Contel Technology Company Limited
康特隆科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1912

SHARE OFFER

Sole Sponsor

Alliance Capital Partners Limited
同 人 融 資 有 限 公 司

Joint Bookrunners and Joint Lead Managers

中國通海證券
CHINA TONGHAI SECURITIES

Alliance Capital Partners Limited
同 人 融 資 有 限 公 司

瑞邦證券
RUIBANG

IMPORTANT: If you are in any doubt about the contents of this prospectus, you should obtain independent professional advice.

Contel Technology Company Limited
康特隆科技有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares under the Share Offer	**:**	**200,000,000 Shares (subject to the Over-allotment Option)**
Number of Public Offer Shares	**:**	**20,000,000 Shares (subject to reallocation)**
Number of Placing Shares	**:**	**180,000,000 Shares (subject to reallocation and the Over-allotment Option)**
Offer Price	**:**	**not more than HK$0.68 per Offer Share and expected to be not less than HK$0.63 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**HK$0.01 per Share**
Stock code	**:**	**1912**

Sole Sponsor

Alliance Capital Partners Limited
同人融資有限公司

Joint Bookrunners and Joint Lead Managers

中國通海證券 CHINA TONGHAI SECURITIES

Alliance Capital Partners Limited
同人融資有限公司

瑞邦證券 RUIBANG

Joint Lead Manager

FIRST Securities

A copy of this prospectus, having attached thereto the documents specified in "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by an agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Wednesday, 10 July 2019, and in any case no later than Wednesday, 10 July 2019. The Offer Price will be not more than HK$0.68 and is currently expected to be not less HK$0.63, unless otherwise announced. If our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by Wednesday, 10 July 2019, the Share Offer (including the Public Offer) will lapse and will not proceed. In such case, a notice will be published on the Stock Exchange's website at **www.hkexnews.com** and our Company's website at **www.conteltechnology.com**.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice will be published on the Stock Exchange's website at **www.hkexnews.com** and our Company's website at **www.conteltechnology.com** not later than the morning of the last day for lodging applications under the Public Offer. Further details are set out in "Structure of the Share Offer" and "How to apply for Public Offer Shares" in this prospectus.

Prior to making any investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in "Risk factors" in this prospectus.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure applicants to subscribe for, the Public Offer Shares, are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please refer to "Underwriting – Underwriting arrangements and expenses – Public Offer – Grounds for termination" in this prospectus for further details of such grounds for termination.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state in the United States, and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable state securities laws in the U.S. The Offer Shares are being offered and sold only outside of the United States in offshore transactions in reliance on Regulations S of the U.S. Securities Act.

29 June 2019

We will issue an announcement in Hong Kong to be published on the Stock Exchange's website at ***www.hkexnews.hk*** *and our Company's website at* ***www.conteltechnology.com*** *if there is any change to the following expected timetable of the Public Offer.*

The application for the Public Offer Shares will commence on Saturday, 29 June 2019 through to Tuesday, 9 July 2019. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on Monday, 15 July 2019. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Tuesday, 16 July 2019.

(Note 1)

Latest time to complete electronic applications under the **HK eIPO White Form** service through the designated website at **www.hkeipo.hk** *(Note 2)* . . . . . . 11:30 a.m. on Tuesday, 9 July 2019

Application lists open *(Note 3)* . . . . . . 11:45 a.m. on Tuesday, 9 July 2019

Latest time to complete payment for the **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . . 12:00 noon on Tuesday, 9 July 2019

Latest time to lodge **WHITE** and **YELLOW** Application Forms . . . . . . 12:00 noon on Tuesday, 9 July 2019

Latest time to give electronic application instructions to HKSCC *(Note 4)* . . . . . . 12:00 noon on Tuesday, 9 July 2019

Application lists close *(Note 3)* . . . . . . 12:00 noon on Tuesday, 9 July 2019

Expected Price Determination Date(Note 5) . . . . .on or around Wednesday, 10 July 2019

(i) Announcement of:
the final Offer Price;
the level of applications in the Public Offer;
the level of indications of interest in the Placing;
and the basis of allocation of the Public Offer Shares,
to be published on or before . . . . .Monday, 15 July 2019

(ii) Announcement of results of allocation of the Public Offer (with identification document numbers or business registration numbers of successful applicants, where appropriate) to be available through a variety of channels as set out in "How to apply for Public Offer Shares – 11. Publication of results" in this prospectus from . . . . .Monday, 15 July 2019

(iii) A full announcement of the Public Offer containing (i) and (ii) above will be published on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.conteltechnology.com** from . . . . .Monday, 15 July 2019

Results of allocations in the Public Offer will be available at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID/Business Registration Number" function from . . . . .Monday, 15 July 2019

Despatch/collection of share certificates or deposit of the share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or about(Note 6) . . . . .Monday, 15 July 2019

Despatch of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications pursuant to the Public Offer on or about(Notes 7 to 8) . . . . .Monday, 15 July 2019

Dealing in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on. . . . . .Tuesday, 16 July 2019

Notes:

(1) All times and dates refer to Hong Kong local time, except otherwise stated. Please refer to "Structure of the Share Offer" in this prospectus for further details of the structure of the Share Offer, including conditions of the Share Offer.

(2) You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 9 July 2019, the application lists will not open on that day. Please refer to "How to apply for Public Offer Shares – 10. Effect of bad weather on the opening of the application lists" in this prospectus for further details.

(4) Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC should refer to "How to apply for Public Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus for further details.

(5) The Price Determination Date is expected to be on or around Wednesday, 10 July 2019. If, for any reason, the Offer Price is not agreed by Wednesday, 10 July 2019 between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.

(6) Share certificates for the Offer Shares are expected to be issued on or about Monday, 15 July 2019, but will only become valid certificates of title at 8:00 a.m. on Tuesday, 16 July 2019, provided that: (i) the Share Offer has become unconditional in all respects; and (ii) none of the Underwriting Agreements has been terminated in accordance with its own terms.

(7) Refund cheques or e-Auto Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

(8) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 or more Public Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 15 July 2019 or such other date as notified by our Company on the Stock Exchange's website at **www.hkexnews.hk** and the Company's website at **www.conteltechnology.com** as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques. Individual applicants who are eligible for personal collection may not authorise any other person to collect on their behalf. Corporate applicants which are eligible for personal collection may arrange for collection by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Hong Kong Branch Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to those bank accounts in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the addresses as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

The above expected timetable is a summary only. Please refer to "Structure of the Share Offer" and "How to apply for Public Offer Shares" in this prospectus for further details on the structure of the Share Offer, including the conditions of the Share Offer and the procedures for application for the Public Offer Shares.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where such would be prohibited. No action has been taken to permit a public offering of the Offer Shares in any jurisdictions other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdictions other than Hong Kong. The distribution of this prospectus and the Share Offer in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or any other persons or parties involved in the Share Offer.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information which may be important to you and is qualified in its entirety, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus including the appendices hereto, which constitutes an integral part of this prospectus, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are summarised in "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

Various expressions used in this summary are defined in "Definitions" and "Glossary of technical terms" in this prospectus.

OVERVIEW

We primarily engage in sourcing and sale of IC products and the provisions of IC application solutions and value-added services to suit the needs of our customers. We provide design and application solution services to most of our customers along with the sales of IC products to them.

Our business focuses on fast-growing and emerging market categories, with an emphasis on providing environmentally-friendly and energy-saving solutions. Over the years, we believe that we have developed an expertise for analogue semiconductor products that is recognised amongst our industry peers. We specialise in providing IC application solutions and IC related services in five major categories: (i) mobile devices and smart charging which include solutions for products utilising low power radio frequency connectivity and signal transmissions devices and solutions for products utilising power management technology to provide quicker charging times; (ii) motor control which includes solutions to control motors and moving parts of machines; (iii) RF power which includes solutions for radio frequency power equipment such as those used in broadcasting and reception of radio signals; (iv) LED lighting which includes LED lighting systems solutions; and (v) sensors and automation which include IC application solutions for products that automatically detect events or changes in the environment. Please refer to "Business – Our products and services" in this prospectus for further details.

After the Acquisition of the PRC Group Companies which was completed in January 2017, our operating subsidiaries comprise the HK Group Companies which are primarily responsible for procurement from and frontline communication with IC suppliers and R&D in initial conceptualisation, and the PRC Group Companies which are primarily responsible for R&D in IC application solutions subsequent to such initial conceptualisation of the HK Group Companies, and marketing and sales of the ICs sourced and the IC application solutions provided by our Group. During the Track Record Period, we incurred R&D expenses of approximately US$0.2 million, US$0.2 million, US$0.4 million and US$0.4 million, respectively and we had approximately two, three, 13 and 14 R&D staff during the Track Record Period, respectively.

BUSINESS MODEL

We primarily engage in sourcing and sale of IC products and the provisions of IC application solutions and value-added services to suit the needs of our customers. We cater to customers in the consumer and industrial product sectors who require additional support and value-added services in addition to standardised products and logistics services. To help our customers attain their desired product requirements and functions, we assist our customers in selecting and sourcing the most appropriate ICs, and provide IC application solutions to suit the needs of our customers. This includes providing the circuitry design and transferring and fitting the circuitry layout onto PCBs, designing appropriate software where needed, developing prototype evaluation boards, sourcing and suggesting the specific brands of ICs required, and then producing reference designs according to the customers' requirements or specifications. We sell to our customers the ICs that we sourced together with our reference designs. Our customers then assemble the relevant parts of their products according to our reference designs. We also provide after-sales support and troubleshooting services to help solve our customers' problems if there are any technical issues with the end products.

We do not charge a separate fee for our provisions of IC application solutions and value-added services rendered. We derive our revenue from charging a "mark-up" or a "margin" on top of the ICs that we re-sell to our customers. This "mark-up" or "margin" factors in, among others, the cost of our value-added services. We base our pricing strategy according to a range of factors, including, but not limited to, the costs of the ICs, market conditions, market recognition of our customer, the purchase volume of our customer, technical requirements of the application solutions and resources involved.

COMPETITIVE STRENGTHS

We believe that our competitive strengths are as follows:

- We are the authorised non-exclusive distributors of our major IC manufacturer suppliers.
- We provide IC application solutions and customer-oriented services to cater to our customers' specific needs.
- We provide essential feedback and contribute to our IC manufacturer suppliers' IC product road maps which ultimately facilitate the sales of our ICs and provision of our IC application solutions.
- We adopt a market-oriented approach with a responsive business model supported by our own design and R&D capabilities.
- We have an experienced management team with industrial knowledge and technical knowhow.

BUSINESS STRATEGIES

We aim to strengthen our market position within the IC application solutions industry through the following business strategies:

- Seeking and establishing further authorised distributorship relationships with our current and new suppliers.
- Expanding our operations in fast-growing and emerging market categories, such as (i) mobile devices and smart charging; (ii) motor control; and (iii) sensors and automation.
- Expanding our operations and enhancing our design and R&D capabilities.
- Expanding our workforce and recruiting more professional staff.

SALES AND CUSTOMERS

We market our services and our sourced ICs through our sales and marketing teams. Our sales and marketing staff have a technical background (such as having a university degree or completed tertiary level of education in engineering, computer science or related disciplines), and are familiar with the various features and functions of our suppliers' products, industry knowledge and technical know-how, and are able to identify our customers' needs in order to achieve the desired performance of their products. Our sales and marketing teams keep abreast of the latest industry development and trends through regular contact with our customers and attending industry conferences as well as trainings provided by our suppliers.

The following table sets out a breakdown of our revenue based on the location of our operating subsidiaries for the periods indicated:

	For the year ended 31 December							
	2015		**2016**		**2017**		**2018**	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Hong Kong	45,563	100.0	36,372	100.0	25,923	48.2	37,372	55.5
The PRC*(Note)*	–	–	–	–	27,883	51.8	29,907	44.5
Total	45,563	100.0	36,372	100.0	53,806	100.0	67,279	100.0

Note: Prior to the Acquisition of the PRC Group Companies which was all completed in January 2017, all of our revenue during FY2015 and FY2016 was derived from the HK Group Companies.

Through the strategic positioning of our sales and marketing teams in major cities within the PRC, including Shenzhen, Chengdu and Shanghai, we believe we are able to capture the business opportunities and service customers within the areas of Eastern, Southern, Western and Fujian areas of the PRC.

We have a wide customer base of over 500 customers. As at 31 December 2018, we had over 100 active customers (i.e. customers who order from us and require us to deliver products to them every one to three months). During the Track Record Period, the aggregate revenue generated from our top five customers amounted to approximately US$32.9 million, US$22.1 million, US$15.2 million and US$24.9 million, respectively, accounting for approximately 72.2%, 60.7%, 28.3% and 37.0% of our total revenue, respectively. During FY2015 and FY2016, the PRC Group Companies were our largest customer and our sales to the PRC Group Companies amounted to approximately US$25.2 million and US$17.6 million, respectively, representing approximately 55.3% and 48.4% of our total revenue, respectively. With an aim to strengthen the integration of the HK Group Companies and the PRC Group Companies as one business venture and as part of the Reorganisation, a series of transfers took place where Mr. Qing and Mrs. Qing transferred their respective shareholding interests in each of Shenzhen IH, Chengdu Flyring and Shanghai IH to Flyring Electronics since November 2016. Upon completion of all these transfers in January 2017, the PRC Group Companies became wholly-owned, directly or indirectly, by Flyring Electronics which in turn is an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation. Please refer to "Business – Customers" and "History, Reorganisation and corporate structure" in this prospectus for further details.

PROCUREMENT AND SUPPLIERS

Our marketing team is generally responsible for liaising with our suppliers and, together with our operations team, responsible for placing orders with our suppliers and following up with deliveries.

We purchase ICs from our suppliers both (i) under the ship-and-debit arrangement; and (ii) not under the ship-and-debit arrangement. In both situations, we face cash flow mismatch in our business operations. Please refer to "Business – Procurement and suppliers – Price protection policy/ship-and-debit arrangement" and "Business – Procurement and suppliers – Cash flow mismatch" in this prospectus for further details. We purchase ICs from either (i) IC manufacturer suppliers, or (ii) IC distributor suppliers. According to the F&S Report, only authorised distributors of IC manufacturer suppliers are able to purchase ICs directly from IC manufacturer suppliers in general. All other non-authorised distributors and customers are generally required to purchase ICs from authorised distributors of IC manufacturer suppliers. Our IC manufacturer suppliers include renowned manufacturers which specialise in ICs for applications in specific sectors. As at the Latest Practicable Date, we were appointed as the authorised non-exclusive distributor of six IC manufacturer suppliers, some of which were our top five suppliers during the Track Record Period. We also procure ICs from IC distributor suppliers, most of whom are the authorised distributors of IC manufacturers. These IC distributor suppliers are like IC supermarkets, which carry many different brands of ICs. During the Track Record Period, our purchases from IC manufacturer suppliers amounted to approximately US$6.0 million, US$6.9 million, US$20.5 million and US$27.0 million, respectively, representing approximately 14.3%, 20.7%, 44.6% and 47.0% of our total purchases, respectively, whereas our purchases from IC distributor suppliers amounted to approximately US$36.0 million, US$26.5 million, US$25.5 million and US$30.3 million, respectively, representing approximately 85.7%, 79.3%, 55.4% and 53.0% of our total purchases, respectively. Please refer to "Business – Procurement and suppliers" in this prospectus for a breakdown of our purchases from IC manufacturers and IC distributors during the Track Record Period.

During the Track Record Period, our aggregate purchases from our top five suppliers amounted to approximately US$39.8 million, US$29.9 million, US$38.0 million and US$46.3 million, respectively, accounting for approximately 94.7%, 89.4%, 82.5% and 80.9% of our total purchases, respectively.

Benefits of being an authorised distributor of IC manufacturer suppliers

As an authorised distributor of our IC manufacturer suppliers, we believe we have benefited and will continue to benefit from (i) having more customer referrals from our IC manufacturer suppliers which increase our overall business volume; (ii) having direct access to the IC manufacturers, which our Directors consider would increase our customers' confidence in the authenticity and quality of our products; (iii) enhancing our opportunities in receiving regular first-hand training from our suppliers on their latest products; and (iv) giving us better net unit purchase prices for ICs from our IC manufacturer suppliers by removing the middle man.

As at 31 December 2018, we had six IC manufacturer suppliers who had appointed us as their authorised non-exclusive distributors. They are (i) Power Integrations; (ii) Supplier A; (iii) RDA; (iv) Supplier C; (v) Supplier D; and (vi) Supplier E.

During the Track Record Period, our revenue derived from sales of ICs we purchased directly from IC manufacturer suppliers as an authorised distributor amounted to approximately US$4.9 million, US$6.1 million, US$21.1 million and US$37.1 million, respectively, accounting for approximately 10.7%, 16.7%, 39.1% and 55.3% of our total revenue, respectively.

Since being appointed as an authorised distributor of the aforesaid IC manufacturer suppliers, we have experienced a significant increase in the sales of their IC products. As a result of our business expansion as a whole, our Directors expect that our sales of IC products under our authorised distributorships will continue to grow.

Price protection policy/ship-and-debit arrangement

According to the F&S Report, it is common for manufacturer suppliers in the IC sourcing and sales industry that operate in international markets to adopt a price protection policy in the form of ship-and-debit arrangement. Not all IC manufacturers adopt the ship-and-debit arrangement, and for the ones that do, not all of their product lines are necessarily subject to ship-and-debit arrangement. Under a ship-and-debit arrangement, IC manufacturers sell their products at a uniform price to all distributors internationally, and agree with such distributors or value-added resellers a rebate rate for every unit sold. In other words, distributors or value-added resellers can claim an agreed amount of purchase costs from their suppliers for each unit shipped. Depending on the countries or markets the distributors or value-added resellers are based, rebate rates would be different. Ship-and-debit arrangements enable suppliers to sell their goods at a uniform price, while distributors or value-added resellers can react to local market conditions and lower the price they sell to their customers in that market after taking into consideration rebate rate from such suppliers thereby maintaining a reasonable profit margin.

Since 2016, we began to engage in the ship-and-debit arrangement with certain of our major IC manufacturer suppliers, namely Power Integrations, Supplier A and RDA. During the Track Record Period, the total amount of rebate received from our suppliers under the ship-and-debit arrangement amounted to nil, approximately US$2.9 million, US$13.8 million and US$8.4 million, respectively, representing nil, approximately 8.8%, 30.0% and 14.7% of our total net purchases, respectively. Under the terms of the ship-and-debit arrangement, we first purchase the ICs from such suppliers at a uniform price. Once a sale to our customer is made, we submit a report to the relevant supplier notifying them of the sale amount. The relevant supplier subsequently issues a rebate in the form of a credit note to us, which we use to set-off against the costs of our next purchase of the same IC products and/or different IC products from the same supplier.

Although the ship-and-debit arrangement, which comes as part and parcel of the authorised distributorship appointment if our IC manufacturer supplier adopts such arrangement, imposes a larger financial burden on us and places our Group in a relatively reactive position in comparison to typical commercial pricing arrangements, our Directors believe that such price protection policies are actually beneficial to us in the long run. In addition to the benefits of being an authorised distributor, we consider that the ship-and-debit arrangement imposed by the IC manufacturer suppliers comes with other indirect benefits. The huge financial burden, which creates an entry barrier for most distributors, is considered by us to be a favourable factor to financially and technically capable distributors, such as our Group.

Further, we consider that IC products sold under the ship-and-debit arrangement to be generally more technologically advanced, and we are better able to reflect and showcase the true value of our business model within the supply chain by engaging in sales of such products. According to Frost & Sullivan, the practice of the ship-and-debit arrangement for IC products which are more technologically advanced is common in the IC sourcing and sales industry. Please refer to "Business – Procurement and suppliers – Price protection policy/ship-and-debit arrangement" in this prospectus for further details of the ship-and-debit arrangement.

SUMMARY OF MATERIAL RISK FACTORS

We believe that there are certain risks involved in our operations, some of which are beyond our control. These risks and uncertainties can be categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to the operations in the PRC; and (iv) risks relating to the Share Offer and our Shares. The most significant risks are summarised as follows:

- We are dependent on our major suppliers, and our business, financial condition and results of operations could be adversely affected if our relationships with these major suppliers are terminated, interrupted, or modified in any way adverse to us.
- We might be subject to increased financial burden for our purchases under the ship-and-debit arrangement and not under the ship-and-debit arrangement, and any change in the industry practice may also adversely affect our business and financial results.
- We have been dependent on our major product categories during the Track Record Period. Our business, financial condition and results of operations would be materially and adversely affected if sales generated under these product categories were to decline and/or if we fail to diversify our business.
- Delay in the supplies and/or insufficient supplies from our suppliers may materially and adversely affect our business operations.
- We sell products to our customers on an order-by-order basis, and some of them may cancel, change or postpone their orders.

MARKET AND COMPETITION

According to the F&S Report, the IC sourcing and sales industry in China had experienced fast growth in 2016 and its level of growth had remained at a high level in 2017 and 2018 due to a large demand from downstream industries. From 2014 to 2018, the market size of the IC sourcing and sales industry in China increased from approximately RMB301.5 billion to approximately RMB653.2 billion with an approximate CAGR of 21.3%. Support from national policies of the PRC government such as "Made in China 2025" is also expected to further drive growth within the IC sourcing and sales industry in China. The IC sourcing and sales market size in the PRC is expected to reach approximately RMB1,405.9 billion in 2023 with an approximate CAGR of 16.6%.

The F&S Report states that the IC sourcing and sales business in the PRC is highly fragmented, with over 2,200 players providing design and sales services for electronic product manufacturers in 2017. The F&S Report identified nine major market players in the PRC that accounted for approximately 2.4% of the PRC IC sourcing and sales market share in 2017 while our Group accounted for approximately 0.1% of the market share in the PRC IC sourcing and sales market in the same year. Please refer to "Industry overview – Overview of IC sourcing and sales industry in China – Competitive landscape of IC sourcing and sales industry in China" in this prospectus for further details.

The F&S Report identified a number of entry barriers to the IC sourcing and sales industry in the PRC. New entrants need to have R&D capabilities and industry know-how, and will need to be able to keep up with the newest technology trends in order to identify and provide technological advanced IC products to meet the needs of their customers. The IC sourcing and sales industry has a mature and stable value chain, and new entrants may have difficulty in establishing relationships with quality suppliers. New entrants require sufficient working capital to purchase IC components from domestic and foreign IC manufacturers and suppliers. Please refer to "Industry overview – Overview of IC sourcing and sales industry in China – Entry barriers of IC sourcing and sales industry in China" in this prospectus for further details.

KEY OPERATIONAL AND FINANCIAL INFORMATION

Selected information from consolidated statements of profit or loss and other comprehensive income

	For the year ended 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	45,563	36,372	53,806	67,279
Gross profit	4,042	3,234	6,573	9,405
Profit before income tax	2,756	1,455	3,124	3,550
Profit for the year	2,308	1,133	2,523	2,611
Total comprehensive income for the year	2,308	1,133	2,550	2,546

The decrease in our profit for the year from approximately US$2.3 million for FY2015 to approximately US$1.1 million for FY2016 was primarily attributable to (i) the decrease in our gross profit from approximately US$4.0 million for FY2015 to approximately US$3.2 million for FY2016 mainly due to the decrease in our revenue as detailed below in "Key operational and financial information – Revenue, sales volume and average unit price by product categories" in this section; and (ii) the recognition of our listing expenses of approximately US$0.4 million for FY2016.

The increase in our profit for the year to approximately US$2.5 million for FY2017 was primarily attributable to (i) the increase in our gross profit to approximately US$6.6 million for FY2017 mainly due to the increase in our revenue as detailed below in "Key operational and financial information – Revenue, sales volume and average unit price by product categories" in this section; and (ii) the increase in our other income from approximately US$15,000 for FY2016 to approximately US$0.6 million for FY2017 mainly due to the recognition of our exchange gain, net of approximately US$0.5 million for FY2017 in respect of the favourable effect of the settlement and retranslation of our relevant RMB-denominated trade receivables as a result of the appreciation of RMB against US$ during FY2017.

The increase in our profit for the year to approximately US$2.6 million for FY2018 was primarily attributable to the increase in our gross profit to approximately US$9.4 million for FY2018, partially offset by (i) the increase in our listing expenses from approximately US$0.6 million for FY2017 to approximately US$1.5 million for FY2018; (ii) the decrease in our other income to approximately US$89,000 for FY2018 mainly due to the decrease in our exchange gain, net to approximately US$3,000 for FY2018; and (iii) the increase in our selling and distribution expenses from approximately US$1.1 million for FY2017 to approximately US$1.5 million for FY2018 mainly due to the increase in our staff costs mainly as a result of the increment of our sales and marketing staff's headcount and monthly salary.

In preparation of the Listing, we incurred listing expenses of nil, approximately US$0.4 million, US$0.6 million and US$1.5 million during the Track Record Period, respectively. Since our listing expenses are one-off expenses outside the ordinary and usual course of our business, we have added back our listing expenses to our profit for the year attributable to owners of our Company for the purposes of satisfying the minimum profit requirements under Rule 8.05(1) of the Listing Rules.

Revenue, sales volume and average unit price by product categories

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Mobile devices and smart charging	5,691	12.5	7,770	21.4	20,895	38.8	34,554	51.4
Motor control	7,239	15.9	6,886	18.9	15,595	29.0	16,186	24.1
RF power	20,172	44.3	11,709	32.2	7,721	14.3	7,424	11.0
LED lighting	10,511	23.1	7,778	21.4	5,702	10.6	6,759	10.0
Sensors and automation	1,950	4.2	2,229	6.1	3,893	7.3	2,356	3.5
Total	45,563	100.0	36,372	100.0	53,806	100.0	67,279	100.0

Our revenue decreased from approximately US$45.6 million for FY2015 to approximately US$36.4 million for FY2016. Such decrease was primarily driven by (i) the decrease in our revenue derived from the sale of the RF power IC products by approximately US$8.5 million mainly due to (a) the decrease in the sales of FTTB ICs mainly because of the transition from the application of FTTB to FTTH in the PRC; and (b) the decrease in the revenue generated from Transemic Technology Ltd. who mainly purchased our transmitters and RF energy IC products; and (ii) the decrease in our revenue derived from the sale of the LED lighting IC products by approximately US$2.7 million mainly due to the decrease in the sales demand from our major customers in the LED lighting category which our Directors believe that these customers switched to purchase cheaper LED lighting ICs from our PRC competitors.

