, will be subject to the tariffs to be imposed by the U.S. Government, it will not have any material impact on our Group's operations as (i) the revenue recorded by our Group during the Track Record Period was mainly contributed by the sales to customers in the PRC, and after the Track Record Period and up to the Latest Practicable Date, our revenue derived from U.S. customers was approximately RMB0.3 million; and (ii) as advised by our U.S. Legal Advisers, our Group's products are exported to our customers in the U.S. through shipment on a FOB basis or Free Carrier Hong Kong basis and thus, our Group does not directly import any products into the U.S. and the U.S. tariff regulations would not apply directly to our Group.

Save as disclosed in the paragraph headed "[REDACTED] Expenses" in this section, our Directors confirmed that since 30 April 2018 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.

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 [REDACTED] 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 eight months ending 31 December 2018.

DIVIDEND

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 Track Record Period, 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 30 April 2018 as if the [REDACTED] had taken place on 30 April 2018, 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 30 April 2018, distributable reserves of our Company available for distribution to our shareholders, representing share premium net of accumulated losses, amounted to approximately RMB2.7 million.

MATERIAL ADVERSE CHANGE

Despite the absence of any material adverse change in our business since the end of the Track Record Period, we expect that our profit for 2018 will be lower than that for 2017 primarily due to higher administrative expenses as a result of the fees to be incurred as a consequence of the [REDACTED] on the Stock Exchange, such as those set out in the paragraph headed "[REDACTED] Expenses" in this section.