Our revenue increased to approximately US$53.8 million and US$67.3 million for FY2017 and FY2018, respectively, which was primarily driven by (i) the increase in our revenue derived from the sale of the mobile devices and smart charging IC products by approximately US$13.1 million and US$13.7 million, respectively, mainly due to (a) the beneficial effects of our Group starting to sell our IC products under authorised non-exclusive distributorship of Power Integrations and Supplier A from FY2016 and RDA from FY2017; and (b) the increase in the sales demand of our IC products for the application solutions of mobile phone fast chargers, vehicle antennae, IoT communication modules, etc. in view of our business development efforts and the rapid development of IoT and mobile devices in the PRC; and (ii) the increase in our revenue derived from the sale of the motor control IC products by approximately US$8.7 million and US$0.6 million, respectively, mainly due to (a) the beneficial effects of our Group starting to sell IC products under authorised non-exclusive distributorship of Power Integrations International Ltd. from FY2016; and (b) the increase in the sales demand of motor control IC products mainly for the application solutions of photography and videography stabilisation, and motor controls for electronic products mainly because of the customer satisfaction of our IC application solutions and the increasing popularity of the use of VFDs in the electronic products in the PRC.

Please refer to "Financial information – Discussion of selected profit or loss items – Revenue" in this prospectus for further details of our revenue by product categories.

	For the year ended 31 December							
	2015		2016		2017		2018	
	Sales volume	Average unit price	Sales volume	Average unit price	Sales volume	Average unit price	Sales volume	Average unit price
	Unit'000	*US$/unit*	*Unit'000*	*US$/unit*	*Unit'000*	*US$/unit*	*Unit'000*	*US$/unit*
Mobile devices and smart charging	34,214	0.17	64,845	0.12	168,589	0.12	194,567	0.18
Motor control	11,232	0.64	13,512	0.51	35,002	0.45	35,358	0.46
RF power	17,481	1.15	24,891	0.47	38,147	0.20	23,375	0.32
LED lighting	35,397	0.30	31,426	0.25	32,289	0.18	72,597	0.09
Sensors and automation	4,247	0.46	6,436	0.35	11,729	0.33	22,898	0.10
Total/Overall	102,571	0.44	141,110	0.26	285,756	0.19	348,795	0.19

The overall average unit price of our IC products was in the declining trend from approximately US$0.44 for FY2015 to approximately US$0.26 for FY2016 and further to approximately US$0.19 for FY2017 and FY2018, which followed (i) the decreasing trend of the overall average unit cost of our ICs; and (ii) the downward trend of average price of imported electronic ICs (excluding memory ICs) in China as disclosed in "Industry overview – Overview of IC sourcing and sales industry in China – Prices of ICs" in this prospectus which was mainly due to the pricing strategy of some foreign IC manufacturers to capture market share and the increase in the IC fabless manufacturers established in the PRC which poses increasing competition in the IC market.

Furthermore, the decrease in the average unit price of our IC products in each of our product categories was mainly driven by the change in the sales mix of our IC models in each of our product categories during the Track Record Period as detailed below:

Mobile devices and smart charging: The decrease in its average unit price from FY2015 to FY2017 was primarily attributable to the commencement of the sale of Supplier A IC products mainly for the application solution of audio codec used in mobile devices from FY2016 contributing to the significant increase in the sales volume from FY2015 to FY2017, which had a relatively lower average unit price mainly due to the fact that audio codec ICs are generally cheaper as compared to our other major types of mobile devices and smart charging IC products. The rebound of its average unit price for FY2018 was primarily attributable to the commencement of the sale of RDA IC products from FY2017 contributing to the sharp increase in the sales volume, which had a relatively higher average unit price mainly due to the fact that RDA IC products that we sold to Customer F and Quectel Wireless Solutions Co., Ltd were mainly main chips used in IoT communication modules which are generally more expensive as compared to our other major types of mobile devices and smart charging IC products.

Motor control: The decrease in its average unit price from FY2015 to FY2017 was primarily attributable to the increase in the sales volume of a model of Manufacturer A IC product for the application solution of e-bike motor ("**Product A**") from the same period, which had a relatively lower average unit price mainly due to the fact that Product A is generally cheaper as compared to our other major types of motor control ICs due to its simpler functional design targeting for the cost driven market.

RF power: The decrease in its average unit price from FY2015 to FY2017 was primarily attributable to the transition of the applications of FTTB to FTTH in the PRC contributing to (i) the significant increase in the sales volume of FTTH IC products (which had a relatively lower average unit price) from FY2015 to FY2017; and (ii) the significant decrease in the sales volume of FTTB IC products (which had a relatively higher average unit price) from FY2015 to FY2017, mainly due to the fact that FTTH ICs are generally much cheaper than FTTB ICs because FTTH ICs are used in the application solutions for much lower output power transmission as opposed to FTTB ICs. The rebound of its average unit price for FY2018 was primarily attributable to (i) the sharp decrease in the sales volume of FTTH IC products (which had a relatively lower average unit price) during FY2018; and (ii) a relatively stable sales volume of FTTB IC products (which had a relatively higher average unit price) during FY2018 leading to a higher proportion of RF power IC sales generated from FTTB IC products in FY2018 as compared to that in FY2017.

LED lighting: The decrease in its average unit price was primarily attributable to (i) the increase in the sales volume of a model of Manufacturer B LED lighting IC product for the application solution of LED driver ("**Product B**") from FY2015 to FY2016, which had a relatively lower average unit price mainly due to the fact that Product B is designed to have better performance and at the same time at a competitive price as compared to other similar PRC branded ICs sold by our PRC competitors; (ii) our overall price discount strategy of LED lighting IC products during FY2016 to compete with other PRC competitors; (iii) the significant increase in the sales volume of Supplier E LED lighting IC products from FY2016 to FY2018, which had a relatively lower average unit price mainly due to the fact that the LED lighting business of Manufacturer B (a Dutch based IC manufacturer) was acquired by Supplier E (a China-based IC manufacturer) in FY2016 and PRC IC manufacturers' ICs are generally cheaper than foreign IC manufacturers' ICs; and (iv) the significant increase in the sales volume of Supplier D LED lighting IC products for FY2018, which had a relatively lower average unit price mainly due to the fact that Supplier D IC products that we sold were mainly SMD LEDs which are generally cheaper as compared to our other major types of LED lighting IC products.

Sensors and automation: The decrease in its average unit price was primarily attributable to the continuous increase in the sales volume of two models of Manufacturer A radio frequency sensor IC products used in IoT modules ("**Products C & D**") during the Track Record Period, which had relatively lower average unit prices mainly due to the fact that (i) the silicon-on-insulator (SOI) production technology used in the production of Products C & D is mature in the industry which caused lower production costs; and (ii) we were able to negotiate with the relevant suppliers and Manufacturer A during FY2017 to further lower our unit purchase prices of Products C & D in view of their overstock originally reserved for a global leading mobile phone manufacturing company based in South Korea.

Please refer to "Financial information – Discussion of selected profit or loss items – Revenue" in this prospectus for further details of the discussion and analysis of the fluctuations in our average unit price by IC product categories during the Track Record Period.

Cost of sales by cost nature

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Material costs	41,309	99.5	32,950	99.4	46,624	98.7	57,366	99.1
Staff costs	257	0.6	200	0.6	378	0.8	428	0.7
Transportation and logistics costs	–	–	–	–	336	0.7	208	0.4
Provision for/ (Reversal of) impairment loss on inventories, net	(45)	(0.1)	(12)	–	(105)	(0.2)	(128)	(0.2)
Total	41,521	100.0	33,138	100.0	47,233	100.0	57,874	100.0

Gross profit and gross profit margin by IC product categories

	For the year ended 31 December							
	2015		2016		2017		2018	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Mobile devices and smart charging	757	13.3	673	8.7	2,119	10.1	4,648	13.5
Motor control	182	2.5	171	2.5	2,121	13.6	2,087	12.9
RF power	1,494	7.4	1,283	11.0	1,000	13.0	1,391	18.7
LED lighting	1,434	13.6	866	11.1	924	16.2	946	14.0
Sensors and automation	175	9.0	241	10.8	409	10.5	333	14.1
Total/Overall	4,042	8.9	3,234	8.9	6,573	12.2	9,405	14.0

The fluctuation in our gross profit was primarily in line with the fluctuation in our revenue as discussed above.

We recorded a relatively lower overall gross profit margin of approximately 8.9% for FY2015 and FY2016, which was primarily attributable to the fact that (i) during FY2015 and FY2016 (before the Acquisition of the PRC Group Companies), the PRC Group Companies were our largest customer; and (ii) we generated a lower gross profit margin from the sale of our IC products to the PRC Group Companies (i.e. approximately 8.3% and 7.8% for FY2015 and FY2016, respectively) due to the fact that the PRC Group Companies provided certain sales and marketing and after-sales services to our ultimate customers.

The increase in our overall gross profit margin from approximately 12.2% for FY2017 to approximately 14.0% for FY2018 was primarily attributable to (i) the increase in the gross profit margin of our mobile devices and smart charging IC products mainly due to the significant increase in the sales of two models of Power Integrations IC products for the application solutions of mobile phone chargers in FY2018 which we charged higher margins because we have participated in a higher level of design-in works for the application of these ICs in a new smart charger circuit system for android system mobile phones; (ii) the increase in the gross profit margin of our RF power IC products mainly because we increased the margin of Manufacturer B FTTB IC products charged to our customers in light of the scarcity of Manufacturer B FTTB ICs in the market as a result of the reduction of manufacture of FTTB ICs by Manufacturer B in response to the global trend of switching from FTTB networks to FTTH networks in recent years; and (iii) the increase in the gross profit margin of our sensors and automation IC products mainly due to (a) a lower margin charged to a manufacturer of smart household lighting products based in Shanghai, PRC mainly due to its bulk purchase volume in FY2017; and (b) the increase in the sales volume of Products C & D which had relatively higher margins since we negotiated with the relevant suppliers and Manufacturer A to further lower unit purchase prices in view of their overstock originally reserved for a global leading mobile phone manufacturing companies based in South Korea, partially offset by the decrease in the gross profit margin of our LED lighting IC products mainly due to the significant increase in the sales of Supplier D LED lighting ICs mainly for application solutions of SMD LEDs and COB LEDs in FY2018 which we charged a lower margin mainly due to relatively simpler application designs and usages for these types of lamp beads ICs.

Please refer to "Financial information – Discussion of selected profit or loss items – Gross profit and gross profit margin" in this prospectus for further details of our gross profit and gross profit margin.

Selected information from consolidated statements of financial position

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets	393	755	981	1,411
Current assets	16,856	20,350	29,519	32,130
Current liabilities	9,521	12,158	19,534	20,029
Net current assets	7,335	8,192	9,985	12,101
Net assets	7,728	8,947	10,966	13,512

Selected information from consolidated statements of cash flows

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Net cash generated from operating activities	2,296	136	1,686	7,432
Net cash used in investing activities	(376)	(410)	(855)	(823)
Net cash used in financing activities	(383)	(59)	(1,068)	(5,303)
Net increase/(decrease) in cash and cash equivalents	1,537	(333)	(237)	1,306
Cash and cash equivalents at beginning of the year	638	2,175	1,842	1,629
Effect of foreign exchange rate changes	–	–	24	(61)
Cash and cash equivalents at end of the year	2,175	1,842	1,629	2,874

Our net cash outflow of approximately US$0.3 million for FY2016 was primarily attributable to cash outflows of approximately US$0.4 million in respect of the Acquisition of Shenzhen IH and the Acquisition of Shanghai IH. Our net cash outflow of approximately US$0.2 million for FY2017 was primarily attributable to our cash outflow of approximately US$0.8 million in respect of the Acquisition of Chengdu Flyring.

Key financial ratios

	For the year ended/As at 31 December			
	2015	**2016**	**2017**	**2018**
Net profit margin before interest and tax	6.2%	4.4%	6.6%	6.6%
Net profit margin	5.1%	3.1%	4.7%	3.9%
Current ratio	1.8	1.7	1.5	1.6
Quick ratio	1.3	1.2	1.2	1.3
Gearing ratio *(Note 1)*	3.2%	2.4%	39.3%	9.7%
Debt-to-equity ratio	N/A	N/A	24.4%	N/A
Return on assets	13.4%	5.4%	8.3%	7.8%
Return on equity	29.9%	12.7%	23.0%	19.3%
Interest coverage ratio	36.3	11.0	7.9	5.1

	For the year ended/As at 31 December			
	2015	2016	2017	2018
Non-HKFRS measures:				
Adjusted net profit margin before interest and tax *(Note 2)*	6.2%	5.6%	7.7%	8.9%
Adjusted net profit margin *(Note 2)*	5.1%	4.3%	5.7%	6.2%
Adjusted interest coverage ratio *(Note 2)*	36.3	13.9	9.2	6.9

Notes:

(1) Our gearing ratio is calculated by our total debts (i.e. our bank borrowings) divided by our total equity.

(2) We had excluded our listing expenses of approximately US$0.4 million, US$0.6 million and US$1.5 million for FY2016, FY2017 and FY2018, respectively, in the calculation of our adjusted net profit margin before interest and tax, adjusted net profit margin and adjusted interest coverage ratio. As non-HKFRS measures, these adjusted financial ratios are presented because we believe that such information will be helpful for investors in assessing the effect of listing expenses on our net profit. The use of these adjusted financial ratios as an analytical tool has material limitations as they do not include all items that have impact on our profit during the Track Record Period. We believe that the presentation of non-HKFRS measures in conjunction with the corresponding HKFRS measures, by excluding our one-off listing expenses which are considered by our Directors to be irrelevant to our operating performance, serves to provide useful information to investors regarding our financial and business trends and results of operations. We also believe that such non-HKFRS measures are appropriate for evaluating our Group's operating performance.

NON-HKFRS MEASURES

The following table sets forth a reconciliation between our profit for the year as presented in accordance with HKFRS, and our non-HKFRS adjusted profit and non-HKFRS adjusted profit before interest and tax for the year for the calculation of our adjusted net profit margin before interest and tax, adjusted net profit margin and adjusted interest coverage ratio:

	For the year ended 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Profit for the year	2,308	1,133	2,523	2,611
Adjusted for:				
Listing expenses	–	430	561	1,543
Non-HKFRS adjusted profit for the year	2,308	1,563	3,084	4,154
Add: Finance costs	78	146	451	864
Add: Income tax expense	448	322	601	939
Non-HKFRS adjusted profit before interest and tax for the year	2,834	2,031	4,136	5,957

USE OF PROCEEDS

Assuming an Offer Price of HK$0.655 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, we estimate that the net proceeds receivable by us from the Share Offer (after deducting underwriting fees and commission and estimated expenses in connection with the Share Offer) will be approximately HK$80.0 million. We intend to apply such net proceeds in the following manner:

(i) approximately HK$67.5 million, representing approximately 84.3% of our net proceeds from the Share Offer, will be used for the purposes of financing the growing revolving purchase payment for our increasing purchases of ICs under the ship-and-debit arrangement of both new and existing distributorship relationships with IC manufacturer suppliers as a result of our intended business expansion, the amount of which was determined by our Directors based on the historical purchase volume, monetary amount, types of ICs we purchased, turnaround time of obtaining rebates from our suppliers, our Group's cash flow mismatch, our forecast of the increased volume, types and varieties of ICs we intend to purchase under the ship-and-debit arrangement taking into account our expansion plan through the implementation of our business strategies, which we expect to be utilised during the year ending 31 December 2019 and on a revolving basis going forward;

(ii) approximately HK$2.9 million, representing approximately 3.6% of our net proceeds from the Share Offer, will be used for enhancing our design and R&D capabilities, which we expect to be utilised over the period after the Listing Date and ending 31 December 2019;

(iii) approximately HK$7.8 million, representing approximately 9.8% of our net proceeds from the Share Offer, will be used for recruiting and retaining high calibre application engineers, sales engineers, customer service officers, administrative and support staff, and internal audit staff so as to support future growth of our Group, which we expect to be incurred over the period after the Listing Date and ending 31 March 2021; and

(iv) approximately HK$1.8 million, representing approximately 2.3% of our net proceeds from the Share Offer, will be used for our general corporate purposes and working capital.

Please refer to "Future plans and use of proceeds" in this prospectus for further details.

REASONS AND BENEFITS FOR LISTING

Our Directors consider that the Listing will provide the following benefits to our Group:

- we plan to expand our operations in view of the immense business opportunities such as the massive expansion of NB IoT in the PRC. In particular, in November 2018, we entered into an agreement with a new customer which is a subsidiary of a leading mobile operator in the PRC for the provision of 26.0 million units of IC manufactured by RDA, which will be used in IoT related products, to such customer for a period of two years with a maximum contract amount of approximately RMB137.0 million (equivalent to approximately US$20.3 million). Our intended expansion will require us to maintain a sufficient level of financial resources. Our Directors consider that our current level of cash and cash equivalents and banking facilities is only able to support our operations in the existing scale but is not sufficient to support our expansion plan and our Directors believe that the net proceeds from the Share Offer will provide us with financial resources to execute our expansion plans and to capture new business opportunities;

- broaden our Group's shareholder base, strengthen our capital base and provide a sustainable fund raising platform for us to raise further capital by issuing equity or debt securities in the future;

- facilitate the implementation of our business strategies and strengthen our cash flow position to enhance our operational capacity;

- elevate the profile of our Group, increase our recognition and raise our visibility within the semiconductor market and technology hardware industry and provide our suppliers and customers with greater security when engaging in business with us;

- raise staff morale and confidence in our Group, which would improve our ability to attract, recruit, retain and motivate experienced and qualified staff; and

- enable us to offer equity-based incentive programmes involving publicly tradable shares (such as a share option scheme) to our staff to provide a more direct correlation between their performance and our business results.

OFFER STATISTICS

We have prepared the following offer statistics on the basis of the indicative Offer Prices without taking into account the 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee. We have also assumed that the Over-allotment Option is not exercised.

	Based on Offer Price of HK$0.63 per Share	Based on Offer Price of HK$0.68 per Share
Market capitalisation(Note 1)	HK$504 million	HK$544 million
Unaudited pro forma adjusted consolidated net tangible assets per Share(Note 2)	HK$0.25	HK$0.26

Notes:

(1) The calculation of the market capitalisation of our Company is based on 800,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue.

(2) The unaudited pro forma adjusted consolidated net tangible assets per Share as at 31 December 2018 is arrived after the adjustments set out in Appendix II to this prospectus and on the basis that 800,000,000 Shares were in issue assuming that the Share Offer and the Capitalisation Issue had been completed on 31 December 2018.

DIVIDENDS AND DISTRIBUTABLE RESERVE

We declared dividend of nil, nil, approximately US$3.5 million and nil to the then shareholders during the Track Record Period, respectively. The aforesaid dividend of US$3.5 million, being interim dividend, was declared by our Company to Mr. Lam and Mrs. Qing and settled through our amounts due from/(to) related parties. No dividend has been proposed and declared by our Group after the Track Record Period and until the Latest Practicable Date. Our Company currently does not have any predetermined dividend payout ratio. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid in the future. We cannot assure that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future.

The amount of our dividends, if paid, would depend on our results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Our Shareholders will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our Directors' discretion. Dividends may be paid only out of our distributable reserve as permitted under the relevant laws.

Our Company was incorporated in the Cayman Islands and is an investment holding Company. In accordance with the Articles of our Company, dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine to be no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law. Save for our Company's share premium of approximately US$1.5 million which may be declared as dividend, as at 31 December 2018, our Company had no other distributable reserve available for distribution because our Company did not have any retained profits. In the event that our Company receives dividends declared by its subsidiaries, our Company will be able to declare and distribute dividends out of the retained profits.

SHAREHOLDERS INFORMATION

As at the Latest Practicable Date, P.Grand and Kingtech were interested in 90% and 10% of the issued share capital of our Company, respectively. Immediately after completion of the Capitalisation Issue and the Share Offer, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme, P.Grand and Kingtech will directly hold approximately 67.5% and 7.5% of the total issued share capital of our Company, respectively. P.Grand is wholly owned by Mr. Lam and Kingtech is wholly owned by Mrs. Qing. Mr. Lam, Mr. Qing and Mrs. Qing have confirmed, by way of the Confirmatory Deed, that they have been in cooperation to jointly manage and control the operations of the HK Group Companies and the PRC Group Companies since 2011 and that they have been and will continue to, in respect of the management and operations of our Group, including but not limited to development strategies, business planning, annual budgeting, investment plans and human resources, make key decisions together in their respective capacity as a Shareholder or a Director (where applicable). In view of the above, Mr. Lam, Mr. Qing, Mrs. Qing, P.Grand and Kingtech are considered a group of Controlling Shareholders for the purpose of the Listing Rules. Please refer to “Relationship with Controlling Shareholders” in this prospectus for further details.

LISTING EXPENSES

Our total estimated listing expenses, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately US$6.6 million (based on the mid-point of the indicative Offer Price range of HK$0.655 per Offer Share). Among the estimated aggregate amount of our estimated listing expenses, approximately US$2.7 million of which is expected to be accounted for as a deduction from equity upon the Listing. The remaining amount of approximately US$3.9 million is expected to be charged to our profit or loss, of which approximately US$0.4 million, US$0.6 million and US$1.5 million have been recognised in our profit or loss for FY2016, FY2017 and FY2018, respectively.

RECENT DEVELOPMENT

Subsequent to the Track Record Period and up to the Latest Practicable Date, there was no change to our business model, revenue and cost structure.

In November 2017, our IC manufacturer supplier, RDA, referred to us a new potential customer which is a subsidiary of a leading mobile operator in the PRC. After RDA’s introduction, we approached such potential customer with RDA to explore business opportunities in relation to the IoT application of RDA ICs in the PRC. In November 2018, we entered into an agreement with such new customer for the provision of 26.0 million units of IC manufactured by RDA to such customer for a period of two years with a maximum contractual amount of approximately RMB137.0 million (equivalent to approximately US$20.3 million). The ICs supplied by us to such customer will be used in IoT related products. During the period from November 2018 to February 2019, we underwent a testing and pilot sale stage with such customer under which we collaborated with such customer to fine-tune the applications of the ICs to better suit its IoT related products. In March 2019, after the testing and pilot sale stage had become mature, such customer started to significantly increase its purchase quantity of ICs from us. Up to 31 May 2019, we generated revenue of approximately US$1.0 million pursuant to such agreement.

In May 2018, the U.S. government accused China of unfair trade practices over the years, including theft of U.S. intellectual properties, leading to the U.S. trade deficit of approximately US$380 billion per annum. Since then, the U.S. has imposed a few rounds of tariffs, resulting in the imposition of 25% taxes on US$250 billion of Chinese goods. The tensions between the two countries have been rising and there is a possibility that the extent and scale of trade restrictions between the two countries be escalated if the U.S. and China fail to reach any agreement to settle the issue. The U.S. side has indicated that it is prepared to expand retaliatory tariff hikes of 25% on another US$300 billion of Chinese products if negotiations between the two countries fail. To date, China has retaliated with tariffs on US$110 billion worth of American imports, primarily on agricultural and animal products, but certain semiconductors manufactured in the U.S. are also subject to import tariff of up to 25%.

As advised by our PRC Legal Advisers, import tariff will only be imposed by China’s customs office on semiconductors whose origin of manufacture is in the U.S. So far as our Directors are aware, none of the semiconductors or ICs procured by our Group during the Track Record Period was manufactured in the U.S. Consequently, China’s import tariff mentioned above does not apply to our Group to date.

According to Frost & Sullivan, China imported approximately US$313 billion worth of semiconductors in 2018. In 2018, domestic IC suppliers only satisfied 4.9% of China’s annual demand while the remaining 95.1% of annual demand was fulfilled by IC suppliers in foreign countries and regions, such as Taiwan, South Korea, Malaysia, Japan, and the U.S., which accounted for approximately 31.2%, 26.3%, 8.2%, 5.0% and 3.8% of China’s total imported value of semiconductors in 2018.

In May 2019, the U.S. blacklisted a leading PRC telecommunication group with worldwide operations from buying American technology and using U.S. software over national security concerns and there have been reports that the U.S. government is considering a similar ban against some other PRC electronics companies engaging in the manufacturing of closed-circuit televisions. During the Track Record Period, the leading PRC telecommunication group blacklisted by the U.S. was not one of our customers and, so far as our Directors are aware, our major customers did not provide such leading telecommunication group with ICs sourced from us or application solutions provided by us.

The U.S.-China trade war and the U.S. government's ban on the leading PRC telecommunication group has led to the Chinese central government's commitment to close the semiconductor technology gap by backing domestic semiconductor start-ups and R&D, with a view to becoming self-sufficient in ICs used by the country's manufacturing supply chain. During the Track Record Period, there was an increasing proportion of our purchases from domestic IC suppliers. In particular, during the Track Record Period, our purchases from domestic IC suppliers (including RDA and Supplier A) accounted for nil, approximately 3.4%, 13.2% and 25.5% of our Group's total purchases, respectively, from which we generated revenue of nil, approximately US$1.1 million, US$6.7 million and US$15.7 million, respectively, (accounting for nil, approximately 3.0%, 12.5% and 23.3% of our total revenue, respectively).

During the Track Record Period, two of our suppliers, namely Power Integrations and Supplier D are U.S. based companies. As confirmed by such two suppliers, the ICs supplied to us were not manufactured in the U.S. but in the PRC, Thailand, Malaysia or the Philippines. As the tariffs imposed by China depends on the country of origin of the subject products and not the underlying transactional currency, the import into China of the ICs that we sourced and expect to source from the aforesaid two suppliers, or we purchased or will purchase in US$, will not be subject to the recent tariffs imposed by China. Our Directors confirm that the U.S.-China trade war did not have any negative impact on our Group's operations subsequent to the Track Record Period and up to the Latest Practicable Date. Although there is no assurance as to how the U.S.-China trade war may develop, our Directors do not consider that the current U.S.-China trade war will have a significant negative impact on our Group's prospect. To our Directors' best knowledge and belief, we do not expect any material difficulties for our Group to purchase IC products from our suppliers, including those which are U.S. based companies involving U.S.-China customs, in the forthcoming months as the U.S.-China trade dispute develops, given the ICs supplied to us and to be supplied to us were not/will not be manufactured in the U.S. Please refer to "Risk factors – Risks relating to our industry – Our business, financial condition and results of operations may be materially and adversely affected by international policies and international economic sanctions" in this prospectus for details of the risk associated with the U.S.-China trade war.

During the Track Record Period, we sold and delivered our products to our customers in Hong Kong and the PRC only. During the Track Record Period and up to the Latest Practicable Date, we did not sell our IC products to the U.S. and our Directors were not aware of any subsequent sales of our IC products to the U.S. by our customers. Our Directors confirm that our sale performance was not materially impacted by the U.S.-China trade war.

Our Directors confirm that there has been no material adverse change in our business operations, including our revenue, sales volume and average selling price, and business environment in which we are operating subsequent to the Track Record Period and up to the prospectus date. Nonetheless, we currently expect that our financial results for 2019 will be adversely impacted by our non-recurring listing expenses recognised and to be recognised as expenses in our consolidated statements of profit or loss and other comprehensive income. Please refer to "Financial information – Listing expenses" in this prospectus for further details of our listing expenses.

NON-COMPLIANCE

During the Track Record Period, our Group failed to furnish profits tax returns for the year of assessment 2015/16 within the prescribed time limit under Section 51(1) of the IRO. Please refer to "Business – Non-compliance" in this prospectus for further details.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Technical terms in relation to our Group's industry and business operations are explained in "Glossary of technical terms" in this prospectus.

"Accountants' Report"	the accountants' report prepared by Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, addressed to our Company and the Sole Sponsor as set out in Appendix I to this prospectus
"Acquisition of Chengdu Flyring"	the acquisition of the entire issued share capital of Chengdu Flyring by Shenzhen IH as described in "History, Reorganisation and corporate structure – Reorganisation" in this prospectus, following the completion of which, Chengdu Flyring became wholly-owned by Shenzhen IH and an indirect wholly-owned subsidiary of our Company
"Acquisition of Shanghai IH"	the acquisition of the entire issued share capital of Shanghai IH by Shenzhen IH as described in "History, Reorganisation and corporate structure – Reorganisation" in this prospectus, following the completion of which, Shanghai IH became wholly-owned by Shenzhen IH and an indirect wholly-owned subsidiary of our Company
"Acquisition of Shenzhen IH"	the acquisition of the entire issued share capital of Shenzhen IH by Flyring Electronics as described in "History, Reorganisation and corporate structure – Reorganisation" in this prospectus, following the completion of which, Shenzhen IH became wholly-owned by Flyring Electronics and an indirect wholly-owned subsidiary of our Company
"Acquisition of the PRC Group Companies"	the Acquisition of Shenzhen IH, the Acquisition of Chengdu Flyring and the Acquisition of Shanghai IH, collectively
"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person

"Alliance Capital"	Alliance Capital Partners Limited, a corporation licensed under the SFO to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO, being the Sole Sponsor, one of the Joint Bookrunners and one of the Joint Lead Managers
"Application Form(s)"	the **WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or, where the context so requires, any of them, relating to the Public Offer
"Articles of Association" or "Articles"	the articles of association of our Company, conditionally adopted on 21 June 2019 and as amended, supplemented or otherwise modified from time to time, a summary of which is set out in in Appendix III to this prospectus, and as amended, supplemented or otherwise modified from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of our Board
"Board" or "Board of Directors"	the board of Directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"BVI Companies Act"	the BVI Business Companies Act, as amended, supplemented or otherwise modified from time to time
"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to "A. Further information about our Group – 3. Written Resolutions of the Shareholders of our Company passed on 21 June 2019" in Appendix IV to this prospectus
"Cayman Companies Law" or "Companies Law"	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant(s)"	person(s) admitted to participate in CCASS as a direct clearing participant(s) or general clearing participant(s)
"CCASS Custodian Participant(s)"	person(s) admitted to participate in CCASS as a custodian participants
"CCASS Investor Participant(s)"	person(s) admitted to participate in CCASS as an investor participant(s) who may be an individual or joint individuals or corporation(s)
"CCASS Participant(s)"	CCASS Clearing Participant(s), or CCASS Custodian Participant(s) or CCASS Investor Participant(s)
"Chairman"	the chairman of our Board
"Chengdu Flyring"	成都飛環電子有限公司 (Chengdu Flyring Electronics Co., Ltd.*), an enterprise established in the PRC on 2 November 2000 and an indirect wholly-owned subsidiary of our Company
"Chief Executive Officer"	the chief executive officer of our Group
"China" or "PRC"	the People's Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

"Company" or "our Company"	Contel Technology Company Limited (康特隆科技有限公司), an exempted company incorporated in the Cayman Islands on 16 August 2016 with limited liability and references to "we", "us" or "our" refer to our Group or, where the context requires, our Company
"Confirmatory Deed"	a confirmatory deed dated 21 March 2018 and entered into by and among Mr. Lam, Mr. Qing and Mrs. Qing
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Contel (BVI)"	Contel (BVI) Ltd., a company incorporated under the laws of the BVI on 19 September 2016 and a wholly-owned subsidiary of our Company
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules, and unless the context requires otherwise, refers to Mr. Lam, Mr. Qing, Mrs. Qing, P. Grand and Kingtech as a group of controlling shareholders
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Deed of Indemnity"	a deed of indemnity dated 21 June 2019 and entered into by the Controlling Shareholder(s) in favour of our Company regarding certain indemnities, particulars of which are set out in "Other information – 1. The Deed of Indemnity" in Appendix IV to this prospectus
"Director(s)"	the director(s) of our Company
"EIT Law"	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) approved during the Fifth Session of the 10th National People's Congress and became effective on 1 January 2008
"First Securities"	First Securities (HK) Limited, a corporation licensed under the SFO to carry out types 1 (dealing in securities) and 9 (asset management) regulated activities under the SFO, being one of the Joint Lead Managers

"Flyring Electronics"	Flyring Electronics Limited (飛環電子有限公司), a company incorporated under the laws of Hong Kong on 11 January 2011 and an indirect wholly-owned subsidiary of our Company
"F&S Report"	an independent research report commissioned by us and prepared by Frost & Sullivan for the purpose of this prospectus
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry expert engaged by our Company to prepare the F&S Report and an independent third party
"FY2015"	the financial year ended 31 December 2015
"FY2016"	the financial year ended 31 December 2016
"FY2017"	the financial year ended 31 December 2017
"FY2018"	the financial year ended 31 December 2018
"GBP"	British pound sterling, the lawful currency of the United Kingdom
"GDP"	gross domestic product
"GFA"	gross floor area
"Group", "our Group", "we" or "us"	our Company and our subsidiaries or, where the context so requires with respect to the period before our Company became the holding company of our existing subsidiaries, such subsidiaries as if they were our Company's subsidiaries at that time
"**HK eIPO White Form**"	the application for Public Offer Shares to be issued in the applicant's own name by submitting the application online through the designated website of **HK eIPO White Form** at **www.hkeipo.hk**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website at **www.hkeipo.hk**

"HK$", "HKD" or "HK dollar(s)"	Hong Kong dollar, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards promulgated by HKICPA
"HK Group Companies"	Flyring Electronics and IH Technology
"HKICPA"	The Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited
"IH Technology"	IH Technology Limited (英浩科技有限公司), formerly named as Granding Corporation Limited (天英行有限公司), a company incorporated under the laws of Hong Kong on 23 August 2006 and an indirect wholly-owned subsidiary of our Company
"Implementation Rules"	the Implementing Regulations of the Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》), which was promulgated on 6 December 2007 and became effective on 1 January 2008
"Independent Third Party(ies)"	party(ies) not connected with any of our Directors or our Controlling Shareholders or any of our subsidiaries or any of their respective associates (within the meaning of the Listing Rules)

"Intercompany Transactions"	intercompany transactions between the HK Group Companies and the PRC Group Companies, the details of which are set out in "Financial information – Discussion of selected profit or loss items – Income tax expenses – Transfer pricing arrangement" in this prospectus
"IRD"	the Inland Revenue Department
"IRO"	Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Joint Bookrunners"	Alliance Capital, Tonghai Securities and Ruibang Securities
"Joint Lead Managers"	Alliance Capital, Tonghai Securities, Ruibang Securities and First Securities
"Kingtech"	Kingtech (BVI) Ltd., a company incorporated under the laws of the BVI on 19 September 2016 and wholly owned by Mrs. Qing, our Controlling Shareholder
"Latest Practicable Date"	20 June 2019, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
"Listing"	the commencement of trading of our Shares on the Main Board
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Date"	the date expected to be on or about 16 July 2019, on which our Shares are first listed and from which dealings in our Shares are permitted to take place on the Main Board of the Stock Exchange
"Listing Division"	the listing division of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time

"Main Board"	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company, adopted on 21 June 2019 and as amended from time to time
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC
"Mr. Lam"	Mr. Lam Keung (林強), the Chairman, the Chief Executive Officer, an executive Director and our Controlling Shareholder
"Mr. Mai"	Mr. Mai Lu (麥魯), an executor Director
"Mr. Qing"	Mr. Qing Haodong (卿浩東), an executive Director and our Controlling Shareholder
"Mrs. Qing"	Ms. Feng Tao (馮濤), the spouse of Mr. Qing and our Controlling Shareholder
"Nomination Committee"	the nomination committee of the Board
"NTD"	New Taiwan dollars, the lawful currency of Taiwan
"Offer Price"	the final price per Offer Share (exclusive of brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%), which will be not more than HK$0.68 per Offer Share and is expected to be not less than HK$0.63 per Offer Share, such price to be fixed on or before the Price Determination Date
"Offer Share(s)"	the Public Offer Shares and the Placing Shares together, where relevant, with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option

"Over-allotment Option"	the option proposed to be granted by our Company to the Placing Underwriters and exercisable by the Stabilising Manager (for itself and on behalf of the Placing Underwriters) pursuant to the Placing Underwriting Agreement, under which the Stabilising Manager (for itself and on behalf of the Placing Underwriters) may require our Company to allot and issue up to an aggregate of 30,000,000 additional Shares (representing 15% of the number of Offer Shares initially being offered under the Share Offer) at the Offer Price, for the sole purpose of covering any over-allocations in the Placing, if any, as further described in "Structure of the Share Offer" in this prospectus
"person"	any individual, corporation, partnership, limited partnership, proprietorship, association, limited liability company, firm, trust, estate or other enterprise or entity
"P.Grand"	P.Grand (BVI) Ltd., a company incorporated under the laws of the BVI on 19 September 2016 and wholly-owned by Mr. Lam, an executive Director and our Controlling Shareholder
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of our Company to professional, institutional and other investors at the Offer Price on and subject to the terms and conditions under the Placing Underwriting Agreement, as further described in "Structure of the Share Offer" in this prospectus
"Placing Shares"	the 180,000,000 Shares initially being offered by our Company for subscription pursuant to the Placing, together with, where relevant, any additional Shares that may be issued by our Company pursuant to any exercise of the Over-allotment Option
"Placing Underwriters"	the group of underwriters for the Placing who are expected to enter into the Placing Underwriting Agreement
"Placing Underwriting Agreement"	the placing underwriting agreement relating to the Placing to be entered into on or around 10 July 2019 by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters

"PRC government"	the government of the PRC including all government subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
"PRC Group Companies"	Chengdu Flyring, Shanghai IH and Shenzhen IH
"PRC Legal Advisers"	Commerce & Finance Law Offices (通商律師事務所), a qualified PRC law firm as the PRC legal advisers to our Company for the application for the Listing
"Pre-Acquisition Period"	the year ended 31 December 2015 and the period from 1 January 2016 to the dates of the Acquisition of the PRC Group Companies (i.e. 16 January 2017, 26 December 2016 and 14 December 2016 for Chengdu Flyring, Shanghai IH and Shenzhen IH, respectively); and the phrase "during the Pre-Acquisition Period", followed by a series of figures or percentages, refers to information relating to the year ended 31 December 2015 and the period from 1 January 2016 to the dates of the relevant Acquisition of the PRC Group Companies, respectively
"Predecessor Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
"Price Determination Agreement"	the agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date to determine and record the Offer Price
"Price Determination Date"	the date, expected to be on or around 10 July 2019 (Hong Kong time) but no later than 10 July 2019, on which the Offer Price is determined for the purpose of the Share Offer
"Public Offer"	the offer of the Public Offer Shares by our Company for subscription to members of the public in Hong Kong at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in "Structure of the Share Offer – Public Offer" in this prospectus

"Public Offer Shares"	the 20,000,000 Offer Shares being initially offered by our Company at the Offer Price for subscription pursuant to the Public Offer, subject to adjustment as described in "Structure of the Share Offer" in this prospectus
"Public Offer Underwriters"	the underwriters of the Public Offer as set out in "Underwriting – Public Offer Underwriters" in this prospectus
"Public Offer Underwriting Agreement"	the underwriting agreement dated 28 June 2019 relating to the Public Offer and entered into by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters
"R&D"	research and development
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of our Board
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in "History, Reorganisation and corporate structure – Reorganisation" in this prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Ruibang Securities"	Ruibang Securities Limited, a corporation licensed under the SFO to carry out types 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO, being one of the Joint Bookrunners and one of the Joint Lead Managers
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SFC"	the Securities and Futures Commission of Hong Kong

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shanghai IH"	上海英浩微電子技術有限公司 (Shanghai IH Microelectronics Technology Co., Ltd.*), an enterprise established in the PRC on 26 August 2009 and an indirect wholly-owned subsidiary of our Company
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of our Company
"Share Offer"	the Public Offer and the Placing
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 21 June 2019, the principal terms of which are set out in "Share Option Scheme" in Appendix IV to this prospectus
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen IH"	深圳市英浩控制技術有限公司 (Shenzhen IH Technology Co., Ltd.*), an enterprise established in the PRC on 11 May 2005 and an indirect wholly-owned subsidiary of our Company
"Sole Sponsor"	Alliance Capital
"sq.ft."	square feet
"sq.m."	square metre(s)
"Stabilising Manager"	Alliance Capital
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules

"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Tonghai Securities"	China Tonghai Securities Limited, a corporation licensed under the SFO to carry out types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO, being one of the Joint Bookrunners and one of the Joint Lead Managers
"Track Record Period"	the four years ended 31 December 2015, 2016, 2017 and 2018, respectively; and the phrase "during the Track Record Period", followed by a series of figures or percentages, refers to information relating to the four years ended 31 December 2015, 2016, 2017 and 2018, respectively
"Transfer Pricing Analyst"	Mazars Tax Services Limited, a company engaged by our Group to review matters related to the Intercompany Transactions and the transfer pricing arrangements of our Group
"Underwriters"	the Public Offer Underwriters and the Placing Underwriters
"Underwriting Agreements"	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
"US$", "USD" or "US dollar(s)"	United States dollar(s), the lawful currency of the United States
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
"**WHITE** Application Form(s)"	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be issued in the applicant's own name
"**YELLOW** Application Form(s)"	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be deposited directly into CCASS
"%"	per cent

In this prospectus, unless expressly stated or the context requires otherwise:

- *all information and data is as at the Latest Practicable Date;*
- *certain amounts and percentage figures, including but not limited to, shareholdings and operating data, may have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them;*
- *all references to any shareholdings in our Company assume no exercise of the Over-allotment Option unless otherwise specified;*
- *English names marked with "*" are unofficial English translations of the Chinese names of, among others, entities, laws or regulations or government authorities, that do not have official English names. Such English translations are provided for identification purposes only. If there is any inconsistency between the Chinese name and the English translation, the Chinese name shall prevail; and*
- *if there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail.*

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. The terminology contained in this glossary and their given meanings may not correspond to standard industry meaning or usage of these terms.

"application engineer"	application engineer, a role which requires providing technical support to customers and working with suppliers and their sales representatives. Application engineers need to have relevant technical knowledge in order to analyse and fix problems and to provide technical solutions, as well as have communication skills in order to collaborate with suppliers and customers
"automation"	the technology by which a process or procedure is performed without human assistance
"BLDC motor"	brushless direct current motor, a kind of motor that has a longer life cycle and higher reliability than brushed type motors, and is more efficient than traditional alternative current motors
"CAGR"	compound annual growth rate
"COB"	chip on board, a specialised packaging solution in which one or more LED chips are directly mounted to a PCB and then encapsulated
"component" or "electronic component"	any basic discrete device or physical entity in an electronic system used which is not an IC, i.e. resistors or capacitors
"evaluation board"	a PCB containing a particular microprocessor or IC and minimal support logic needed in order for the user to become acquainted with the IC on the board and to learn to programme with it
"fabless"	a business model where the entity does not possess fabrication facilities
"FTTB"	fibre to the building, a type of fibre-optic cable installation where the fibre reaches the boundary of the building
"FTTH"	fibre to the home, a type of fibre-optic cable installation where the fibre reaches the boundary of the living space

"GPS"	Global Positioning System, a space-based radio-navigation system that provides location and time information
"integrated circuit" or "IC"	a miniaturised electronic circuit that has been manufactured in the surface of a thin substrate of semiconductor material
"IoT"	the Internet of Things, which is used to describe the network of physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors, actuators, and network connectivity which enables these objects to connect and exchange data
"LED"	light-emitting diode, a semiconductor diode that emits light when conducting current and is used in electronic equipment
"NB"	narrowband, a RF communications channel where the bandwidth is narrow, and requires low power consumption
"NFC"	near-field communication, a technology used in electronic devices to enable them to establish communication with each other when held close together
"ODM"	original design manufacturer, a company that offers complete, end-to-end design, engineering and manufacturing services to its customers
"OEM"	original equipment manufacturer, a company that assembles component/complete pieces of equipment from parts for other companies which sell them under their own name or use them in their own products
"printed circuit board" or "PCB"	a board with electronic circuits connecting various components such as ICs and various electronic components
"RF" or "radio frequency"	electro-magnetic wave frequencies that lie in the range extending from around 300 kHz to 300 GHz, which can be used for communications or radar signals. RF usually refers to electrical rather than mechanical oscillations. RF technology is widely applied in the field of wireless communication community antenna television

"RF power"	the power devices which are used to generate stable radio frequency through alternating current, the output of such radio frequency is generally a sine wave or pulse
"sensor"	a device that measures or detects a real-world condition, such as motion, heat or light and converts the condition into an analogue or digital representation
"SMD"	surface mount device, a type of LED module that uses Surface-mount technology (SMT) to mount LED chips on a PCB
"value-added reseller"	a company that designs and adds certain functions or features into an existing product and resells the enhanced product or "turn-key" solution to its customer
"VFD"	variable-frequency drive, a type of adjustable-speed drive used in electro-mechanical drive systems to control motor speed and torque by varying motor input frequency and voltage
"watt"	a unit of energy (power)
"wifi"	wireless local area networking

This prospectus contains forward-looking statements including, without limitation, words and expressions such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “project”, “seek”, “should”, “will”, “would” or similar words or statements, in particular, in “Business”, “Future plans and use of proceeds” and “Financial information” in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on various assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions including the risk factors described in this prospectus and the following:

- our business and operating strategies and the various measures to implement such strategies;
- our operations and business prospects, including development plans for its existing and new businesses;
- the future competitive environment for the industries in which we operate;
- the regulatory environment as well as the general industry outlook for the industries in which we operate;
- future developments in the industries in which we operate;
- various business opportunities that we may pursue;
- the effects of the global financial markets and economic crisis; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations and the Main Board Listing Rules, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section as well as the risks and uncertainties discussed in “Risk factors” in this prospectus. In this prospectus, unless otherwise stated, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. You should pay particular attention to the fact that our Company was incorporated in the Cayman Islands and our Group has operations conducted outside Hong Kong and are governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below may have a material adverse effect on our business, results of operations, financial condition or on the trading price of our Shares, and may cause you to lose all or part of your investment.

We believe that there are certain risks and uncertainties in relation to our business and operations, some of which are beyond our control. These risks and uncertainties can be categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to operations in the PRC; (iv) risks relating to the Share Offer and our Shares; and (v) risks relating to statements made in this prospectus and from other sources.

RISKS RELATING TO OUR BUSINESS

We are dependent on our major suppliers, and our business, financial condition and results of operations could be adversely affected if our relationships with these major suppliers are terminated, interrupted, or modified in any way adverse to us

Our success depends on our ability to maintain a good and continued relationship with our major suppliers and our ability to procure products from such suppliers on favourable terms. During the Track Record Period, the ICs which we supplied to our customers were sourced from suppliers who are either IC manufacturers or IC distributors. During the Track Record Period, the aggregate purchases from our top five suppliers amounted to approximately US$39.8 million, US$29.9 million, US$38.0 million and US$46.3 million, respectively, accounting for approximately 94.7%, 89.4%, 82.5% and 80.9% of our total purchases, respectively, while the purchases from our largest supplier amounted to approximately US$26.8 million, US$14.9 million, US$11.8 million and US$14.3 million, respectively, accounting for approximately 63.9%, 44.4%, 25.7% and 25.0% of our total purchases, respectively. Please refer to "Business – Procurement and suppliers" in this prospectus for further details of our major suppliers and principal terms of our supply arrangement.

We cannot assure you that our current suppliers will continue to supply products to us on terms acceptable to us, or that we will be able to establish new or extend current supplier relationships to ensure a steady supply in a timely and cost-efficient manner. If our relationships with our major suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial condition and results of operations could be adversely affected. In particular, we may face the following risks that may have a significant adverse effect on our operations, business and results of operations:

- there can be no assurance that we would be able to identify alternative suppliers for replacement in a timely manner if any of our major suppliers were to substantially reduce the amount of supplies to us or to cease business relationship with us entirely;

- there may be material interruptions to our operations and business before we can secure supply from other suppliers for the large quantity of ICs that we may need, and it may take time for us to negotiate for purchase terms with the other suppliers; and

- even if we are able to purchase from other suppliers, there can be no assurance that the provision of ICs from such suppliers would be on terms and conditions acceptable to us, and/or in sufficient quantity to meet our imminent demands.

Further, some of our suppliers are authorised distributors of certain brand-name product manufacturers. If for any reason they are no longer an authorised distributor, we may have no access to certain brand-name products, which will adversely affect our business operations and financial results.

We might be subject to increased financial burden for our purchases under the ship-and-debit arrangement and not under the ship-and-debit arrangement, and any change in the industry practice may also adversely affect our business and financial results

Owing to the fact that (i) we are generally required to settle our trade payables (both in respect of our purchases of ICs under and not under the ship-and-debit arrangement) to our suppliers before the receipts of our trade receivables from our customers; and (ii) we are required to settle the purchase rebate payments to our suppliers in respect of our purchases of ICs under the ship-and-debit arrangement which would be only rebated in form of credit notes (after the sale of those ICs purchased under the ship-and-debit arrangement) to offset subsequent purchases from the same suppliers, we face cash flow mismatch in our business operations, both under the ship-and-debit arrangement and not under the ship-and-debit arrangement. During FY2018, our cash flow mismatch for purchases under the ship-and-debit arrangement was approximately US$4.9 million and our cash flow mismatch for purchases not under the ship-and-debit arrangement was approximately US$9.8 million. Please refer to "Business – Procurement and suppliers – Cash flow mismatch" in this prospectus for further details.

According to the F&S Report, it is common for manufacturer suppliers in the IC sourcing and sales industry that operate in international markets to adopt a price protection policy in the form of ship-and-debit arrangement. Generally speaking, the ship-and-debit arrangement represents an off-invoice discount which reduces the actual cost to the distributor depending on the specific local market conditions.

Currently, three of our suppliers, namely Power Integrations International Ltd., Supplier A and RDA Technologies Limited who are IC manufacturers, adopt the ship-and-debit arrangement. During the Track Record Period, the gross purchases we paid under the ship-and-debit arrangement were nil, approximately US$5.2 million, US$30.6 million and US$30.1 million, respectively, and the rebates we received were nil, approximately US$2.9 million, US$13.8 million and US$8.4 million, respectively. Under the terms of the ship-and-debit arrangement, we first purchase the ICs from such suppliers at a uniform price. After a sale to our customer is made, we are required to submit a monthly point of sale report to the relevant supplier notifying them of, among others, the sales volume, book price and expected rebate amount during the period between the fifth day and the tenth day of the following month. The relevant supplier subsequently issues a rebate in the form of a credit note to us, which we use to set-off against the costs of our next purchase of the same IC products and/or different IC products from the same supplier. Please refer to "Business – Procurement and suppliers – Price protection policy/ship-and-debit arrangement" in this prospectus for further details. As we are required to purchase the ICs from our suppliers at the uniform price first before we receive the rebates, we are subject to increased financial burden at the outset which might have an adverse impact on our liquidity and cash flow position.

The rebates we receive from our suppliers under the ship-and-debit arrangement could effectively lower our net unit purchase prices of ICs from our IC manufacturer suppliers (as compared to purchases from IC distributor suppliers). However, we cannot assure you that we will continue to receive such rebates at the current level, which are non-committal and discretionary in nature, in the future, and if we do receive them, in an amount that is consistent with the past. Should our IC manufacturer suppliers decide to decrease the rebate margins, and if we were unable to pass on to our customers the additional costs resulting from any decrease in the amount of such rebates, this could erode our gross profit margins and materially affect our results of operations.

The practice of ship-and-debit is often adopted by well-established manufacturers and applies to ICs that are of a higher or advanced technological development in nature. Our Directors believe that this practice creates a higher entry barrier for the distributors both in terms of financial resources as well as technological competence. Any change in such practice may intensify the competition within the IC sourcing and sales industry which may have an adverse impact on our business and results of operations.

We have been dependent on our major product categories during the Track Record Period. Our business, financial condition and results of operations would be materially and adversely affected if sales generated under these product categories were to decline and/or if we fail to diversify our business

We specialise in five major product categories: (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation. During the Track Record Period, the total amounts of revenue generated under these product categories were approximately US$45.6 million, US$36.4 million, US$53.8 million and US$67.3 million, respectively. Please refer to "Business – Our products and services" in this prospectus for further details. Further, some of our product categories, such as RF power and LED lighting, are relatively mature. Generally speaking, market prices of products under such categories tend to fall as they become more mature, and our value added service to our customers for such mature products would be of lesser importance, leading to margin erosion. If we are unable to maintain our sales level in our major product categories due to any change of the government policy, intellectual property right or other reasons, or if we fail to diversify our business, our revenue would decline, and our business, financial condition and results of operations would be materially and adversely affected accordingly.

We sell products to our customers on an order-by-order basis, and some of them may cancel, change or postpone their orders

We generally do not enter into long term written contracts with our customers. We sell products to our customers on an order-by-order basis according to the purchase orders placed by our customers from time to time. Our customers are not subject to any regular purchase commitment. Only a rolling forecast, which is non-binding and non-committal in nature, may be provided to us by our customers. Without a regular purchase commitment, it is difficult for us to make realistic forecast of future order quantities and revenue so as to plan for efficient and optimal resource allocation. There is no guarantee that our customers will continue to place orders with us on a consistent basis in terms of quantities, pricing and time intervals. Our profitability, results of operations and financial condition may therefore be affected. Further, since the market demand for semiconductors is sensitive to the general economic outlook and the demand for each individual IC product is influenced by factors such as the market of the ultimate electronic product, intensity of competition and availability of substitutes and new technology, our results of operations may vary from period to period and may fluctuate significantly. Period-to-period comparison of financial performance may become less meaningful and our operating results may, for some periods, be below the expectation of market analysts and investors.

Customers' credit risks and longer trade receivables turnover days may adversely affect our results

During the Track Record Period, our trade receivables turnover days were approximately 76.9 days, 92.9 days, 84.2 days and 94.8 days, respectively. Our provision for impairment loss on trade receivables of approximately US$0.2 million and US$91,000 for FY2015 and FY2018, respectively, primarily represented the impairment loss recognised for our trade receivables in respect of our impairment assessment.

We generally offer credit periods of 30 to 120 days to our customers. During the Track Record Period, our trade receivables turnover days were approximately 41.7 days, 32.6 days, 27.7 days and 49.1 days, longer than our trade payables turnover days, respectively. In the case that our customers increase the size of their purchases, longer trade receivables turnover days would mean that we have to bear additional financial burden to finance our increased working capital needs. In addition, we will also have cash flow problem if we are unable to secure financing from banks in time.

We cannot assure you that our customers will pay us on time and that they will be able to fulfil their payment obligations. Should we experience any unexpected delay or difficulty in collections from our customers, our operating results and financial condition may be adversely affected. In addition, if our trade receivables increase significantly from current levels, our bank financing and interest expenses would increase which would adversely affect our profitability.

As our customer base grows and as competition in the industry becomes more intense, we may be exposed to further credit risks. There is no assurance that the risk of default by the enlarged customer base will not occur in the future.

We might be exposed to the risks of supply shortage or overstocking of inventories if our estimation of demand is not accurate

Our business model requires us to manage our inventories effectively. During the Track Record Period, delivery of ICs from us to our customers generally requires a lead time of one week to two months, while our suppliers generally require a lead time of one to six months, or sometimes even longer, for the delivery of ICs to us. Such mismatch in the respective lead time requires us to maintain a minimum level of inventory of ICs of around two months as a buffer in order to meet any imminent demand of our customers and to minimise the risks of shortage or delay of supplies. To manage our inventories and in order to facilitate us in placing orders to our suppliers, we generally require our customers to provide us with non-binding rolling forecasts, and our customers generally provide us with forecasts ranging from three to 10 months. We take into account these forecasts from our customers in order to manage our inventory. All actual orders with our suppliers are placed based on, among others, our projection of demands, market conditions, market trends and market availability of the relevant ICs at the time. If our estimation of demand and/or the non-binding rolling forecasts provided to us by our customers are not accurate, we might be exposed to the risks of supply shortage or overstocking of inventories, and if this happens, our business and results of operations would be adversely affected.

Owing to the mismatch in the respective lead time, should our suppliers fail to produce or deliver their products to us on time or in our demanded quantity and we are unable to secure inventories from alternative suppliers in time, we may not be able to meet our customers' imminent demands, or to offer them in sufficient quantities and at prices acceptable to them. Failure to fulfil the contractual orders from our customers may materially and adversely affect our business operations and may result in claims by our customers and damage to our reputation.

In the event of overstocking, we may be subject to risks of inventory obsolescence, decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may need to lower sale prices in order to reduce inventory level, which may lead to lower gross profit margins. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. Any of the above may materially and adversely affect our results of operations and financial condition. Although some of our suppliers currently grant us exchange privileges that allow us to exchange unsold products for newer models, we cannot assure you that we will be able to retain those privileges in the future. If we fail to resell products from cancelled orders or exchange those products with suppliers for newer models, our financial condition and results of operations may be materially and adversely affected.

Our historical financial conditions and results of operations may not be indicative of our future growth

During the Track Record Period, our revenue amounted to approximately US$45.6 million, US$36.4 million, US$53.8 million and US$67.3 million, respectively, while our gross profit amounted to approximately US$4.0 million, US$3.2 million, US$6.6 million and US$9.4 million, respectively, with gross profit margin of approximately 8.9%, 8.9%, 12.2% and 14.0%, respectively. Our historical financial information for FY2015 and FY2016 primarily reflects the operating results of the HK Group Companies. The operating results of the PRC Group Companies were not consolidated with those of our Group before the Acquisition of the PRC Group Companies.

Our historical financial information is a mere analysis of our past performance only and is not necessarily indicative of our financial conditions, results of operations and changes in liquidity and capital resources in the future. Such historical financial information does not have any positive implication on our future financial performance. Investors should not place undue reliance on our historical financial information.

Material fluctuations in foreign exchange rates may adversely affect our business and performance

After the Acquisition of the PRC Group Companies, we mainly operate in the PRC and Hong Kong. The functional currency of our Company is HK$ while the functional currencies of our operating subsidiaries are US$ and RMB. Accordingly, transactions of our operating subsidiaries that are denominated in currency other than the functional currencies expose us to foreign exchange risk. Currently, our purchases were primarily denominated in US$, and our revenue was denominated in US$ and RMB.

We recorded an exchange loss, net of approximately US$0.2 million and US$0.3 million for FY2015 and FY2016, respectively, and recorded an exchange gain, net of approximately US$0.5 million and US$3,000 for FY2017 and FY2018, respectively. The exchange rates of different currencies are subject to fluctuations affected by, among other things, international political and economic conditions and changes in the relevant government's economic and monetary policies. In particular, value of RMB in international markets is determined by reference to a basket of currencies as part of a floating exchange rate policy and we cannot predict the future fluctuations of RMB. The PRC government may adopt a more flexible currency policy, which could lead to RMB experiencing more substantial revaluation against foreign currencies. Any possible material fluctuations in foreign exchange rates may adversely affect our business and performance. We do not currently adopt any arrangement to hedge any fluctuation in the foreign currency in relation to our purchases and sales.

Further, in the event that the US$ strengthens against RMB, the purchasing power of our customers in the PRC whose functional currency is RMB will be eroded and our business and financial results might be adversely affected.

In addition, the proceeds from the Share Offer will be received in HK$. As a result, any appreciation of RMB against US$, HK$ or any other foreign currencies may increase the costs of our operating expenses and may reduce the amount of purchases to be made in RMB when utilising for our proceeds from the Share Offer. Conversely, any depreciation of RMB may decrease in value of our RMB denominated assets and revenue. There are also limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. We cannot assure you that we will be able to reduce our foreign currency risk exposure relating to our RMB denominated assets and liabilities.

Furthermore, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition and results of operations, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

Please refer to "Financial information – Significant factors affecting our results of operations and financial condition – Fluctuations in foreign currency exchange rates" in this prospectus and note 30 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of our interest rate risk.

We rely heavily on the market acceptance of and confidence in our major suppliers' products, and the success of our business depends on the quality control system and product quality of our major suppliers

We generally purchase ICs from IC manufacturers or IC distributors, including renowned manufacturers which specialise in ICs for application in specific sectors. We rely on the market's acceptance of and confidence in the reliability and quality of our major suppliers' products. However, we are not in the position to control the brand name, quality and market reputation of the products of our major suppliers. Further, any decline in the trust and acceptance the customers put in the brands of our major suppliers or their products may materially and adversely affect our business and results of operations.

In addition, our ability to secure new customers and new projects largely depends on our track record and reputation as a quality and professional service provider. Damage to our reputation and negative publicity associated with us, including any incidents which may arise from our failure to meet customers' expectations, delay in supplying customers with products, inherent defects in the ICs supplied by our suppliers or failure in our quality control system, could result in loss of customers or increased difficulty in attracting new ones. In the event that any customer is not satisfied with the quality of the products provided by us, or should there be any delay in supply due to our performance not being up to their expectations, our relationship with customers and the trust customers placed in us may waver. Further, should any complaints be raised against us or our suppliers regarding the quality of products, or any product provided by us is rejected by any of our customers for quality reasons, our reputation may also be adversely affected as a result. Such incidents may pose a negative impact on our business development, growth, prospects and financial performance as a whole.

Our suppliers may undergo corporate restructuring in any form, which may have a material adverse impact on our business and results of operations

Strategic alliances, mergers and acquisitions have become a popular strategy for company growth and/or product diversification. Should our suppliers undergo any corporate restructuring in any form such as by way of strategic alliances or merger and acquisition activities, there may be a change of our business relationship with such suppliers. For instance, our relationship may be terminated or our bargaining power with such suppliers may be affected in an adverse manner as a result of the corporate restructuring, and as a result, we may not be able to source the same products from our suppliers on terms acceptable to us, or at all.

Furthermore, different IC manufacturer suppliers tend to have different niches and be specialised in different types of IC products. We cannot guarantee that such suppliers will continue to focus on the same product market and be able to maintain or enhance their status in the niche IC market subsequent to their corporate restructuring, which might have a negative impact on us in sourcing certain IC products of similar functionalities, specifications and/or applications, and hence our business and results of operations. If our relationships with our major suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial condition and results of operations could be adversely affected.

Our relationship with customers may not be secure

It is our core business model that we sell IC products we sourced together with our IC application solutions and value-added services to our customers. Our integrated value-added services include designing, developing and providing IC application solutions. These services are not separately charged but incorporated into the selling price of ICs procured from our suppliers and then on sell to our customers. Please refer to "Business – Our business model" in this prospectus for further details of our business model.

We believe that our integrated value-added services are important to our customers as they reduce the time and effort for our customers to identify and source the suitable ICs and lower their in-house R&D and design cost. However, our value-added services might not be needed once the size of our customers has grown to an extent that either they are in a position to establish their own in-house design and research team and/or that our suppliers decide to work directly with our existing customers.

Our existing customers may become large enough in size and have the adequate technological and/or financial ability to potentially develop and/or expand their own R&D and design capabilities to the point where they no longer require our value-added services to solve their issues, in which case we might eventually lose such customers. In addition, we may face competition from such customers if they expand into the value-added reseller industry. In both cases, our business, revenue and results of operations may be materially and adversely affected.

Further, we cannot assure you that our customers will continue to retain us to provide value-added services. Our customers are not subject to any contractual obligations to continue purchasing the necessary IC products from us after we have provided our application solutions to such customers. We cannot prevent our customers from circumventing us and obtaining the IC products directly from the suppliers. If our customers directly source ICs from our suppliers or we fail to maintain the relationships with our existing customers in the future, our business, financial condition and results of operations would be materially and adversely affected.

We may face increasing market competition

We generally do not enter into long term written agreements with our customers. However, as more new entrants enter the PRC IC sourcing and sales industry, we may face increasing market competition. We believe that as more new entrants enter the PRC IC sourcing and sales industry, they would potentially attract our customers. If we face any increase of market competition, or any potential loss of customers or any difficulty in attracting new customers, our business and financial conditions may potentially be adversely affected.

Moreover, some of our competitors or new entrants may gain competitive advantages through acquisition by, investments from or strategic alliances with well-established and well-financed companies or investors. Some of our competitors may be able to source products from suppliers on more favourable terms, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory policies and devote substantially more resources to website and system development than we do.

Further, as the electronics industry evolves, we may face increasing competitive challenges competing for new customers and retaining existing customers, including:

- sourcing products efficiently;
- pricing our products competitively;
- maintaining the quality of our products;
- anticipating and quickly responding to changing technologies and product trends;
- providing quality customer services; and
- conducting effective sales and marketing activities.

We cannot assure you that we will be able to compete successfully against current and future competitors, or that we will be able to address the challenges we face. Failure to respond to market competition and the above challenges may reduce our operating margins, market share and brand recognition, or force us to incur losses, which will have a material adverse effect on our business, prospects, financial condition and results of operations.

We rely on third party import agencies for logistics services, and their failure to provide quality services may materially and adversely affect our business and results of operations

After the Acquisition of the PRC Group Companies, sales from our customers under which the products were delivered in the PRC accounted for approximately 51.8% and 44.5% of our total revenue for FY2017 and FY2018, respectively. For such sales, we generally rely on third party import agencies to deliver the products from the warehouse in our Hong Kong office to the warehouses in our PRC offices in Shenzhen, Chengdu and Shanghai before the products are further delivered to our customers in the PRC. During the Track Record Period, we contracted our logistics services, including customs clearance, transportation and delivery services to third party import agencies. There is no guarantee that these third party import agencies will perform their duties at a satisfactory level at all times. Any disputes with or termination in our contractual relationships with one or more of the third party import agencies could lead to delayed delivery of products or increased costs. We cannot assure you that we can continue or extend relationships with our current third party import agencies on terms acceptable to us, or that we will be able to establish relationships with new third party import agencies to ensure accurate, timely and cost effective delivery services. If we do not successfully maintain or develop good relationships with third party import agencies, it may prevent us from offering products in sufficient quantities, on a timely basis, or at prices acceptable to our consumers. In case of any breakdown in our relationships with our preferred third party import agencies, we cannot guarantee that no interruptions would occur or that they would not materially and adversely affect our business, prospects and results of operations.

In addition, interruptions to or failures in their logistics services could prevent the timely or successful delivery of our products. These interruptions may be due to unforeseen events that are beyond our control or the control of these third party import agencies, including transportation bottlenecks, adverse weather conditions and natural disasters, social unrest and labour strikes, which could result in delayed or lost deliveries, and may result in loss of revenue and damage to our reputation. Poor handling by our third party import agencies could also damage our products. If our products are not delivered on time or are delivered in a damaged state, our customers may refuse to accept our products and have less confidence in our services. Thus, we may lose customers, and our financial condition and market reputation could suffer. Furthermore, any significant increase in the cost of transportation, such as increased fuel cost, will increase our operating expenses.

Our sales may fluctuate and be affected by seasonality

Demand for our customers' products is not much affected by seasonality, except that we generally record lower sales amounts during the month of Lunar New Year of each year. We believe that such decrease in demand is mainly due to the shutdown of our customers' operations in the PRC over the long holiday break for the Lunar New Year. As a result, our results of operations may fluctuate from quarter to quarter. However, we cannot assure you that such sales pattern will continue to the same extent, or at all.

Our business expansion may not be as successful as we have planned

We are striving to expand our business. As part of our business strategies, we plan to, among other things, seek for more opportunities to act as the authorised distributor of more IC manufacturers and to expand our operations in fast-growing and emerging market categories. Please refer to "Business – Our business strategies" in this prospectus for further details. Our expansion may not be as successful as we have planned or such expansion may result in significant increase in our financial burden and may affect our operations. Our business may fail if we are unable to keep up with the changing trends, stay in touch with our customers, understand their needs and develop a customised approach and product mix with strong value that attracts their attention and interest. In such circumstances, our efforts, capital investments and resources may be wasted, and our business, financial condition and results of operations could be adversely affected.

If we are unable to retain our key members of our management and attract new talent, our growth and future may be impaired

We believe that our continued success, growth and ability to expand our operations depend significantly upon the continued efforts, contribution and expertise of our key management team and technical employees. These personnel have played a key role in the success of the business and may adversely impact the business if they leave our Group. On average, our executive Directors have over 16 years of industry experience. Our Directors believe that these personnel possess the relevant knowledge and requisite expertise which are essential to our business and our future development. In addition, our business depends on our ability to attract and retain members of the senior management and skilled employees, in particular those who are skilled in the design and development spectrum for new products and processes. However, as competition for these key personnel in the industry is intense, any failure to retain or attract such skilled personnel may affect our business operations, financial performance and future prospects.

Furthermore, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, our business may be severely disrupted.

Our operations may be subject to transfer pricing adjustment

Our HK Group Companies procured a majority of ICs for our Group from our suppliers and then sold certain ICs to our PRC Group Companies via our import agencies for the sale of IC products in the PRC during the Track Record Period.

Pursuant to the EIT Law, the Implementation Rules and the transfer pricing regulations in the PRC including SAT Bulletin [2016] No. 42 and the Implementation Regulations for Special Tax Adjustments (Trial)《特別納稅調整實施辦法(試行)》(the "**STA Rules**"), transactions, including the transfer of tangible assets, between parties which one of them directly or indirectly holds 25% or more in aggregate of the shares of the others; or a common third party directly or indirectly holds 25% or more in aggregate of the respective shares of these parties are regarded as related party transactions. Therefore, the Intercompany Transactions are regarded as related party transactions under the PRC tax regime.

According to the EIT Law, the Implementation Rules and the transfer pricing regulations in the PRC, related party transactions should comply with the arm's length principle and if the related party transactions fail to comply with the arm's length principle resulting in the reduction of the enterprise's taxable income, the PRC tax authority has the power to make an adjustment following certain procedures. According to our Transfer Pricing Analyst, the overall operating profit margin of our PRC Group Companies lies within the arm's length range of operating profit margin and there is no indication that the Intercompany Transactions are in breach of the arm's length principle.

If the PRC tax authority considers that our PRC Group Companies do not comply with the transfer pricing rules, the PRC tax authority has the power to make transfer pricing adjustments on our PRC Group Companies, order them to pay all outstanding tax and statutory interest.

Our business, operating results and financial condition could be adversely affected by the IC manufacturers' failure to register intellectual property rights or inadequate efforts to protect their intellectual property rights

We have not registered any intellectual property rights for any of our designs and application solutions as such designs and application solutions are purely for the application of the IC manufacturers' ICs to our customers' products, and we invent neither the technology of the ICs, nor the design of our customers' products. We have no control over whether the IC manufacturers would register any intellectual property rights for their ICs and/or the technology of their ICs and we cannot assure you that the IC manufacturers' efforts to protect their intellectual property rights are sufficient. In the event that our IC manufacturer suppliers face legal proceedings or claims against them for any infringement of the intellectual property rights owned by others, we may not be able to continue to source ICs from such suppliers and apply such ICs to our customers' products until such legal proceedings or claims are settled, which could have an adverse effect on our business, operating results and financial condition.

RISKS RELATING TO OUR INDUSTRY

We are subject to technological changes in the electronics industry

The technological changes in the electronics market are characterised by their fast changing nature and we need to be adaptive and quick to respond to such technological changes. In the event that we are unable to adapt to such changes and/or unable to respond to such changes by providing timely solutions to our customers, our business and financial results would be adversely affected.

We are dependent on the health of global economic conditions and levels of global consumption in general

We are dependent on the health of global economic conditions and the levels of global consumer consumption in general. We are principally engaged in the provision of IC application solutions together with the sale of ICs to customers who are mainly electronic products and industrial equipment manufacturers. The demand from our customers, therefore, depends on the overall consumer demand for the end-products they make. Any deterioration in global economic conditions could affect consumer confidence and spending. If the demand for the products we provide declines as a result of changes in global economic conditions or does not grow at the pace we anticipate, our business, financial condition and results of operations could be adversely affected.

Any financial and economic crisis could also adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations resulting in a decrease in, or cancellation of, orders for the products we provide or limitations on the quantity of products supplied to us due to reduced production output. Furthermore, these economic conditions could make it difficult for us, our customers and suppliers to accurately forecast and plan future business activities, which could cause our customers to reduce spending on the products we provide. If the market in which we operate deteriorates due to adverse financial or economic condition, our business and operating results would be adversely affected.

Volatility of the electronics product market

Our services are highly dependent on demands from our customers, who in turn are greatly dependent on consumers' preference and market demand. The electronics product market changes and fluctuates, and the demands for our current products and designs may drop vigorously when new products appear in the market and consumers' tastes and preferences change. Electronics products are volatile and often become obsolete whenever newer products push them out of the market. A majority of our products are ancillary to the electronics industry. The result is that we rely and will continue to rely on the electronics industry. Although our Directors believe that we maintain a close watch on the market and trends, we are not able to assure you that our designs and products can keep up with the pace as the market changes in the future. Any substantial fluctuations, whether they be short term or long term, in the demand for our customers' products may have an adverse impact on our financial condition and profitability.

If we fail to keep up with the changes and transitions in technology, industry standards and customers' requirements and preference, our business, financial position and results of operations may be adversely affected.

We operate in a market which is characterised by industry standards, customers' requirements and preferences and, in particular, rapid changes in technology. Changes in technology may render certain of our products obsolete. Our ability to anticipate changes in technology, to adapt to evolving industry standards, customers' requirements and preferences and to develop and introduce new and enhanced products successfully on a timely basis is crucial to our ability to grow and to remain competitive in the market. We cannot assure you that we will be able to achieve the technological advances that may be necessary for us to remain competitive or that certain products of ours will not become obsolete. We are also subject to the risks generally associated with new product introductions and applications, including delays in new product development. We cannot assure you that we will be able to continue to successfully develop new products through our R&D efforts or that we will be able to keep pace with technological changes and customers' requirements and preferences in the market.

Our failure to compete effectively in the quality of our IC products and our value-added services could result in the loss of customers or our major customers, which could have an adverse effect on our results of operations.

We rely on purchases made by electronics manufacturers in the PRC for a substantial part of our revenue, and factors that adversely affect these electronics manufacturers or the Chinese electronics manufacturing industry could have a material adverse effect on us

We derive a substantial part of our revenue from purchases made by companies in the PRC that engage in electronics manufacturing. Therefore, factors that adversely affect electronics manufacturers in the PRC or the Chinese electronics manufacturing industry could also materially and adversely affect our business, financial condition, results of operations and prospects. These factors include, among others:

- a decline in demand for, or negative perception of, or publicity about, Chinese electronic products;
- a downturn in general economic conditions in the PRC or major countries/regions that import electronic products from the PRC;
- increasing level of competition from electronics manufacturers in other countries/regions;
- the reduction or elimination of preferential tax treatments and economic incentives for electronics manufacturers in the PRC;
- regulatory restrictions, trade disputes, industry-specific quotas, tariffs, non-tariff barriers and taxes that may have the effect of limiting electronic products exports from the PRC;
- appreciation in the value of RMB against the currencies of other countries and regions that import electronic products from the PRC; and
- rising material and labour costs in the PRC relating to electronics manufacturing.

Our business, financial condition and results of operations may be materially and adversely affected by international policies and international economic sanctions

Certain foreign jurisdictions have imposed or may impose economic sanctions in various forms (such as heavy tariffs or harsh trade conditions) against certain countries, individuals and legal entities, which, from time to time, prohibit or restrict export and import activities to a certain extent. Economic sanctions laws or regulations could change in a way that could affect our business, exports or sales in other countries and/or could result in restrictions, penalties or fines. For instance, the recent U.S. – China trade war has led to the introductions of tariffs on a host of goods trading between the two countries, including in particular technology goods and semiconductors. The trade tensions between the two countries have been rising and there is a possibility that the extent and scale of trade restrictions between the two countries be escalated if the U.S. and China fail to reach any agreement to settle the issue. There is no assurance as to how the U.S.-China trade war may develop or whether there will be any changes to the scope and extent of goods that are or will be being subject to such tariffs policies introduced by the two countries. We cannot predict the implications of the ongoing U.S.-China trade war and the knock-on effect on our industry and the global economy.

During the Track Record Period, two of our suppliers, namely Power Integrations and Supplier D are U.S. based companies. As confirmed by such two suppliers, the ICs supplied to us were not manufactured in the U.S. but in the PRC, Thailand, Malaysia or the Philippines. As the tariffs imposed by China depends on the country of origin of the subject products and not the underlying transactional currency, the import into China of the ICs that we expect to source from the aforesaid two suppliers, or we purchased or will purchase in US$, will not be subject to the recent tariffs imposed by China. There is, however, no assurance that the current tariffs policy will remain unchanged or that the relevant ICs that we are going to source from U.S. based suppliers will not be subject to the recent tariffs or new tariffs to be introduced by China in the future.

During the Track Record Period, we sold and delivered our products to our customers in Hong Kong and the PRC only. There is, however, no assurance that our customers will not engage in export sale of their products into the U.S. and that the export sale of the products of our customers into the U.S. will not be subject to the new restrictions to be introduced by U.S. in the future. Furthermore, if we shall export our products to other countries which are subject to any of such sanctions in the future and/or if the scope of the sanctions is expanded, our business, financial condition and results of operations may be materially and adversely affected.

Further, we have no control over the countries to which our customers will sell and/or export their end products. If the export sales of our customers' end products shall be restricted, prohibited or made subject to any trade conditions under any international policies or international economic sanctions imposed by any jurisdictions, our customers' demand in our ICs may drop significantly and, as a result, our business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO OPERATIONS IN THE PRC

The PRC legal system is in the process of continuous development and has inherent uncertainties that could limit the legal protections available to us in respect of our operations

The PRC has not developed a fully integrated legal system and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activity in the PRC. These laws, rules and regulations are relatively new and are often changing, and published cases concerning these laws, rules and regulations are limited. Consequently, interpretation and enforcement of laws, rules and regulations in the PRC involve a fair amount of uncertainties compared to other jurisdictions.

In addition, the PRC legal system is based in part on government policies and administrative rules that may have retroactive effect. As a result, we may not be aware of any violations by us until some time after the violation. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in significant costs and a diversion of our resources and management attention. We cannot predict future developments in the PRC legal system or the effects of such developments.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management

Part of our businesses, assets, operations and revenue are located in or derived from our operations in the PRC. It may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On 14 July 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special

Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such arrangement, where any designated people's court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the PRC or Hong Kong court for recognition and enforcement of the judgment. The arrangement came into effect on 1 August 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain. In addition, the PRC is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other western countries or Japan, and therefore enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult or impossible.

We can be affected by changes in the PRC economic, political or social conditions or government policies

Part of our businesses, assets, operations and revenue are located in or derived from our operations in the PRC and as a result, our business, financial condition and results of operations are subject, to a certain degree, to the economic, political, social and regulatory environment in the PRC. Measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets have been implemented in the PRC. However, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies and still retains significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency denominated liabilities, setting monetary policy and providing preferential treatment to particular industries or enterprises.

Our performance has been and will continue to be affected by the PRC's economy, which in turn is influenced by the global economy. Any slowdown in the PRC's economic growth may materially and adversely affect our business, financial condition and results of operations. We are unable to accurately predict the precise nature of all the risks and uncertainties that we face as a result of current economic, political, social and regulatory conditions and many of these risks are beyond our control.

Our dividend income from our PRC subsidiaries may be subject to a high rate of withholding tax

Under the EIT Law and the Implementation Rules, PRC withholding tax at the rate of 10% is applicable to dividends paid by PRC enterprises to their foreign shareholders who are not "PRC tax resident enterprises", unless the jurisdiction of such foreign shareholder has a tax treaty or similar arrangement with the PRC that provides for a different withholding arrangement and the foreign shareholder obtains approval from competent local PRC tax authorities for application of such tax treaty or similar arrangement. Under the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), if a Hong Kong incorporated entity is the direct "beneficial owner" of 25% or more in a PRC entity, a lower rate of 5% will be applied to the dividend made by the PRC entity to such Hong Kong entity. The determination of beneficial ownership has been clarified under the Announcement of the State Administration of Taxation on Issues Relating to "Beneficial Owner" in Tax Treaties (《國家稅務總局關於稅收協定中"受益所有人"有關問題的公告》, the "**Circular 9**"). According to the Circular 9, if a company's business operations do not constitute substantive business operations (such as manufacturing, sales and marketing and management related activities of a substantive nature), it will generally count as an unfavourable factor for the company when determining its status as a "beneficial owner" of a PRC entity.

Gains on the sales of Shares and dividends on the Shares may be subject to the PRC income taxes

Under the EIT Law and the Implementation Rules, a PRC withholding tax at the rate of 10% is applicable to dividends payable by "PRC tax resident enterprises" to investors that are "non-PRC residents"; that is, investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares of "PRC tax resident enterprises" by such investors is also subject to a PRC income tax, usually at rate of 10% unless otherwise reduced or exempted by relevant tax treaties or similar arrangements, if such gain is regarded as income derived from sources within the PRC.

We are a holding company incorporated in the Cayman Islands and substantially all of our operations are in the PRC. There is uncertainty whether we will be considered a "PRC tax resident enterprise" for the purpose of the EIT Law. As a result, it is unclear whether dividends paid on our Shares, or any gain realised from the transfer of our Shares, would be treated as income derived from sources within the PRC and would as a result be subject to the PRC income tax. If we are considered a "PRC tax resident enterprise", then any dividends paid to our Shareholders that are "non-PRC residents" and any gains realised by them from the transfer of our Shares may be regarded as income derived from PRC sources and, as a result, would be subject to a 10% PRC income tax, unless otherwise reduced or exempted. It is unclear whether, if we are considered a "PRC tax resident enterprise", our Shareholders would be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or regions. If dividends payable to our non-PRC Shareholders that are "non-PRC residents", or gains from the transfer of our Shares are subject to the PRC tax, the value of such non-PRC Shareholders' investment in our Shares may be materially and adversely affected.

RISKS RELATING TO THE SHARE OFFER AND OUR SHARES

Our Shares are subject to risk of liquidity and possible price and trading volume volatility

Prior to the Share Offer, there has been no public market for our Shares. The initial range of the Offer Price was determined as a results of negotiations between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) and may differ significantly from the market price of our Shares following the completion of the Share Offer. There is no guarantee that: (i) an active trading market for our Shares will develop or be sustained following the completion of the Share Offer; or (ii) the market price of our Shares will not decline below the Offer Price. There is no assurance that an active and liquid public trading market of our Shares will develop upon the Listing or if it does develop, that it may be sustained for any period of time after the Listing. The market price and trading volume of our Shares may fluctuate significantly and rapidly as a result of the following factors, among other things, some of which are beyond our control:

- variation in our results of operations;
- changes in securities analysts' analysis of our financial performance;
- our announcement of significant acquisitions, dispositions, strategic alliances or joint ventures;
- addition or departure of our key personnel;
- fluctuations in market prices and trading volume of our Shares;

- our involvement in litigation; and
- development and general economic and stock market conditions in Hong Kong.

All such factors may result in significant fluctuations in the market price and/or transaction volume of our Shares. There is no assurance that such changes will not occur.

Further, the market price and trading volume of our Shares may be highly volatile. Factors such as variations in our earnings, cash flows and revenue, and announcements of new investments and/or strategic alliances could cause the market price and trading volume of our Shares to change suddenly and substantially. In addition, stock markets and the shares of some listed companies in Hong Kong have experienced substantial price volatility in the past. It is likely that our Shares may be subject to the broad market and industry fluctuations in market price and volume which may not be related to the financial or business performance of our Company from time to time.

Our Controlling Shareholders have substantial influence over our Company, and the interests of our Controlling Shareholders may not always be aligned with the interests of our other Shareholders

Immediately following the Share Offer and Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon exercise of the options granted under the Share Option Scheme), by virtue of the Confirmatory Deed, our Controlling Shareholders will collectively be entitled to control the exercise of voting rights of 75% of the issued share capital of our Company. Accordingly, our Controlling Shareholders could have significant influence over our Company, including matters relating to our management, decision and policies regarding acquisitions, mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of our Directors and other significant corporate actions.

The interests of our Controlling Shareholders may not always be aligned with the interests of our other Shareholders, and our Controlling Shareholders may have the ability to require us to enter into transactions or effect corporate actions according to their own desires. Our business or our other Shareholders may be adversely affected as a result.

Prior dividends declaration may not be indicative of our future dividend policy

The declaration of dividends is proposed by our Board and subject to the applicable laws and regulations and our Shareholders' approval. Please refer to "Financial information – Dividends and distributable reserve" in this prospectus for further details of our dividend payments during the Track Record Period. The declaration and distribution of dividends during the Track Record Period should not be regarded as an indication that we will declare and distribute dividends in such manner or at such time in the future, or will declare and pay any dividends in the future at all. Whether dividends will be distributed and the amount of any dividend to be declared and distributed in the future will be at the discretion of our Directors and will depend on, among other things, our results of operations, cash flows and financial conditions, operating and capital requirements and future prospects, and our constitutional documents and the laws of the Cayman Islands.

Owing to the time gap between pricing and trading of our Shares, there is a risk that the price of our Shares may fall before trading of our Shares begins

The Offer Price of our Shares will be determined on the Price Determination Date, which is expected to be on 10 July 2019. However, trading of our Shares on the Main Board will not commence until our Shares are delivered, which is expected to be a short period after the Price Determination Date. During this period, holders of our Shares may not be able to sell or otherwise deal in our Shares. Accordingly, holders of our Shares may be subject to the risk that trading price of our Shares may fall before trading of our Shares begins due to adverse market conditions or other adverse development arising during the period between the Price Determination Date and the date on which trading of our Shares begins.

Future sales or market perception of sales of a substantial number of our Shares in the public market could materially and adversely affect the trading price of our Shares

After the completion of the Share Offer, future sales of a substantial number of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the market perception that such sales or issuances may occur, could adversely affect the market price of our Shares and our ability to raise future capital at a favourable time and price.

The Shares owned by our Controlling Shareholders are subject to certain lock-up period. There is no assurance that they will not dispose of their shareholdings following the expiration of the lock-up periods. Any significant disposal of our Shares by any of our Controlling Shareholders may adversely affect the prevailing market price of our Shares. We cannot predict the effect of any future sales or market perception of sales of a substantial number of our Shares in the public market on the market price of our Shares.

Potential investors will experience immediate and substantial dilution as a result of the Share Offer and may experience further dilution as a result of future equity financings

The Offer Price of our Shares is substantially higher than the net tangible book value per Share immediately prior to the Share Offer. Thus, potential investors may experience an immediate dilution when they purchase our Offer Shares in the Share Offer. If we are to distribute our net tangible assets to the Shareholders immediately following the Share Offer, potential investors would receive less than the amount they have paid for their Shares.

For the purpose of further expansions or new developments in our existing operations, we may need to raise additional funds in the future through issuing securities or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders. Prospective investors of our Shares may experience a further dilution of their shareholding in our Company and such new securities may confer rights and privileges that take priority over those conferred by our Shares.

Potential investors may experience difficulties in enforcing their shareholders' rights because our Company is incorporated in the Cayman Islands, and the laws of the Cayman Islands relating to the protection of minority shareholders' interests may differ from that of Hong Kong or other jurisdictions

Our Company is incorporated in the Cayman Islands and our affairs are governed by the Articles, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may be different from that of Hong Kong or other jurisdictions where potential investors may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. Please refer to

"Summary of the constitution of our Company and Cayman Islands company law – Cayman Islands company law" in Appendix III to this prospectus for further details of the Cayman Islands law on protection of minority Shareholders.

We may require additional funding for future growth

We may be presented with opportunities to expand our business through acquisitions in the future. Under such circumstances, secondary issue(s) of securities after the Listing may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by means of issuing new equity securities in the future to new and/or existing Shareholders after the Listing, such new Shares may be priced at a discount to the then prevailing market price. Inevitably, existing Shareholders if not being offered with an opportunity to participate, their shareholding interest in our Company will be diluted. Also, if we fail to utilise the additional funds to generate the expected earnings, this could adversely affect our financial results and in turn exert pressure to the market price of the Shares. Even if additional funds are raised by means of debt financing, any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

The actual amount of dividends distributable by our Company may be adversely affected by factors which are beyond our control, including the fluctuation in foreign exchange rates or the change of PRC rules regarding withholding tax on dividends

Under PRC law and the constitutional documents of our PRC operating subsidiaries, dividends may be paid only out of distributable profits. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years. Accordingly, since our Company derives all of our earnings and cash flows from dividends paid to us by our PRC operating subsidiaries in the PRC, we may not have sufficient distributable profits to pay dividends to our Shareholders.

Issue of new Shares under the Share Option Scheme or any future equity fund raising exercise will have a dilution effect and may affect our profitability

We have conditionally adopted the Share Option Scheme but no option has been or will be granted thereunder prior to the Listing Date. Any exercise of the options to be granted under the Share Option Scheme in the future will result in a dilution in the shareholding of our Shareholders in our Company and may result in a dilution in the earnings per Share and net asset value per Share. The fair value of the share options at the date on which they are granted with reference to the valuer's valuation will be charged as share-based expense, which may adversely affect our results of operations.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS AND FROM OTHER SOURCES

Certain statistics and facts in this prospectus are derived from various official government sources and publications or other sources and have not been independently verified

This prospectus includes certain statistics and facts that are extracted from official government sources and publications or other sources. We believe that such statistics and facts are prepared by the relevant sources after having taken reasonable care. Whilst our Company believes that it is prudent for us to rely on such statistics and facts, there is no assurance that such statistics and facts are free from error or mistake. The statistics and facts from these sources have not been independently verified by our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of their respective directors, affiliates or advisers or any other party involved in the Share Offer and no representation is given as to their accuracy and completeness. Owing to possible flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this prospectus may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such statistics or facts.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "expect", "estimate", "intend", "may", "plan", "seek", "should", "will", "would" or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to "Forward-looking statements" in this prospectus for further details.

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

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

MANAGEMENT PRESENCE

According to Rule 8.12 of the Listing Rules, our Company must have sufficient management presence in Hong Kong. This normally means that at least two of the executive directors must be ordinarily resident in Hong Kong. Our business operations, clients and assets are based, managed and conducted both in Hong Kong and the PRC. However, we do not, and for the foreseeable future, will not, have two executive Directors who are ordinarily resident in Hong Kong, for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. Currently, Mr. Lam, our Chairman, the Chief Executive Officer and an executive Director, resides in Hong Kong while the remaining two executive Directors reside in the PRC.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. We have made arrangements to maintain effective communication between the Stock Exchange and us as follows:

(i) our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our Company's principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. Lam, an executive Director and the Chairman, and Ms. Au Ka Man Silkie, the chief financial officer and the company secretary of our Company. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong with a reasonable advance notice and will be readily contactable by the Stock Exchange from time to time. Each of the authorised representatives has been duly authorised to communicate on our Company's behalf with the Stock Exchange. Both of them reside in Hong Kong and will be able to meet with the Stock Exchange with a reasonable advance notice when required;

(ii) our Company's authorised representatives have means of contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. In this regard, our Company has implemented a policy whereby each Director will provide his/her office phone number, mobile phone number, residential phone number, office facsimile number and email address, as well as any alternative means of communication when he/she travels as necessary, to the authorised representatives;

(iii) each Director who is not ordinarily resident in Hong Kong has confirmed that he/she either possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period;

(iv) our Company has, in accordance with Rule 3A.19 of the Listing Rules, also appointed Alliance Capital as our compliance adviser, who will act as an additional channel of communication with the Stock Exchange. Our compliance adviser will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong for a period commencing on the Listing Date at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the Listing Date; and

(v) each of the Directors will provide their mobile phone numbers, office phone numbers, email addresses and fax numbers (if applicable) to the Stock Exchange.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors, collectively and individually, accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement in this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful consideration and are formed on bases and assumptions that are fair and reasonable.

THE SHARE OFFER

This prospectus is published solely in connection with the Public Offer. For applicants under the Public Offer, this prospectus and the related Application Forms set out the terms and conditions of the Public Offer. The Share Offer comprises the Public Offer of initially 20,000,000 Public Offer Shares and the Placing of initially 180,000,000 Placing Shares (subject, in each case, to reallocation on the basis described in "Structure of the Share Offer" in this prospectus).

The Share Offer is sponsored by the Sole Sponsor, namely Alliance Capital. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Share Offer is managed by the Joint Bookrunners. Please refer to "Underwriting" in this prospectus for further details on the Underwriters and the underwriting arrangements.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date.

If, for whatever reason, the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by Wednesday, 10 July 2019, the Share Offer will not become unconditional and will lapse immediately.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Public Offer to give any information, or to make any representation, not contained in this prospectus and the related Application Forms, and any information or representation not contained in this prospectus and the related Application Forms must not be relied upon as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors or any other persons or parties involved in the Share Offer.

Each person acquiring the Offer Shares in the Share Offer will be required to confirm, or be deemed by its acquisition of Offer Shares to have confirmed, that it is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Capitalisation Issue and upon the exercise of any options which may be granted under the Share Option Scheme.

Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the tax implications of subscription for, purchasing, holding or disposing of and dealing in our Shares under the laws of the place at your operations, domicile, residence, citizenship or incorporation. We emphasise that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchase, holding or disposal of or dealing in our Shares.

STABILISATION AND OVER-ALLOTMENT OPTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for or purchase the newly issued securities in the secondary market during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Share Offer, the Stabilising Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the commencement of trading in the Shares of our Company on the Stock Exchange. Such transactions will be effected in compliance with all applicable laws, rules and regulations in place in Hong Kong. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time during the stabilising period, which will begin on the day on which trading of our Shares commences on the Stock Exchange and end on the 30th day from the last day for lodging applications under the Public Offer. As a result, demand for our Shares, and their market price, may fall after the end of the stabilising period.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (i) over-allocation of shares for the purpose of preventing or minimising any reduction in the market price of shares, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of shares, (iii) subscribing, or agreeing to subscribe, for shares pursuant to an option or other right in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, shares pursuant to an option or other right in order to close out any positions established under (i) or (ii) above, (v) selling shares to liquidate a long position established and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 30,000,000 Shares, which is 15% of the new Shares of our Company initially available under the Share Offer.

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager, or any person acting for it, may maintain a long position in our Shares. The size of the long position and the period for which the Stabilising Manager, or any person acting for it, will maintain the long position are at the discretion of the Stabilising Manager and are uncertain. Investors should be warned that, in the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to decline in the market price of our Shares.

Any stabilising action taken by the Stabilising Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Stabilising bids for or market purchases of the Shares by the Stabilising Manager, or any person acting for it, may be made at or below the Offer Price and can therefore be made at or below the price paid for the Offer Shares by applicants for, or investors in, the Offer Shares.

In connection with the Share Offer, the Stabilising Manager may require our Company to allot and issue up to and not more than an aggregate of 30,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or combination of these means.

HONG KONG BRANCH SHARE REGISTER AND STAMP DUTY IN HONG KONG

All Shares issued pursuant to applications made in the Share Offer will be registered in our Company's branch register of members to be maintained in Hong Kong.

Dealings in the Shares will be subject to Hong Kong stamp duty.

Unless otherwise determined by our Company, dividends payable in HK dollars in respect of the Shares will be paid to the shareholders listed on the Hong Kong branch share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each Shareholder.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The application procedure for the Public Offer Shares is set out in "How to apply for Public Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in "Structure of the Share Offer" in this prospectus.

EXCHANGE RATE CONVERSION

Certain amounts denominated in US$ have been translated into HK$ and vice versa at an exchange rate of US$1 : HK$7.75, for illustration purposes only. Such conversions shall not be constructed as representations that amounts in HK$ or US$ were or may have been converted into those currencies and vice versa at such rate or any other exchange rates.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Lam Keung (林強)	RM 8, 39/F, Kam Hing House Kam Tai Court Ma On Shan New Territories Hong Kong	Chinese
Mr. Qing Haodong (卿浩東)	RM 102, No. 19 Lane 758 Beijing West Road Jing'an District Shanghai, PRC	Chinese
Mr. Mai Lu (麥魯)	RM 101, No. 65 Lane 3536, Yindu Road Minhang District Shanghai, PRC	Chinese
Independent non-executive Directors		
Mr. Dan Kun Lei Raymond (鄧昆雷)	Flat D, 10/F, Tower 5 The Waterfront Tsimshatsui Kowloon Hong Kong	Chinese
Mr. Wong Kwun Ho (黃冠豪)	Flat B, 20/F TST Tower 388 Un Chau Street Cheung Sha Wan Kowloon Hong Kong	Chinese
Mr. Lai Man Shun (黎萬信)	1/F, Rear Portion 48 Cheung Sha Wan Road Sham Shui Po Kowloon Hong Kong	Chinese

For further information on the profile and background of our Directors, please refer to "Directors and senior management" in this prospectus.

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	**Alliance Capital Partners Limited** Room 1502-03A, 15/F Wing On House 71 Des Voeux Road Central Hong Kong *Licensed corporation under the SFO to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO*
Joint Bookrunners and Joint Lead Managers	**Alliance Capital Partners Limited** Room 1502-03A, 15/F Wing On House 71 Des Voeux Road Central Hong Kong *Licensed corporation under the SFO to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO*
	China Tonghai Securities Limited 18/F, China Building 29 Queen's Road Central Hong Kong *Licensed corporation under the SFO to carry out types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO*
	Ruibang Securities Limited 9/F, Sang Woo Building 227-228 Gloucester Road Wanchai Hong Kong *Licensed corporation under the SFO to carry out types 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO*

Joint Lead Manager	**First Securities (HK) Limited** Room 1708-1710 17/F, China Insurance Group Building 141 Des Voeux Road Central Hong Kong *Licensed corporation under the SFO to carry out types 1 (dealing in securities) and 9 (asset management) regulated activities under the SFO*
Underwriters	**Alliance Capital Partners Limited** Room 1502-03A, 15/F Wing On House 71 Des Voeux Road Central Hong Kong *Licensed corporation under the SFO to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO*
	China Tonghai Securities Limited 18/F, China Building 29 Queen's Road Central Hong Kong *Licensed corporation under the SFO to carry out types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO*
	Ruibang Securities Limited 9/F, Sang Woo Building 227-228 Gloucester Road Wanchai Hong Kong *Licensed corporation under the SFO to carry out types 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO*

First Securities (HK) Limited
Room 1708-1710
17/F, China Insurance Group Building
141 Des Voeux Road Central
Hong Kong
Licensed corporation under the SFO to carry out types 1 (dealing in securities) and 9 (asset management) regulated activities under the SFO

Legal advisers to our Company

As to Hong Kong law:

Luk & Partners
In Association with
Morgan, Lewis & Bockius
Suites 1902-09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

Mr. Jon K. H. Wong
Barrister-at-law, Hong Kong
Suite 902-905
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

As to PRC law:

Commerce & Finance Law Offices
6/F., NCI Tower
A12 Jianguomenwai Avenue
Beijing 100022, PRC

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Legal advisers to the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters	*As to Hong Kong law:* **MinterEllison LLP** Level 32, Wu Chung House 213 Queen's Road East Hong Kong
Auditors and reporting accountants	**Moore Stephens CPA Limited** 801-806 Silvercord Tower 1, 30 Canton Road Tsim Sha Tsui, Kowloon Hong Kong
Industry consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** Room 1018, Tower B No. 500 Yunjin Road Shanghai 200232 PRC
Transfer Pricing Analyst	**Mazars Tax Services Limited** 42/F, Central Plaza 18 Harbour Road Wanchai Hong Kong
Compliance adviser	**Alliance Capital Partners Limited** Room 1502-03A, 15/F Wing On House 71 Des Voeux Road Central Hong Kong *Licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO*
Receiving bank	**CMB Wing Lung Bank Limited** 45 Des Voeux Road Central Hong Kong

Registered office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Headquarters and principal place of business in Hong Kong

Unit No. A, 13th Floor, Block 1
Leader Industrial Centre
Nos. 188-202 Texaco Road
Tsuen Wan
New Territories
Hong Kong

Company's website

http://www.conteltechnology.com
(*information contained in this website does not form part of the prospectus*)

Company secretary

Ms. Au Ka Man Silkie (歐嘉敏), *CPA*
Flat F, 26/F, Tower 3
One Regent Place
18 Po Yip Street
Yuen Long

Authorised representatives

Mr. Lam Keung
RM 8, 39/F, Kam Hing House
Kam Tai Court
Ma On Shan, New Territories
Hong Kong

Ms. Au Ka Man Silkie
Flat F, 26/F, Tower 3
One Regent Place
18 Po Yip Street
Yuen Long

Audit committee

Mr. Wong Kwun Ho *(Chairman)*
Mr. Dan Kun Lei Raymond
Mr. Lai Man Shun

Remuneration committee

Mr. Lai Man Shun *(Chairman)*
Mr. Lam Keung
Mr. Dan Kun Lei Raymond

Nomination committee	Mr. Lam Keung *(Chairman)* Mr. Lai Man Shun Mr. Wong Kwun Ho
Principal bankers	**The Hongkong and Shanghai Banking Corporation Limited** 1 Queen's Road Central Hong Kong **Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong
Cayman Islands share registrar and transfer office	**Conyers Trust Company (Cayman) Limited** Cricket Square Hutchins Drive PO Box 2681 KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	**Tricor Investor Services Limited** Level 22, Hopewell Centre 183 Queen's Road East Hong Kong

Certain facts, statistics and data presented in this section and elsewhere in this prospectus have been derived, in part, from various government official publications as well as the commissioned report from Frost & Sullivan, an independent market research institution. Whilst our Directors have taken all reasonable care to ensure that the relevant facts and statistics are accurately reproduced from these official government sources, such facts and statistics have not been independently verified by our Group, the Controlling Shareholder or any of its respective affiliates or advisers, nor by the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their affiliates or advisers or any other party involved in the Share Offer. Our Group has no reason to believe that such facts, statistics and data presented in this section is false or misleading or that any fact has been omitted that would render such facts, statistics and data false or misleading in any material respect. In this section, other than the F&S Report, information regarding the relevant industries has been recited or extracted from certain articles, reports or publications, and their preparations were not commissioned or funded by our Group. Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the F&S Report which may qualify, contradict or have an impact on the information in this section.

SOURCES OF INFORMATION

We commissioned Frost & Sullivan to conduct an analysis of and to report on the IC sourcing and sales industry in China for the period from 2014 to 2023 at a fee of RMB608,000. The information and analysis contained in the F&S Report was assessed independently by Frost & Sullivan which is not connected to our Group in any way. The payment of such amount was not conditional on our Group's successful Listing or on the results of the F&S Report.

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. The information and statistics set forth in this section have been extracted from the F&S Report. We believe that such information facilitates an understanding of the relevant market for potential investors. The information contained in the F&S Report is derived by means of data and intelligence gathering methodology which consists of (i) detailed primary research which involved discussing the status of the industry with certain leading industry participants; and (ii) secondary research which involved reviewing company reports, independent research reports and data based on its own research database.

Frost & Sullivan's market engineering forecasting methodology integrates several forecasting techniques with the market engineering measurement-based system. It relies on the expertise of the analyst team in integrating the critical market elements investigated during the research phase of the project. These elements include (i) expert-opinion forecasting methodology; (ii) market drivers and restraints; (iii) the market challenges; (iv) the market engineering measurement trends; and (v) econometric variables.

ASSUMPTIONS AND PARAMETERS USED IN THE F&S REPORT

In compiling and preparing the F&S Report, Frost & Sullivan has adopted the following key assumptions: (i) China's economy and industry development is likely to maintain steady growth in the next decade; (ii) related industry key drivers are likely to drive the growth of China's electronics market in the forecasted period, such as the increasing spending trends on the electronics products, growing consumer electronics market segments, technology innovation provided by IC suppliers and government support; and (iii) there are no extreme force majeure events or industry regulations by which the market may be affected dramatically or fundamentally.

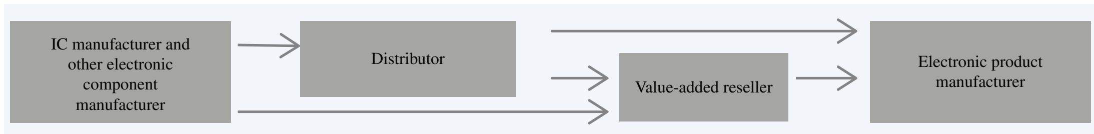
Our Directors and the Sole Sponsor, having considered the data and intelligence gathering methodology of Frost & Sullivan adopted in preparing the F&S Report, are satisfied that the above assumptions are not misleading.

NO ADVERSE CHANGE IN MARKET INFORMATION

Our Directors confirm that, to the best of their knowledge, after taking reasonable care as at the date of this prospectus, there is no material adverse change in the market information since the date of the F&S Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF IC SOURCING AND SALES INDUSTRY IN CHINA

Value chain of IC sourcing and sales industry in China



- IC manufacturers and other electronic component manufacturers produce various ICs and other electronic components, such as resistors, capacitors, diodes, printed circuit boards among others. IC manufacturers sell their IC products through either their distributors or value-added resellers.
- Distributors are the middlemen selling various integrated circuits and other electronic components to value-added resellers or directly to electronic device manufacturers.
- Value-added resellers usually source integrated circuits and other electronic components from distributors or directly from IC manufacturers and other electronic components manufacturers or their authorised distributors, and then engage in the sales of electronics components together with the provision of value-added services.
- Electronic product manufacturers provide various electronic products and after-sale services. They could be OEMs or ODMs for electronic device brands or the in-house manufacturing departments of such brands.

Along with the value chain, value-added resellers play a key role in supporting the design and development efforts of their customers by providing value-added services using ICs to suit their product needs, speeding up the design process, saving product development costs, and reducing headcount of customers' in-house engineering staff.

Supplier concentration is a regular phenomenon within the IC sourcing and sales industry, as value-added resellers typically align themselves with a few established IC manufacturers for product quality assurance and supply reliability. As such, it is not uncommon for a value-added reseller to procure a substantial part of ICs from a few major suppliers.

In spite of the supplier concentration, value-added resellers are still capable of controlling the risk of heavy reliance on one particular supplier and achieving sustainable operation. The reason is that there are a number of alternative manufacturer suppliers available in the industry supplying the identical or comparable ICs with similar specification and cost. In the event that any of suppliers ceases to supply certain ICs for a value-added reseller, the value-added reseller can secure supply from alternative suppliers in a timely manner. For example, for each of the product categories that was engaged in by our Group, there were at least six to 16 available major multi-national IC manufacturers.

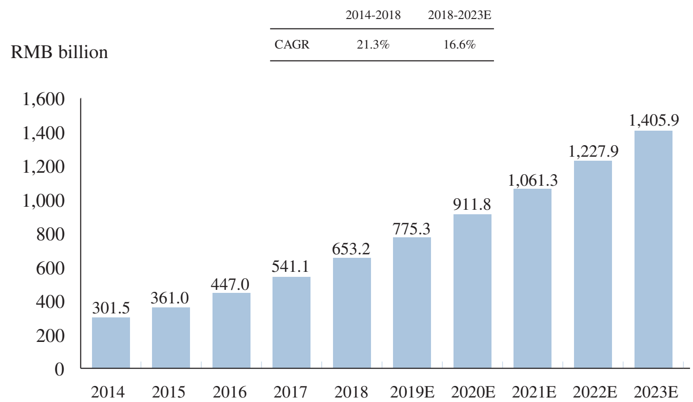
Moreover, value-added resellers that are equipped with abundant management experience, technical expertise, strong market contacts and industry knowledge will allow themselves to identify and establish relationships with new suppliers where necessary.

Market size of IC sourcing and sales industry in China

Affected by the strategy of "Made in China 2025 (中國製造2025)" and "Thirteen Five-year Plan of Information Technology Manufacturing Industry ("十三五"電子信息產業發展規劃)", and rapid growth of downstream industry, such as consumer electronics industry, the IC sourcing and sales industry in China maintained a steady growth. From 2014 to 2018, the market size of IC industry in China increased from approximately RMB301.5 billion to approximately RMB653.2 billion with a CAGR of approximately 21.3%.

The State Council of the PRC published the National policy "Made in China 2025 (中國製造2025)" in 2015, which listed information technology and the electronics industry as one of supporting industries. The State Council also listed nine tasks therein, among which three tasks were related to the IC sourcing and sales industry, including "improving manufacturing innovation (提高國家製造業創新能力)", "promoting breakthroughs in key sectors (大力推動重點領域突破發展)" and "promoting service-oriented manufacturing and manufacturing-related service industries (積極發展服務型製造和生產性服務業)". Additionally, with the expected increase in demand for mobile devices, smart speakers, automotive electronics, and industrial IoT devices and systems, the market size of IC sourcing and sales industry in China is expected to further grow with a CAGR of approximately 16.6% from 2018 to 2023.

Market size of IC sourcing and sales industry by sales revenue in China, 2014-2023E



Source: China Semiconductor Industry Association, Frost & Sullivan

Market drivers and opportunities to IC sourcing and sales industry in China

The F&S Report identified a number of key growth drivers and opportunities for China's IC sourcing and sales industry:

a. *Heavy dependency on semiconductor imports* – China imported approximately US$313.0 billion worth of semiconductors in 2018. In 2018, domestic IC suppliers only satisfied 4.9% of China's annual demand while the remaining 95.1% of annual demand was fulfilled by IC suppliers in foreign countries and regions, such as Taiwan, South Korea, Malaysia, Japan and the U.S. Heavy dependency on semiconductor imports in China provide various business opportunities for domestic distributors and value-added resellers.

b. *Various usage of IC* – With the advancement of consumer electronic products and information technology, the application of IC is widely used in different electronic products such as telecommunication devices, medical equipment, automobile, and IoT related products. For instance, the PRC government planned to build 1.5 million base stations supporting in excess of 600 million NB IoT connections by 2020, and in response, the two leading mobile operators in the PRC have rolled out extensive NB IoT networks in order to achieve national coverage. As such, it is expected that more electronic product manufacturers from different product categories may rely on customised design services, and thus, it may lead to a growing demand for ICs and relevant value-added services.

c. *The PRC government policy support* – The PRC Government had announced numbers of policies to regulate and support the development of information technology, including the "Made in China 2025 (中國製造2025)", the "13th Five-year Plan (十三五規劃)" related to information technology, manufacturing, and telecommunication Industry, the "National Integrated Circuit Industry Development Outline (國家集成電路產業發展推進綱要)" issued by the State Council (國務院), "The 13th Five-year Plan of the National High-tech Development Zone (國家高新技術產業開發區"十三五"發展規劃)" issued by the Ministry of Science and Technology (科技部), and the "Product Quality Law of the PRC (《中華人民共和國產品質量法》)" issued by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會). With the support from the PRC government, the electronic product manufacturing industry, the electronic component manufacturing industry as well as the electronic components distribution industry are expected to experience rapid development in the near future.

Competitive landscape of IC sourcing and sales business in China

IC distributors and value-added resellers are the main participants in the IC sourcing and sales business. They both primarily engage in the sales of electronics components. However, value-added resellers are generally more competitive, as they are able to provide value-added services to electronic product manufacturers. The IC sourcing and sales business in China is highly fragmented with over 2,200 companies providing design and sales services for electronics product manufacturers in 2017. As the electronics industry is a massive and fast-changing industry with new technologies coming up constantly, IC distributors and value-added resellers in China therefore tend to place their focus on several specific product categories or technologies to gain reputation and competitive advantages in these particular segments.

The IC sourcing and sales business in China is comprised of a large number of listed and private companies, whose business models are diverse and complex. Owing to the difficulty in obtaining financial information on these private companies, instead of providing a ranking, the following table sets forth the nine major market players identified in the PRC that accounted for approximately 2.4% of the PRC IC sourcing and sales market share in 2017 in aggregate.

Company	Background	Revenue generated from IC sourcing and sales business *(RMB billion)*	Market share	Business focus
Hi-Level Technology Holdings Limited	A company whose shares are listed on the Stock Exchange (stock code: 8113) with headquarters in Hong Kong	2.0	0.4%	Multimedia devices, wearable devices, automotive infotainment solutions
Fujian Raynen Technology Co., Ltd.	A company whose shares are listed on the Shenzhen Stock Exchange (stock code: 603933) with headquarters in Fuzhou, the PRC	1.9	0.4%	Knitting machine computer control, motor control, sensors, automotive electronics components
Wuhan P&S Information Technology Co., Ltd.	A company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300184) with headquarters in Wuhan, the PRC	1.7	0.3%	Communication interface, data converters, memory, sensor, system management
Shanghai Fortune Techgroup Co., Ltd.	A company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300493) with headquarters in Shanghai, the PRC	1.6	0.3%	Wireless communications, sensor solutions
HUADA Semiconductor Co., Ltd.	A private company with headquarters in Shanghai, the PRC	1.5	0.3%	IoT, display and multimedia, industrial control
Intron Technology Holdings Limited	A company whose shares are listed on the Stock Exchange (stock code: 1760) with headquarters in Hong Kong	1.4	0.3%	Automotive electronics components
Willas-Array Electronics (Holdings) Limited	A company whose shares are listed on the Stock Exchange (stock code: 854) with headquarters in Hong Kong	1.0	0.2%	Communication interface, data converters, memory, sensor, system management
Sanechips Technology Co., Ltd.	A private company with headquarters in Shenzhen, the PRC	0.7	0.1%	RF power, communications, memory
Smart-Core Holdings Limited	A company whose shares are listed on the Stock Exchange (stock code: 2166) with headquarters in Hong Kong	0.6	0.1%	Smart devices, mobile devices, intelligent automotive electronics and memory products
Total		12.4	2.4%	
Our Group		0.4	0.1%	Mobile devices and smart charging, motor control, RF power, LED lighting, sensors and automation

Entry barriers of IC sourcing and sales industry in China

The F&S Report identified a number of key entry barriers to China's IC sourcing and sales market:

a. *R&D capability and industry know-how* – Owing to the fast-changing pace of downstream application areas, especially in the electronic device market, IC manufacturers, distributors and value-added resellers are required to keep up with the newest technology trends and constantly adjust their R&D and provide technological advanced IC products to meet the needs of customers. This requires market participants to have R&D capabilities and industry know-how.

b. *Value chain barriers* – IC sourcing and sales industry has a mature and stable value chain which may present barriers for new entrants to the market. Specifically within IC sourcing and sales business, new entrants may have difficulties in building up relationships with qualified suppliers, acquiring suitable customers or earning a favourable position when bargaining with suppliers and customers. Value chain barriers may be serious for new entrants to the IC sourcing and sales business in China.

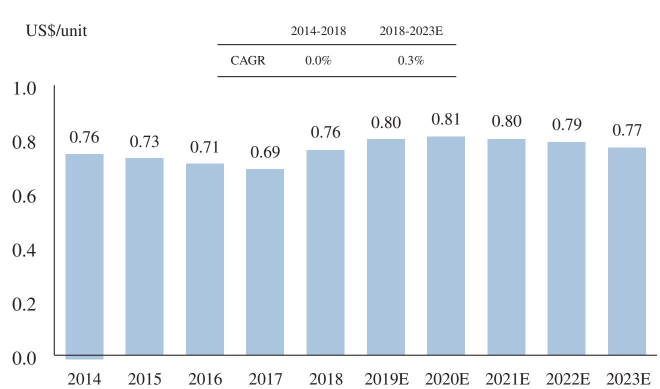
c. *Working capital barriers* – To compete with other market players in the IC sourcing and sales business segment, new entrants are required to have sufficient working capital to purchase IC components from domestic and foreign IC manufacturers and suppliers. Without sufficient working capital, new entrants may find difficulties to purchase and sell a large amount of IC products to expand their business scope and scale.

Prices of ICs

In the IC sourcing and sales industry, distributors and value-added resellers generally engage in the ship-and-debit arrangement with international IC manufacturers who need to sell products on a global basis and therefore have to take into consideration price acceptance of their products in different countries or markets. Under the ship-and-debit arrangement, IC manufacturers sell their products to distributors or value-added resellers at a pre-determined worldwide price and agree with such distributors or value-added resellers a rebate rate for every unit sold. In other words, distributors or value-added resellers can claim an agreed amount of purchase costs from their suppliers for each unit shipped. Depending on the countries or markets the distributors or value-added resellers are based, rebate rates would be different. A ship-and-debit arrangement enables suppliers to sell their goods at a uniform price, while distributors or value-added resellers can react to local market conditions and lower the price they sell to their customers in that market after taking into consideration rebate rate from such suppliers thereby maintaining a reasonable profit margin.

The average price of imported electronic ICs into China generally stabilised at around USD0.73 per unit mainly as a result of mature production technology. From 2014 to 2017, the import price showed a downward trend in general, representing a CAGR of approximately -3.2%. The slight decrease was mainly attributed to the pricing strategy of some manufacturers to capture market share. However, due to tight supplies and scaling limitations of memory IC manufacturers, the price of memory ICs has been increasing continuously and witnessing a notable increase in 2018. The dramatic increase in the price of memory ICs in 2018 has pushed up the average price of IC products, and the trend is expected to continue until there is a balance between demand and supply in the memory IC market which is expected to occur between 2020 and 2021. Going forward, with the decreasing trend in the price of memory ICs, the average price of imported ICs will drop in 2021 and reach USD0.77 per unit in 2023, representing a CAGR of approximately 0.3% from 2018 to 2023. Lower IC prices are expected to bring a potential of larger profit margin for downstream players including value-added resellers and electronic product manufacturers, while increasing competition is also anticipated in those markets.

Average price of imported electronic ICs in China, 2014-2023E



Source: International Trade Centre, Frost & Sullivan

The above average price of the imported ICs in China include the categories of (i) memory ICs; (ii) amplifiers ICs; (iii) processors and controllers ICs; and (iv) other ICs. The CAGRs of the average prices of the imported ICs under the four categories in China from 2014 to 2018 are approximately 14.1%, -4.8%, -3.2%, -8.8%, respectively. From 2018 to 2023, the CAGRs of the average prices of the imported ICs under the four categories in China are expected to reach approximately 2.5%, -4.5%, -1.4%, and -3.3%, respectively.

Although our Group did not engage in the purchase and sale of memory ICs, memory ICs take up a significant portion of the imported electronic IC market in China as memory IC is an essential component in most electronic products. The increasing price trend of imported memory ICs in China to a certain extent affects the overall average price of imported electronic ICs in China. The CAGR of the average price of imported electronic ICs in China (excluding memory ICs) from 2014 to 2018 is approximately -5.6% and the CAGR of the average price of imported electronic ICs in China (excluding memory ICs) from 2018 to 2023 is expected to be approximately -1.8%.

OVERVIEW OF THE SMARTPHONE, MOBILE DEVICE AND SMART CHARGING MARKET IN CHINA

Antennae-centric products, which enable and improve the wireless functions (such as 2G/3G/4G/LTE and wifi connectivity) of the antennae of cars, mobile phones and tablets, smart watches and other wifi-enabled devices. Smartphones and mobile devices are two of the typical applications of antennae-centric products.

A smartphone is a mobile personal computer with an advanced operating system with features useful for mobile or handheld use. Smartphones can access the Internet through cellular or wifi and can run a variety of third-party software components.

Mobile devices are electronic devices incorporating computer and advanced electronic technologies and can be comfortably worn by individuals on the body as accessories or clothing. Mobile devices are able to perform many of the same computing tasks as smartphones and laptops, and also incorporated some features that are not typically seen in those hand-held devices, such as sensory and scanning functions.

Smart charging solutions make use of control circuitry to rapidly charge the batteries of electronic devices. It aims to improve the charging speed and shorten the charging time through increasing either the charging current or voltage. To apply smart charging technology, both electronic devices and chargers need to adopt the same solution and equipped with compatible integrated circuits.

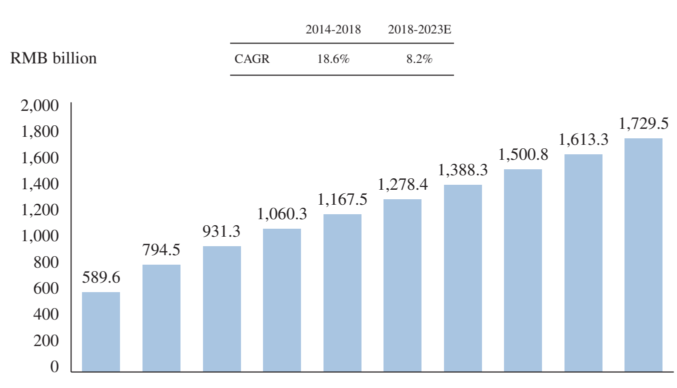
Market size of the smartphone, mobile device and smart charging industries in China

Smartphones

Driven by the increasing purchasing power of Chinese people and on-going technology advancements in the smartphone industry, sales value of smartphones had witnessed continuous growth over the past five years. The notable surges in sales value in 2014 and 2015 were mainly due to the warm welcome for Apple's iPhone 4GS, 4S and 5GS by Chinese consumers. The total sales of smartphones in China increased from approximately RMB589.6 billion in 2014 to approximately RMB1,167.5 billion in 2018, representing a CAGR of approximately 18.6%.

Going forward, owing to the high penetration rate among consumers, as well as the probable constraint of technology breakthroughs in smartphones, sale value of smartphones in China is projected to grow at a lower rate. It is expected to increase from approximately RMB1,167.5 billion in 2018 to approximately RMB1,729.5 billion in 2023, representing a CAGR of approximately 8.2%. With increasing sales of smartphone, the market demand for antennae-centric products is expected to further grow in China.

Market size of smartphone industry in China, 2014-2023E



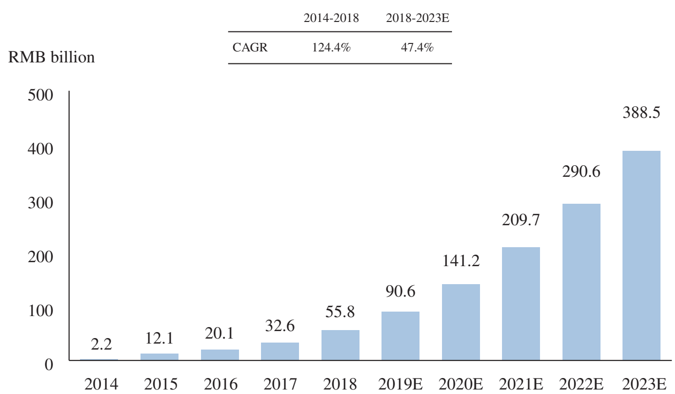
Source: Frost & Sullivan

Mobile devices

Mobile devices experienced a major breakthrough in terms of sales value in the past five years. A notable surge happened in the year of 2015 attributable to the release of Apple Watch in September. The release had significant positive impact on people's understanding about mobile devices and the benefits they bring about. The market size of mobile devices in China increased from approximately RMB2.2 billion to approximately RMB55.8 billion, representing a CAGR of approximately 124.4% from 2014 to 2018.

Going forward, Chinese consumers are expected to have increasing recognition of mobile devices and the benefits such devices can bring to their daily life. With growing market demands, mobile device suppliers are to invest more in R&D and launch more new products. As a result, the market size of mobile devices market in terms of sales value is expected to grow in the future. It is expected to reach approximately RMB388.5 billion in 2023, representing a CAGR of approximately 47.4% from 2018 to 2023. The developing mobile devices market in China is going to drive the market demand for antennae-centric products in the near future.

Market size of mobile device industry in China, 2014-2023E

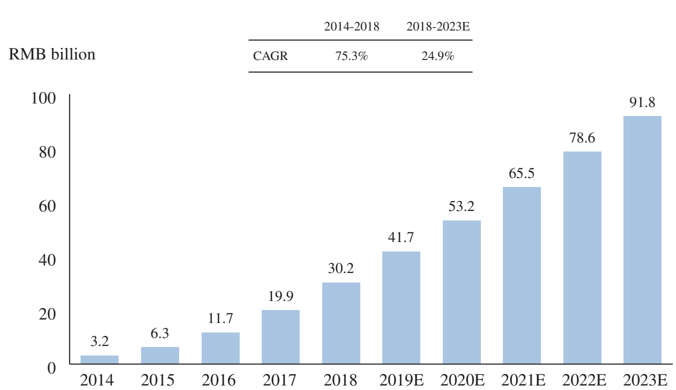


Source: Frost & Sullivan

As people were spending more time on their mobile phones, drastic increase in market demand for smart charging solutions was observed over the past few years. The first smart charging solution applied in practice was Qualcomm 1.0 which appeared in the market in 2013, when the whole industry took off in China. From 2014 to 2018, the market size in terms of sales value increased from approximately RMB3.2 billion to approximately RMB30.2 billion, representing a CAGR of approximately 75.3%.

Going forward, with increasing investment in R&D, more types of up-to-date smart charging solutions are expected to be seen on the market. Currently, smart charging solutions are mainly applied to mobile phones and are penetrating into a wide range of electronic devices, such as tablets, laptops, home appliances, portable chargers and intelligent devices such as smart speaker. With the growing penetration rate and expected increase in downstream markets, the market size is expected to grow from approximately RMB30.2 billion in 2018 to approximately RMB91.8 billion in 2023, representing a CAGR of approximately 24.9% from 2018 to 2023.

Market size of smart charging solutions industry in China, 2014-2023E



Source: Frost & Sullivan

Market drivers and opportunities to the smartphone, mobile devices and smart charging market in China

a. Consumers' increasing requirements for convenience

With higher living standard and increasing purchasing power of Chinese consumers in recent years, they have begun purchasing electronic devices that can bring about convenience and efficiency. Mobile devices that can be installed with application software to achieve functions such as GPS, health condition monitoring are increasingly needed by consumers. As a result, many businesses have stepped into providing mobile devices, ranging from healthcare devices suppliers to mobile phone companies, among other IT giants.

b. On-going R&D provides technological support for further growth

Micro devices and mobile devices need to meet functional requirements as well as to minimise component size and power consumption. With on-going R&D in the upstream component industries such as RF power, sensor technology, flexible screens and batteries, coupled with a major breakthrough in low cost bulk production, mobile devices and wearable devices are expected to incorporate more features and functions and be produced at lower cost.

OVERVIEW OF THE MOTOR CONTROL MARKET IN CHINA

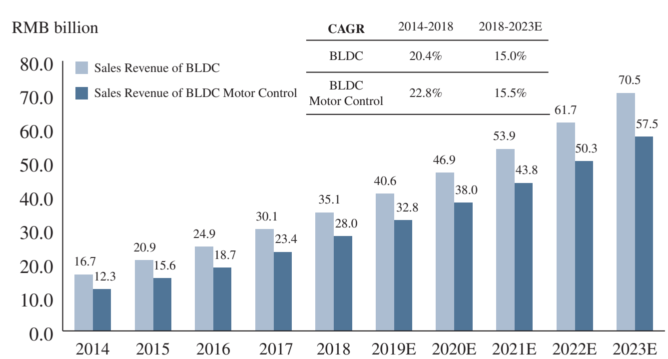
Nowadays, motor control is increasingly used in BLDC motors. BLDC motors are direct current motors without brushes and commutators and are different from brush direct current motors. BLDC motors replace mechanical reversing device with electronic reversing device (switching transistor) and are more energy efficient when compared to traditional brushed type motors. BLDC motors are used in modern motors where the speed and torque of the moveable parts of a machine needs to be controlled. These motor control applications can be applied to a wide array of devices, from household items such as fans, to heavy industrial equipment such as forklifts and robots. The motor driver IC refers to a chip integrated with CMOS control circuit and DMOS power device. It can form a complete motion control system with main processor, motor and incremental encoder. It can be used to drive inductive loads like a motor.

Market size of the BLDC motor industry in China

In recent years, with the improvement of people's living standards as well as the development of modern production technology, office equipment, household appliances, industrial robots and certain electronic consumer products are required to become more energy efficient, smaller in size and more intelligent. As an important component of the actuator, the motor must also be of high precision, high speed and be more energy efficient. The application of BLDC motors went through rapid growth in recent years as it fulfils all such requirements.

From 2014 to 2018, the market size of BLDC motors in China grew from approximately RMB16.7 billion to approximately RMB35.1 billion at a CAGR of approximately 20.4%. From 2018 to 2023, it is expected to grow at a CAGR of approximately 15.0% to reach approximately RMB70.5 billion in 2023. A motor control board (with an appropriate IC) is needed for operation of a BLDC motor. In line with the BLDC motor market, the market size of BLDC motor control also grew rapidly from approximately RMB12.3 billion to approximately RMB28.0 billion at a CAGR of approximately 22.8% from 2014 to 2018 and is expected to grow at a CAGR of approximately 15.5% from 2018 to 2023.

Market size of BLDC and BLDC motor control industry in China, 2014-2023E



Source: Frost & Sullivan

Market drivers and opportunities to the BLDC motor industry in China

a. Rising environmental awareness of the public

In recent years, there has been rising environmental awareness amongst the public in energy efficiency. BLDC motors possess comparative advantage over traditional motors in energy consumption because less energy is needed to complete the same task. Therefore, BLDC motors offer a 'greener' choice to household and industrial users.

b. Strong downstream market demand

The robust demand from downstream markets, including home appliances, new energy vehicles and industrial automation helps to drive the BLDC motor market. In the home appliance industry, motor control technology is essential to improve the energy efficiency. In addition, increasingly popularity of new energy vehicles and increasing industrial automation both boost the demand for BLDC motors.

OVERVIEW OF THE RF POWER MARKET IN CHINA

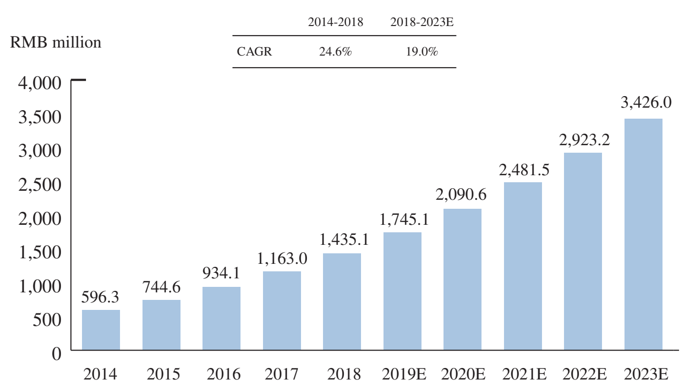
RF power is widely used in a variety of applications, such as radio and television transmission, community antenna television ("**CATV**"), wireless communications, and RF industrial, scientific and medical ("**RF ISM**") such as RF heating, microwave and medical diathermy machines.

Market size of RF power industry in China

Driven by the economic development and continuous urbanisation in China, the demand for radio, television programme transmission and CATV continues to increase. With increasing usage of mobile phones among Chinese consumers and escalating demand for fast and stable transmission of signals by such mobile phone users, RF power used in wireless communications has also witnessed growth. Moreover, RF power has been increasingly used as a type of energy and has been applied in microwave and medical treatment devices. From 2014 to 2018, the market size of RF power grew from approximately RMB596.3 million to approximately RMB1,435.1 million with a CAGR of approximately 24.6%.

In the future, the RF power market will be further driven by the development of the application industries mentioned above. In particular, RF ISM is expected to have the highest growth rate and will contribute a significant share to the future growth of the entire RF power industry. It is expected that the market size of RF power will reach approximately RMB3,426.0 million in 2023 with a CAGR of approximately 19.0% from 2018 to 2023.

Market size of RF Power in China, 2014-2023E



Source: Frost & Sullivan

Market drivers and opportunities to the RF power generator industry in China

a. Increasing market demand and government investment in radio and television programmes

With economic development and continuous urbanisation in China, the market demand for radio and television programmes has been increasing, especially in rural areas. To support coverage expansion, the PRC central government invested about RMB5.5 billion in 2015. In doing so, more than 5,000 television transmitters nationwide have been constructed, driving the RF power generator market in this field.

b. Advantages such as high power storage, small size, good reliability make RF power generators popular in various applications

With continuous development, the technology of RF power now has many advantages including good stability, high power storage capacity with small size and good reliability. RF power is being used in several new application fields, especially for RF ISM and has been applied in medical treatment, food heating, research on plasma accelerator, etc.

OVERVIEW OF THE LED LIGHTING MARKET

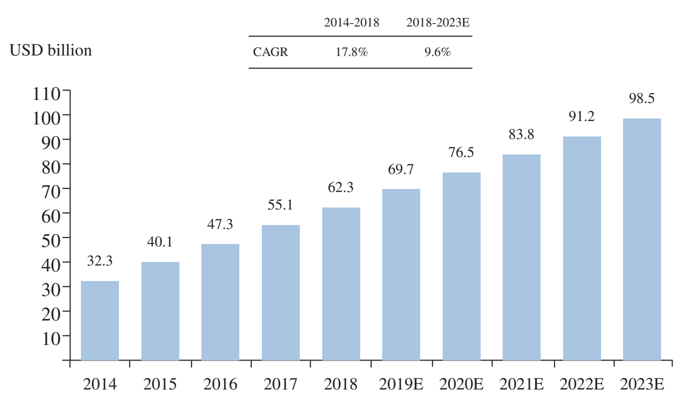
A LED is a two-lead semiconductor light source. It is a positive-negative junction diode that emits light when activated. When a suitable voltage is applied to the leads, electrons flow within the device, releasing energy in the form of light.

Market size of the global LED lighting market

LED lighting is currently one of the most energy efficient lighting solutions that enjoy wide application globally. In the past five years, the global LED lighting market grew from approximately US$32.3 billion in 2014 to approximately US$62.3 billion in 2018 at a CAGR of approximately 17.9%. In 2018, LED manufacturers' export business from China to North America has been considerably influenced by the trade war. However, the stable demand for LED lighting used in residential and outdoor applications still supported the growth of LED light market.

Dimmable LED lighting not only improves the ambience and mood of the room but saves energy consumption to a greater level. With the increasing awareness of environmental protection and the need to control energy consumption, the market of dimmable LED lighting has maintained rapid growth and is expected to grow in the coming years. Driven by this rapidly growing segment, from 2018 to 2023, the global LED lighting market is estimated to grow at a CAGR of approximately 9.6% to reach approximately US$98.5 billion by 2023. The growth rate is anticipated with a downward trend in the future, which is a result of increasingly maturing product technology and escalating market competition.

Market size of LED lighting, 2014-2023E



Source: Frost & Sullivan

Market drivers and opportunities to the global LED lighting market

a. Rising environmental awareness of the public

As an important section of energy consumption in both residential life and industrial production, illumination through LED lighting can save massive amounts of energy, which would help to alleviate pollution. Due to the rising environmental awareness, energy efficiency will become one of the major concerns among the public. Therefore, LED lighting, especially with dimmable function, will be a favourable option among both consumers and industrial end users.

b. Increasing market demands for smart illuminator

The rapid economic growth is driving the public's requirement on illumination solutions to a higher level. Personalised and intelligent lighting experiences are demanded by more consumers. LED lighting, which caters to the new requirements of high quality illumination based on intelligent controls and dimming functions, is expected to experience further growth in the future.

c. Further development of smart illumination

Smart illumination grew rapidly in recent years due to its advantage over traditional illumination. Although considered a basic function in smart illumination, automatic dimming cannot be completed without LED dimmers, which are controlled through the applications of ICs. While still in the initial stages of development, smart illumination has a promising future in the market and will surely drive the development of dimmable LED lighting market.

OVERVIEW OF THE SENSORS AND AUTOMATION MARKET IN CHINA

A sensor is a device used to detect events or changes in the environment. It then provides a corresponding output, which facilitates the data and signal transmission, processing, storage, display, recording and control of information. Sensor technology is the foundation and core of IoT. IoT is the network of physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors and network connectivity that enable these

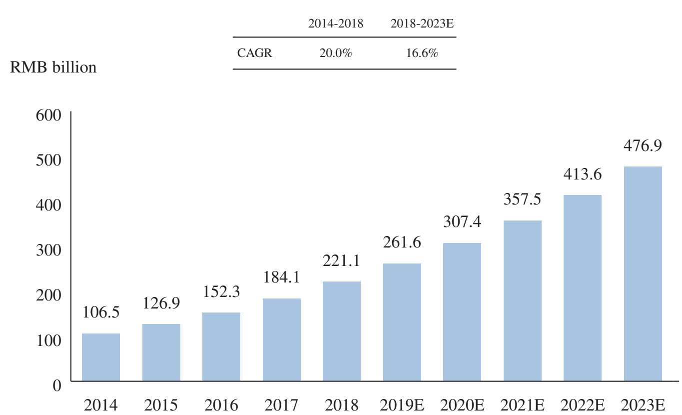
"Things" to connect and exchange data and information. In industrial automation, all the components of industrial production need sensors to monitor and feed the data to the control centre. Therefore, sensors play an extremely important role in industrial automation.

Market size of the sensor industry in China

Driven by the rapid development of IoT industry, as well as the supporting policies released by the PRC government, such as "Information Industry Development Plan (信息產業發展規劃)", the market size of sensor technology in China increased from approximately RMB106.5 billion to approximately RMB221.1 billion during the period of 2014 to 2018 with a CAGR of approximately 20.0%. The fast growth in 2018 was mainly driven by the strong demand from industries of IoT and electric cars.

As the MIIT puts more emphasis on the development of IoT and sensor technology industry, as well as the publishing of policies such as "Made in China 2025", an expanded demand for sensors is projected to arise in near future due to vast application of sensors, advancement of electronics devices, and requirements in sensing technologies in various industries. The market size of sensor technology market is expected to grow at a CAGR of approximately 16.6% from approximately RMB221.1 billion in 2018 to approximately RMB476.9 billion in 2023.

Market size of sensor industry in China, 2014-2023E



Source: Frost & Sullivan

Market drivers and opportunities to the sensor industry in China

a. The strong demand from two emerging markets: Unmanned Aerial Vehicle ("UAV") and Unmanned Ground Vehicle ("UGV")

Obstacle avoidance solution for UAVs and UGVs is an important issue. Obstacle avoidance solutions require obstacle detection sensors. With higher expectations on the performance of sensor technology in terms of detection range, scanning angular velocity, update rate and signal quality of radar, and the increasing demand for sensor system that is needed by the development of UGVs and UAVs, the sensor technology market is expected to further grow in size.

b. Policies released by the Ministry of Industry and Information Technology provide favourable policy environment for sensor technology market in China

In recent years, the MIIT introduced several sensor industry related policies to support its development, such as "Information Industry Development Plan (信息產業發展規劃)", "12th Five-Year Development Plan of Internet of Things (物聯網"十二五"發展規劃)" and "Made in China 2025 (中國制造2025)". Furthermore, the development of sensor market in China has been emphasised on national strategic level and it is expected to become a centrepiece of national innovation, which illustrates the market's potential.

This section sets forth a summary of the most significant regulations that affect our business activities in the PRC and Hong Kong. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

PRC LAWS AND REGULATIONS

Foreign investment industries guidance in IC sourcing and sales industry

Projects with foreign investment in the PRC are subject to the supervision and administration requirements as provided in the Foreign Investment Industries Guidance Catalogue (Amended in 2017) (《外商投資產業指導目錄》(2017年修訂), the "**Guidance Catalogue**") which was amended and promulgated jointly by the National Development and Reform Commission and MOFCOM on 28 June 2017 and became effective on 28 July 2017, and Special Administrative Measures for Access of Foreign Investment (Negative List) (2018 Edition) (《外商投資准入特別管理措施 (負面清單) (2018年版)》, the "**Negative List**") which was promulgated jointly by the National Development and Reform Commission and MOFCOM on 28 June 2018 and became effective on 28 July 2018. Under the Guidance Catalogue and Negative list, foreign-invested industries are classified into two categories, namely (i) encouraged foreign-invested industries; and (ii) foreign-invested industries which are subject to Negative List. The Negative List is further divided into restricted foreign-invested industries and prohibited foreign-invested industries. Unless otherwise provided in the PRC laws, the industries which are not set out in the Negative List are permitted foreign-invested industries.

Pursuant to Guidance Catalogue, the business of our Group falls into a foreign investment permitted industry.

PRC laws and regulations relating to foreign investment

Pursuant to the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the China Securities Regulatory Commission, the State Administration for Industry and Commerce, the State Administration of Taxation and SAFE on 8 August 2006, effective as at 8 September 2006 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise or subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iii) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise.

On 8 October 2016, MOFCOM promulgated Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises (《外商投資企業設立及變更備案管理暫行辦法》, the "**Measures**") which came into effect on the same date, and was further amended on 30 July 2017 and 30 June 2018. According to the Measures, the merger and acquisition of domestic non-foreign-invested enterprises by foreign investors shall, if not involving special access administrative measures and affiliated mergers and acquisitions, be subject to the record filing measures.

Pursuant to Interim Provisions on the Investment of Foreign-invested Enterprise in China (《關於外商投資企業境內投資的暫行規定》) implemented on 1 September 2000 and amended on 26 May 2006 and 28 October 2015, a foreign investment enterprise seeking to invest to establish a company in the fields of Encouraged Categories or Permitted Categories of Investment, shall submit an application to the company registration organ in the place where the target company is located.

PRC laws and regulations relating to taxation

Enterprise Income Tax ("EIT")

Pursuant to the EIT Law (《中華人民共和國企業所得稅法》), which came into effect on 1 January 2008, and amended on 24 February 2017 and 29 December 2018 and the Implementing Rules (《中華人民共和國企業所得稅法實施條例》), which was promulgated on 6 December 2007 and with effect from 1 January 2008 by the State Council, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise shall pay EIT on its income deriving from both inside and outside China at the rate of EIT of 25%. A non-resident enterprise that has an establishment or place of business in the PRC shall pay EIT on its income deriving from inside China and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business, at the rate of EIT of 25%.

The EIT Law prescribes a standard withholding tax rate of 20% on a non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business. EIT Law and its Implementation Rules reduced the rate from 20% to 10%, effective from 1 January 2008. Therefore, dividends and other China-sourced passive income of non-resident enterprises shall pay EIT on its income deriving from inside China at the reduced rate of EIT of 10%.

The PRC and the Hong Kong government signed the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》, the "**Arrangement**") on 21 August 2006 and implemented on 1 January 2007. In accordance with the Arrangement, the withholding tax rate of 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company.

In accordance with the Law of the People's Republic of China on the Administration of Tax Levying, which was adopted on 4 September 1992, amended for the first time on 28 February 1995 and revised for the second time on 28 April 2001, the receipt or payment of prices or fees in business transactions between institutions or sites engaging in production or business operations established in China by enterprises or foreign enterprises and their associated enterprises shall follow the arm's length principle. Where the receipt or payment of prices or fees does not follow the arm's length principle and results in a reduction of taxable income, the tax authorities shall have the right to make reasonable adjustments.

In accordance with the EIT Law, the business transactions between enterprises and their affiliates that reduce the taxable income or income of such enterprises and their affiliates not in compliance with independent transaction principle, the taxation authority has the right to make an adjustment with reasonable methods.

Value-added Tax ("VAT")

Pursuant to the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) promulgated in 1993, and amended on 10 November 2008, 6 February 2016, and 19 November 2017, the Detailed Rules for the Implementation of the Interim Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》) promulgated on 15 December 2008 and revised on 28 October 2011, entities and individuals selling goods and providing processing, repairs or maintenance services in China, or importing goods to China, shall be identified as taxpayers of VAT, and shall pay VAT under the regulations. Except for some limited circumstances where the VAT rate is 3%, 6% and 11%, the general rate of VAT is 17%.

PRC laws and regulations relating to product liability

Product liability claims may arise if the products sold have any harmful effect on consumers. The injured party can claim for damages or compensation. The General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which became effective on 1 January 1987 and amended on 27 August 2009, states that manufacturers and sellers of defective products causing property damage or personal injury shall bear civil liabilities. The General Rules of the Civil Law of the PRC (《中華人民共和國民法總則》), which was issued on 15 March 2017 and has come into effect since 1 October 2017, provides that in the case of any infringement of civil rights and interests, the infringed is entitled to request the infringer to assume the liability for such infringement.

The Tort Liability Law of the PRC (《中華人民共和國侵權責任法》), which was promulgated by the Standing Committee of the National People's Congress (the "**SCNPC**") on 26 December 2009 and became effective on 1 July 2010, provides that if a product endangers a person's life or property due to its defect, the manufacturers and the sellers shall bear liability in torts.

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated on 22 February 1993 and last amended on 29 December 2018, aims to strengthen quality control of products and protect consumers' rights. Under this law, business operators who sell defective products may be subject to confiscation of earnings from such sales, the revocation of earnings from such sales, the revocation of business licences and imposition of fines, and in severe circumstances, may be subject to criminal liability.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》), which was promulgated on 31 October 1993 and amended on 25 October 2013, protects consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they sell goods and/or provide services to customers.

PRC laws and regulations relating to labour and social insurance

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》, the "**Labour Contract Law**"), which was promulgated by the SCNPC on 29 June 2007 and became effective on 1 January 2008 and amended on 28 December 2012 and became effective on 1 July 2013, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employment contract. The Labour Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

Under applicable PRC laws and regulations, including the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on 28 October 2010 and became effective on 1 July 2011, and the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated on 3 April 1999 and amended by the State Council on 24 March 2002, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and employers who fail to contribute may be fined and ordered to rectify within a stipulated time limit.

PRC laws and regulations relating to imports of goods

According to the Customs Law of the PRC (《中華人民共和國海關法》) passed on 22 January 1987 and subsequently amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, unless otherwise provided for, all import goods must be declared and duties on them paid by their sender or receiver (the "**Consignor**") or by representatives entrusted by the sender or receiver and approved by and registered with the Customs (the "**Consignee**"). Pursuant to the Provisions of the Customs of the PRC on the Administration of Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on 13 March 2014, subsequently amended on 20 December 2017 and came into effect on 1 February 2018, the consignee or consignor of imported goods may complete their own declaration at any ports or any location with centralised customs operation in the PRC after completing the registration at customs.

According to the Law of the PRC on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法》) promulgated on 21 February 1989 and subsequently amended on 28 April 2002 and 29 June 2013 and its implementation regulations, the consignee or consignor of imported goods may complete the clearance declaration with the customs themselves or entrust commodity clearance agency firms to complete the declaration procedures. The government has adopted a filing and registration administration system for enterprises completing the declaration themselves. The consignee or consignor of imported goods shall file with the relevant entry-exit inspection and quarantine authority according to law when handling the customs clearance procedures.

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) passed on 12 May 1994 and amended on 6 April 2004 and 7 November 2016, enterprises that engage in foreign trade are required to register with competent department of foreign trade under the State Council or its authorised institution. The PRC customs may refuse to handle the formalities for declaration and clearance of goods imported by a foreign trade operator that fails to complete the record-filing registration formalities.

PRC laws and regulations relating to foreign exchange

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administrative Regulations (《外匯管理條例》, the "**SAFE Regulations**") which was promulgated by the State Council and last amended on 5 August 2008. Under the SAFE Regulations, the RMB is generally freely convertible for current account items, including the distribution of dividends, trade and service related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside the PRC, unless the prior approval of SAFE is obtained. Foreign investment enterprises are permitted to remit their profits or dividends in foreign currencies out of their foreign exchange accounts or exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

Pursuant to Circular of the SAFE on Relevant Issues Relating to Foreign Exchange Control on Offshore Investment, Financing and Round-trip Investments by Domestic Residents Through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司投融資及返程投資外匯管理有關問題的通知》, the "**Circular 37**"), which was promulgated on 4 July 2014 and implemented on the same date, domestic residents establishing or taking control of a special purpose company abroad which makes round-trip investments in the PRC are required to effect foreign exchange registration with the local foreign exchange bureau. Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》, the "**Circular 13**"), which was promulgated on 13 February 2015 and implemented 1 June 2015, the initial foreign exchange registration for establishing or taking control of a special purpose company by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau.

HONG KONG LAWS AND REGULATIONS

Hong Kong laws and regulations relating to transfer pricing adjustments

Pursuant to Section 20(2) of IRO, where a non-resident person carries on business with a closely connected resident person and such business is so arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than the ordinary profits which might be expected to arise in or derive from Hong Kong, the business done by the non-resident person shall be deemed to be carried on in Hong Kong and such non-resident person shall be subject to Hong Kong profits tax.

Section 61A of the IRO stipulates that where it would be concluded that person(s) entered into or carried out transactions for the sole or dominant purpose to obtain a tax benefit (which means the avoidance or postponement of the liability to pay tax or the reduction in the amount thereof), liability to tax of the relevant person(s) will be assessed (a) as if the transaction or any part thereof had not been entered into or carried out; or (b) in such other manner as the officer of the IRD considers appropriate to counteract the tax benefit which would otherwise be obtained.

According to the Departmental Interpretation and Practice Notes No. 45 – Relief from Double Taxation due to Transfer Pricing or Profit Reallocation Adjustments issued by the IRD in April 2009, where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty between Hong Kong and that country (which includes the PRC).

Hong Kong laws and regulations relating to taxation

The IRO is an ordinance enacted for the purposes of imposing taxes on, among other things, earnings and profits in Hong Kong.

The IRO provides, among other things, that profits tax shall be charged on every person carrying on a trade, profession or business in Hong Kong in respect of his or her assessable profits arising in or derived from Hong Kong. A standard rate of 16.5% on assessable profits was applied to corporate taxpayers as at 31 March 2018, while for an assessment year commencing on or after 1 April 2018, profits tax is chargeable for corporate taxpayers at the rate of 8.25% on assessable profits up to HK$2,000,000 and at the rate of 16.5% on any part of assessable profits over HK$2,000,000. The IRO also contains detailed provisions relating to, among other things, permissible deductions for outgoings and expenses, set-offs for losses and allowances for depreciations of capital assets.

Hong Kong laws and regulations relating to employment

Under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), employers shall enrol employees employed under the jurisdiction of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) in Mandatory Provident Fund Schemes ("**MPF Schemes**"). MPF Schemes are defined contribution retirement plans administered by independent trustees, under which employers and employees are each generally required to make contributions at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000.

Under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (comprising full-time and part-time employees).

OUR HISTORY AND DEVELOPMENT

Introduction

Our operating subsidiaries comprise the HK Group Companies and the PRC Group Companies, through which we carry out our business.

The inception of the PRC Group Companies can be traced back to November 2000 when Chengdu Flyring was established in the PRC with a registered capital of RMB0.5 million by Mr. Feng Dequan (馮德全) and Ms. Feng Ying (馮瑛), the father and sister of Mrs. Qing, one of our Controlling Shareholders, respectively, with their personal funds to engage in the sale of electronic products. As a result of several share transfers, the entire equity interest of Chengdu Flyring became held by Mr. Qing, our executive Director, and Mrs. Qing, his spouse and one of our Controlling Shareholders, since June 2010.

As the business of Chengdu Flyring gradually expanded, in May 2005, Shenzhen IH was established in the PRC with a registered capital of RMB2.0 million by Mr. Qing and Mrs. Qing to engage in the sale of ICs and other electronic products. Subsequently, Shanghai IH was established in the PRC in August 2009 with a registered capital of RMB2.0 million by Mr. Qing and Mrs. Qing as an additional regional office to serve and support customers in the PRC. Through the PRC Group Companies, Mr. Qing and Mrs. Qing accumulated strong industry experience, customer bases and maintained good customer relationships in the PRC.

In 2007, Mr. Lam, one of our Controlling Shareholders who has known Mr. Qing and Mrs. Qing through past business contacts in the IC and semiconductor industry since 1998, agreed with Mr. Qing and Mrs. Qing to join forces to develop the IC business at an appropriate time. As Mr. Lam was at that time still having other business endeavours and could not devote sufficient time to develop such business venture with Mr. Qing and Mrs. Qing, he introduced Ms. Hui Hung (許紅), his cousin who at that time was interested in IC trading business, to Mr. Qing and Mrs. Qing. Under the recommendation of Mr. Lam and with the consent of Mr. Qing and Mrs. Qing, Ms. Hui Hung (許紅) acquired a company in Hong Kong and changed its name to IH Technology Limited, and adopted "IH" as its trade name, which was the same as that of Shenzhen IH, a company owned by Mr. Qing and Mrs. Qing since its establishment until it was acquired by our Group pursuant to the Reorganisation.

Prior to 2010, the PRC Group Companies and IH Technology were mainly engaging in pure trading of IC products. Upon a review of the then business performance and prospects of the PRC Group Companies and IH Technology in 2010, Mr. Lam, Mr. Qing and Mrs. Qing decided to adjust their strategies and business model and step into the area of provision of integrated and comprehensive services from IC sourcing, R&D of IC application solutions, to marketing and sales through the PRC Group Companies and the HK Group Companies.

After arm's length negotiations and leveraging on their respective strengths and resources, Mr. Lam, Mr. Qing and Mrs. Qing decided that Mr. Lam, who had by then accumulated over 15 years of experience with strong R&D capabilities and international manufacturer supplier connections, should take charge of IH Technology, and through IH Technology, be mainly responsible for the sourcing of ICs from most of our top suppliers (which are primarily multinational suppliers situated outside the PRC), design, R&D of IC application solutions and the subsequent sale of IC application solutions and products to the PRC Group Companies and our other customers, whilst the PRC Group Companies, which were then owned by Mr. Qing and Mrs. Qing, who had accumulated strong industry experience, customer bases and maintained good customer relationships in the PRC, should be mainly responsible for the marketing and sale of the ICs sourced and the IC application solutions designed and developed by the HK Group Companies in the PRC market. Given the aforesaid agreed arrangement, the PRC Group Companies were regarded as the HK Group Companies' customers and being our largest customer for FY2015 and FY2016 prior to our Acquisition of the PRC Group Companies pursuant to the Reorganisation and purchases of the PRC Group Companies from the HK Group Companies amounted to over 90% of their total purchases for each of FY2015 and FY2016. For details, please refer to "Business – Customers" in this prospectus. It was also agreed among Mr. Lam, Mr. Qing and Mrs. Qing that the PRC Group Companies and IH Technology, the company owned by Mr. Lam in Hong Kong, should continue to use the trade name of "IH (英浩)", with a view to promoting and facilitating the future business collaboration with the PRC Group Companies, strengthening the brand awareness and image of our Group among both industrial and consumer electronics market in the PRC and Hong Kong, and building integrated and comprehensive service capabilities servicing electronic product manufacturers from IC sourcing, research and development of IC application solutions, to marketing and sales. Under such circumstances, Mr. Lam joined IH Technology as its general manager in April 2010, subsequently became its director in November 2010 and acquired 90.91% equity interest in IH Technology in March 2011. Subsequently, Ms. Hui Hung (許紅) ceased to be actively involved in the business operations of IH Technology after Mr. Lam joined. At about the same time, Mr. Lam incorporated another company, Flyring Electronics, in Hong Kong in January 2011 and adopted "Flyring (飛環)" as its trade name, which is the same as that of Chengdu Flyring, as an additional platform to serve different customers. Since then, the HK Group Companies and the PRC Group Companies have been conducting all business activities under the same trade names of "IH (英浩)" and "Flyring (飛環)".

Ever since the cooperation of Mr. Lam, Mr. Qing and Mrs. Qing and the integration of the HK Group Companies and the PRC Group Companies in 2011, the HK Group Companies and the PRC Group Companies have been operating under the joint leadership and management of Mr. Lam, Mr. Qing and Mrs. Qing in light of their respective distinctive strengths and resources. Each of them has been an integral part of the decision making process in the operations as well as the management of our Group, and all major and strategic decisions in relation to these matters were made after consensus and agreement have been reached among Mr. Lam, Mr. Qing and Mrs. Qing such as (i) the annual capital and operating budgets, annual operating and strategic plans; (ii) the financing needs; and (iii) all recruitment, performance and remuneration reviews of staff members of each of the HK Group Companies and the PRC Group Companies. Further, the HK Group Companies and the PRC Group Companies have been using the same ERP system which records all business data and financial figures of our Group as one operating and economic unit. Such ERP system, which is accessible by Mr. Lam, Mr. Qing and certain of our senior management, enables us to monitor different aspects of the operations of our Group, from suppliers list, our Group's purchases from suppliers, IC products list, inventory control and ageing analysis, trade receivables and payables ageing analysis, costs of sales, to customers list and customers' orders, and invoicing to customers. The HK Group Companies have been providing the necessary financial support to the PRC Group Companies, such as obtaining bank financing to fund the operations of both groups of companies.

Notwithstanding the aforesaid cooperation arrangements, there was no formal written agreement governing (i) Mr. Lam, Mr. Qing and Mrs. Qing's rights in the respective profits or losses of the HK Group Companies and the PRC Group Companies; and (ii) the use of trade names by the HK Group Companies and the PRC Group Companies. In addition, Mr. Lam did not hold any equity interest, directorship or management role in the PRC Group Companies on one hand, and Mr. Qing and Mrs. Qing did not hold any equity interest, directorship or management role in the HK Group Companies on the other hand, nor did any of them have the legal rights to operate, manage, review and/or assess the financial results of the other companies prior to the Acquisition of the PRC Group Companies by the HK Group Companies, despite the fact that the performance and financial results of the HK Group Companies and the PRC Group Companies had, in practice, been made available to and reviewed by Mr. Lam, Mr. Qing and Mrs. Qing.

With an aim to further strengthen the integration of the HK Group Companies and the PRC Group Companies as one business venture and as part of the Reorganisation, a series of transfers took place where Mr. Qing and Mrs. Qing transferred their respective equity interests in each of Shenzhen IH, Chengdu Flyring and Shanghai IH to Flyring Electronics since November 2016. Upon completion of all these transfers in January 2017, the PRC Group Companies became indirect wholly-owned subsidiaries of our Company.

Mr. Lam, Mr. Qing and Mrs. Qing executed the Confirmatory Deed on 21 March 2018, pursuant to which they confirmed and acknowledged, among other things, the existence of above cooperation relationship and arrangements since 2011. In addition, Mr. Lam, Mr. Qing and Mrs. Qing confirmed in the Confirmatory Deed, among other things, that they will, in respect of the management and operations of our Group, including but not limited to development strategies, business planning, annual budgeting, investment plans and human resources, make key decisions together. Further, after arm's length negotiations between Mr. Lam on one side, and Mr. Qing and Mrs. Qing on the other side, it was agreed that they shall be interested in 90% and 10%, respectively, of the total issued share capital of our Company, upon completion of the Reorganisation but immediately before the Capitalisation Issue and the Share Offer. Therefore, our Group underwent the Reorganisation pursuant to the consensus reached among Mr. Lam, Mr. Qing and Mrs. Qing. For further details of the Reorganisation, please refer to "Reorganisation" in this section.

After years of continuous efforts, our Group has become a well-established fabless semiconductor application solutions provider specialising in the provision and development of IC application solutions and sale of ICs for consumer and industrial products. As at the Latest Practicable Date, we were the authorised distributor of six IC manufacturer suppliers and the value-added reseller of one IC manufacturer. For details of the principal business of our Group, please refer to "Business" in this prospectus.

Our business milestones

Set out below is a list of key milestones in the founding and development of our Group:

Year	Business milestones
2000	Chengdu Flyring was established in the PRC to engage in the sale of electronic products.
2005	Shenzhen IH was established in the PRC to engage in the sale of ICs and other electronic products.
2007	IH Technology was acquired by Ms. Hui Hung, Mr. Lam's cousin, in Hong Kong to engage in the trading of electronic products.

Year	Business milestones
2009	Shanghai IH was established in the PRC to engage in the sale of ICs and other electronic products.
2010	IH Technology started to engage in the development and sale of electronic products and provision of solutions under the management and daily operation of Mr. Lam.
	IH Technology became a value-added reseller of a global semiconductor manufacturer based in Germany.
	Our Group commenced to provide LED lighting solutions to our customers.
2011	Flyring Electronics was incorporated in Hong Kong to engage in the development and sale of electronic products and provision of solutions.
	Our Group commenced to provide motor control and RF power solutions to our customers.
2012	IH Technology became an authorised distributor of a Japanese multinational electronic products corporation for LED lighting.
2013	Flyring Electronics was awarded the “Best Distributor” by a Dutch global semiconductor manufacturer.
	Our Group commenced to provide mobile devices and smart charging solutions to our customers.
	Our Group commenced to provide sensors and automation solutions to our customers.
2014	Our Group commenced to offer millimetre-wave radar systems for our customers.
	We commenced to supply to the PRC Group Companies fast charging devices which are ultimately supplied to Jiangsu Chenyang Electronics Co., Ltd. for manufacturing Xiaomi mobile phones.
2015	Flyring Electronics became an authorised distributor of a Dutch global semiconductor manufacturer providing ratio frequency products.
	IH Technology became an authorised distributor of a Shanghai based fabless chip company listed on the National Equities Exchange and Quotations Co., Ltd.

Year	Business milestones
2016	Flyring Electronics became an authorised distributor of Power Integrations International Ltd., a Silicon Valley-based supplier of high-performance electronic components company.
	Flyring Electronics became an authorised distributor of a PRC-based company, which is listed on the Taiwan Stock Exchange and designs and manufactures a broad range of high performance analogue integrated circuits.
2017	Completion of the Acquisitions of the PRC Group Companies by Flyring Electronics.
	IH Technology became an authorised distributor of a Shanghai-based company, which is a subsidiary of a leading domestic IC manufacturer.
	IH Technology became an authorised distributor of a USA-based IC manufacturer.
2018	IH Technology received a performance award for highest demand creation in China for a product line of Manufacturer A.
	IH Technology was awarded the best new project design application engineer for another product line of Manufacturer A.
	We set up a laboratory in our new office located in Futian, Shenzhen, Guangdong Province, the PRC, to facilitate collaboration with our suppliers and customers and for hosting demonstrations for them.

CORPORATE HISTORY

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 16 August 2016, with an authorised share capital of HK$380,000 divided into 38,000,000 shares of nominal value of HK$0.01 each. As at the date of incorporation, Mr. Lam held one issued Share, which represented the entire issued share capital of our Company. Upon the completion of the Reorganisation, the details of which are set out in "Reorganisation" in this section below, our Company became the holding company of our Group.

Our Group conducts its businesses principally through the HK Group Companies and the PRC Group Companies. Set out below is a brief corporate history of the subsidiaries of our Company.

Contel (BVI)

Contel (BVI) was incorporated under the laws of the BVI on 19 September 2016, authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each. At the time of incorporation, one share with a par value of US$1.00 was issued and held by our Company. Contel (BVI) is an investment holding company.

HK Group Companies

IH Technology

IH Technology was incorporated as a limited liability company under the laws of Hong Kong under its former name, Granding Corporation Limited (天英行有限公司), on 23 August 2006, with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1.00 each, by True Friendship Limited, an independent third party, as its initial subscriber subscribing for one issued share at nominal value. On 11 June 2007, Ms. Hui Hung, a cousin of Mr. Lam, was appointed as the director of the company. On the same date, the company changed its name from "Granding Corporation Limited (天英行有限公司)" to "IH Technology Limited (英浩科技有限公司)". On 19 July 2007, True Friendship Limited transferred the one issued share of IH Technology to Ms. Hui Hung as its sole shareholder.

After the acquisition by Ms. Hui Hung (許紅), from 2007 up to 2010, IH Technology was mainly engaged in the business of trading of electronic products. Upon a review of the then business performance and prospects of the PRC Group Companies and IH Technology in 2010, Mr. Lam, Mr. Qing and Mrs. Qing decided to adjust their business model and step into the area of provision of integrated and comprehensive services from IC sourcing, R&D of IC application solutions, to marketing and sales through the PRC Group Companies and the HK Group Companies. Under such circumstances, Mr. Lam joined IH Technology as its general manager in April 2010 and subsequently became a director in November 2010 replacing Ms. Hui Hung (許紅). On 14 March 2011, IH Technology allotted and issued ten ordinary shares of HK$1.00 each to Mr. Lam at nominal value. Upon completion of the allotment and issue of shares, IH Technology was held as to approximately 90.91% by Mr. Lam and approximately 9.09% by Ms. Hui Hung (許紅).

In connection with the preparation for the Listing, on 13 January 2017, Ms. Hui Hung (許紅) transferred her one share in IH Technology to Mr. Lam at a nominal consideration of HK$1.00, which was settled on the same date. Upon completion of the transfer, IH Technology became wholly owned by Mr. Lam.

Flyring Electronics

Flyring Electronics was incorporated as a limited liability company under the laws of Hong Kong on 11 January 2011, with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1.00 each. Upon incorporation, one share was allotted and issued to Mr. Lam as the sole shareholder and the sole director of the company. Similar to IH Technology, Flyring Electronics has also been principally engaging in the development and sale of electronic products and provision of solutions, but dealing with different suppliers, customers, brands and product lines from those of IH Technology.

PRC Group Companies

Chengdu Flyring

Chengdu Flyring was established in the PRC on 2 November 2000 with an initial registered capital of RMB500,000, primarily engaged in the sale of electronic products. Upon its establishment, Chengdu Flyring was held as to 80% by Mr. Feng Dequan (馮德全) and 20% by Ms. Feng Ying (馮瑛), with Mr. Feng Dequan (馮德全) contributing RMB400,000 and Ms. Feng Ying (馮瑛) contributing RMB100,000. Mr. Feng Dequan (馮德全) is the father and Ms. Feng Ying (馮瑛), the head of PRC operations of our Group, is the sister of Mrs. Qing.

In 2006, Mr. Feng Dequan (馮德全) transferred his equity interest in Chengdu Flyring to his son-in-law, Mr. Qing, who was experienced in the IC industry. Pursuant to an equity transfer agreement dated 6 February 2006, Mr. Feng Dequan (馮德全) transferred his 80% equity interest in Chengdu Flyring to Mr. Qing for a cash consideration of RMB400,000, which was equal to the relevant registered capital of Chengdu Flyring contributed by Mr. Feng Dequan (馮德全), and was fully settled in May 2006. Upon completion and settlement of such equity transfer, Chengdu Flyring was held as to 80% by Mr. Qing and 20% by Ms. Feng Ying (馮瑛). Chengdu Flyring was primarily engaging in the trading of electronic components at that time. In 2010, Ms. Feng Ying (馮瑛) decided to dispose of her interest in Chengdu Flyring, and pursuant to an equity transfer agreement dated 7 May 2010, Ms. Feng Ying (馮瑛) transferred her 20% equity interest in Chengdu Flyring to Mr. Qing, her brother-in-law, for a cash consideration of RMB100,000, which was equal to the relevant registered capital of Chengdu Flyring contributed by Ms. Feng Ying (馮瑛), and was fully settled on 26 September 2010. On 7 May 2010, the registered capital of Chengdu Flyring was increased from RMB0.5 million to RMB6.0 million by Mr. Qing and Mr. Zhang Lin (張林), a personal friend of Mr. Qing who was an independent third party before making the investment into Chengdu Flyring, each contributing RMB2.5 million and RMB3.0 million by way of cash, respectively. As confirmed by Mr. Zhang Lin (張林), he intended to invest in Chengdu Flyring solely as a passive investor and did not intend to be involved in any of its management and decision making. Upon completion and settlement of the said equity transfer and the capital increase in May 2010, Chengdu Flyring was held as to 50% by Mr. Qing and 50% by Mr. Zhang Lin (張林), respectively.

By around June 2010, Mr. Zhang Lin (張林) had identified other business opportunities and decided to dispose of his 50% equity interest in Chengdu Flyring to finance such opportunities. Pursuant to an agreement (the "**Transfer Agreement**") entered into by and between Mr. Zhang Lin (張林) and Mrs. Qing dated 30 June 2010, Mr. Zhang Lin (張林) transferred his 50% equity interest in Chengdu Flyring to Mrs. Qing for a cash consideration of RMB3.0 million which was equal to the then relevant registered capital of Chengdu Flyring contributed by Mr. Zhang Lin (張林), and was settled on 22 November 2010. Nevertheless, due to the busy schedules of both parties and administrative oversight, the 50% equity transfer of Chengdu Flyring between Mr. Zhang Lin (張林) and Mrs. Qing contemplated under the Transfer Agreement was only registered with the relevant local SAIC authority in November 2014. As advised by our PRC Legal Advisers, notwithstanding the fact that the said equity transfer was only registered in November 2014, as between Mr. Zhang Lin (張林) and Mrs. Qing, the Transfer Agreement took effect upon signing in June 2010 and the said equity transfer was completed on 22 November 2010. In addition, as advised by our PRC Legal Advisers, the late registration of such equity transfer did not render the Transfer Agreement invalid.

Shenzhen IH

Shenzhen IH was established in the PRC on 11 May 2005 with a registered capital of RMB2.0 million, primarily engaged in the sale of ICs and other electronic products. Upon its establishment, Shenzhen IH was held as to 50% by Mr. Qing and 50% by Mrs. Qing.

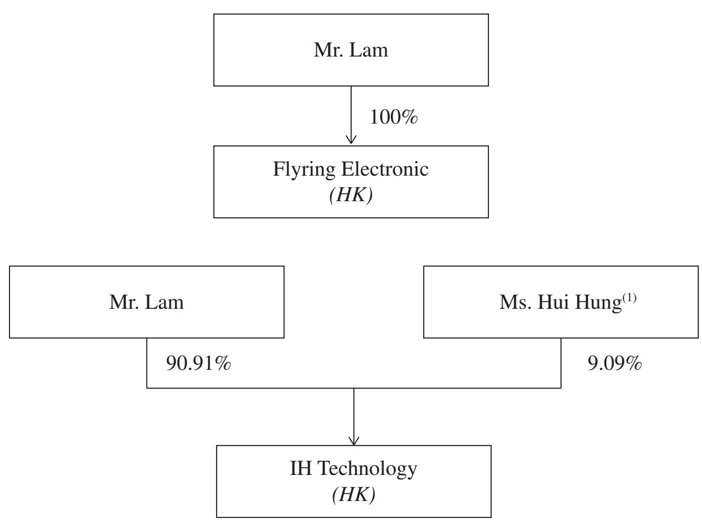
Shanghai IH

Shanghai IH was established in the PRC on 26 August 2009 with a registered capital of RMB2.0 million, primarily engaged in the sale of ICs and other electronic products. Upon its establishment, Shanghai IH was held as to 80% by Mr. Qing and 20% by Mrs. Qing.

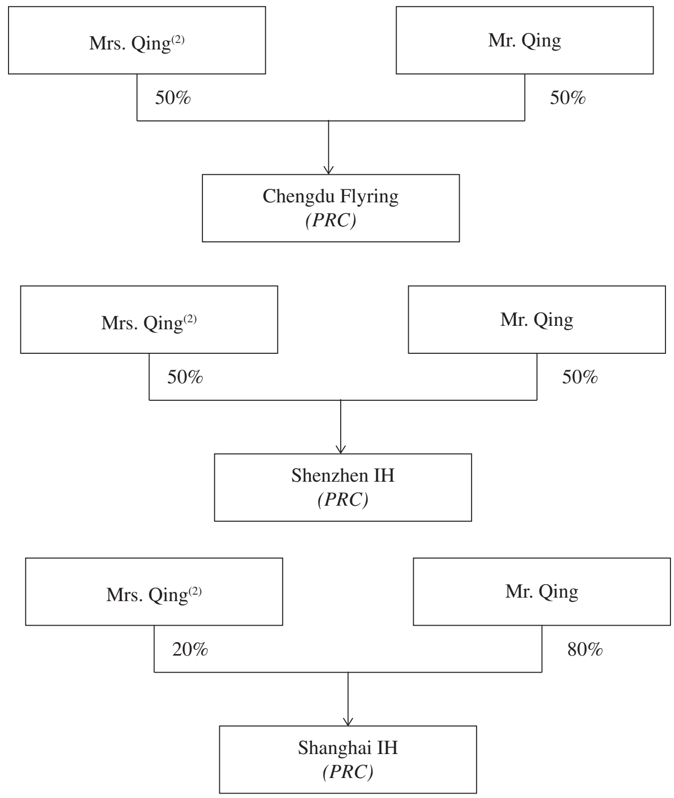
GROUP STRUCTURE BEFORE REORGANISATION

The corporate structure of the companies of our Group prior to the Reorganisation is set out below:

Hong Kong operations



PRC operations



Notes:

(1) Ms. Hui Hung (許紅) is the cousin of Mr. Lam.

(2) Mrs. Qing is the spouse of Mr. Qing.

REORGANISATION

For the purpose of the Listing, we underwent the Reorganisation as a result of which our Company became the holding company of our Group.

The Reorganisation involves the following major steps:

(a) Incorporation of our Company

Our Company was incorporated as a limited liability company in the Cayman Islands on 16 August 2016, with an authorised share capital of HK$380,000 divided into 38,000,000 shares of nominal value of HK$0.01 each. At the time of incorporation, our Company allotted and issued one Share, credited as fully paid, to its initial subscriber, which was transferred at par value to Mr. Lam on the same day.

(b) Incorporation of P.Grand by Mr. Lam and transfer of Share to P.Grand

P.Grand was incorporated under the laws of the BVI on 19 September 2016, authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each. At the time of incorporation, one share of US$1.00 each was allotted and issued to Mr. Lam, credited as fully paid. On 8 November 2016, Mr. Lam transferred the one Share he held in our Company to P.Grand at par value. As a result, P.Grand became the sole Shareholder of our Company.

(c) Incorporation of Contel (BVI) by our Company

Contel (BVI) was incorporated under the laws of the BVI on 19 September 2016, authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each. At the time of incorporation, one share of US$1.00 each was allotted and issued to our Company, credited as fully paid, as a result of which Contel (BVI) became a direct wholly-owned subsidiary of our Company.

(d) Acquisition of Shenzhen IH by Flyring Electronics

On 16 November 2016, Mrs. Qing and Mr. Qing transferred their respective shareholding in Shenzhen IH, representing 100% of the equity interest of Shenzhen IH in aggregate, to Flyring Electronics, for an aggregate cash consideration of RMB2,292,274, with reference to the valuation of Shenzhen IH as at 30 September 2016, being RMB2,292,273.91, which was fully settled on 22 March 2017. The valuation was made by an independent third party valuer adopting the assets-based method. The key assumptions of the valuation method include, amongst others, (i) the management team of Shenzhen IH will maintain the current mode of operation and management, without taking into account any possible changes in business strategy and additional investment which may lead to expansion of operational capacity; and (ii) the assets under valuation are based on the then actual inventory and the then current market value of relevant assets on the effective domestic price as at the benchmark date. The transfer was completed on 14 December 2016. Upon completion of the transfer, Shenzhen IH became wholly-owned by Flyring Electronics and an indirect wholly-owned subsidiary of our Company.

(e) Acquisition of Flyring Electronics by Contel (BVI)

On 25 November 2016, Mr. Lam transferred the entire issued share capital of Flyring Electronics to Contel (BVI) at a consideration of HK$54,693,021, with reference to the net asset value of Flyring Electronics as at 30 September 2016, which was satisfied by Contel (BVI) issuing nine shares to our Company under the instruction of Mr. Lam. The transfer of Flyring Electronics has been properly and legally completed and settled. Upon completion of the transfer, Flyring Electronics became wholly-owned by Contel (BVI) and an indirect wholly-owned subsidiary of our Company.

(f) Acquisition of Shanghai IH by Shenzhen IH

On 26 December 2016, Mrs. Qing and Mr. Qing transferred their respective shareholding in Shanghai IH, representing 100% of the equity interest of Shanghai IH in aggregate, to Shenzhen IH, for an aggregate cash consideration of RMB2,088,744, with reference to the valuation of Shanghai IH as at 30 September 2016, being RMB2,088,743.52, which was fully settled on 16 March 2017. The valuation was made by an independent third party valuer adopting the assets-based method. The key assumptions of the valuation include, amongst others, (i) the management team of Shanghai IH will continue to maintain the current mode of operation and management, without taking into account any possible changes in the business strategy and additional investment which may lead to expansion of operational capacity; and (ii) the assets under valuation are based on the then actual inventory and the current market value of relevant assets on the effective domestic price as at the benchmark date. The transfer was completed on 26 January 2017. Upon completion of the transfer, Shanghai IH became wholly-owned by Shenzhen IH and an indirect wholly-owned subsidiary of our Company.

(g) Transfer of share of IH Technology to Mr. Lam

On 13 January 2017, Ms. Hui Hung transferred her one share in IH Technology to Mr. Lam at a nominal consideration of HK$1.00, which was settled on the same date. Upon completion of the transfer, IH Technology became wholly owned by Mr. Lam.

(h) Acquisition of Chengdu Flyring by Shenzhen IH

On 16 January 2017, Mrs. Qing and Mr. Qing transferred their respective shareholding in Chengdu Flyring, representing 100% equity interest of Chengdu Flyring in aggregate, to Shenzhen IH, for an aggregate cash consideration of RMB6,000,000, with reference to the registered capital of Chengdu Flyring, which was fully settled on 16 March 2017. The transfer was completed on 16 January 2017. Upon completion of the transfer, Chengdu Flyring became wholly-owned by Shenzhen IH and an indirect wholly-owned subsidiary of our Company.

(i) Acquisition of IH Technology by Contel (BVI)

On 12 April 2017, Mr. Lam transferred the entire issued share capital of IH Technology to Contel (BVI) in consideration of our Company issuing 9,999 Shares to P.Grand, at the direction of Mr. Lam. Upon completion of the transfer, IH Technology became wholly-owned by Contel (BVI) and an indirect wholly-owned subsidiary of our Company. On 25 April 2017, our Company allotted and issued 9,999 Shares to P.Grand. Upon the issue of Shares to P.Grand, the issued share capital of our Company was increased to HK$100.00 divided into 10,000 shares with a nominal value of HK$0.01 each and was wholly owned by P.Grand.

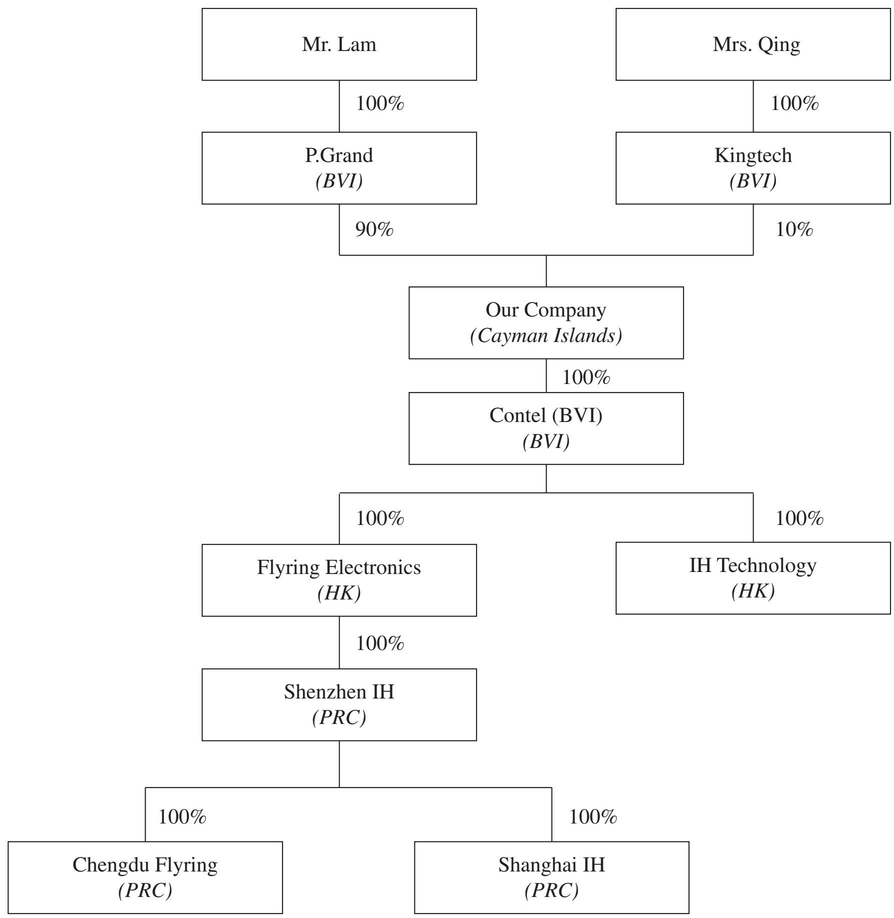
(j) Subscription of Shares by P.Grand and Kingtech

Ever since the cooperation of Mr. Lam, Mr. Qing and Mrs. Qing and the integration of the HK Group Companies and the PRC Group Companies in 2011, it was the consensus between Mr. Lam on one side, and Mr. Qing and Mrs. Qing on the other side, that the profits/losses of the HK Group Companies and the PRC Group Companies shall be shared among them in the proportion of approximately 9:1, which was determined on the basis of their respective contribution in terms of capital, technology and resources. Further, based on the audited accounts for FY2015 and FY2016, and the management accounts of the HK Group Companies and the PRC Group Companies for the six months ended 30 June 2017, the respective proportion of profit of the HK Group Companies and the PRC Group Companies was consistently within the range of approximately 88:12 to approximately 97:3. After arm's length negotiations between Mr. Lam on one side, and Mr. Qing and Mrs. Qing on the other side, it was finally agreed that they shall be interested in 90% and 10%, respectively, of the total issued share capital of our Company, upon completion of the Reorganisation but immediately before the Capitalisation Issue and the Share Offer.

Accordingly, to reflect such arrangement in the Reorganisation, it was agreed between Mr. Lam, Mr. Qing and Mrs. Qing that Mr. Qing and/or Mrs. Qing shall obtain an equity interest in our Company as part of the Reorganisation. As between Mr. Qing and Mrs. Qing, it was agreed that Mrs. Qing shall be a beneficial owner of the 10% interest in our Company. As such, on 25 December 2017, P.Grand subscribed for 80,000 Shares at nominal value and Kingtech subscribed for 10,000 Shares for a consideration of RMB10,381,018, which was equal to the total consideration paid by our Group to Mr. Qing and Mrs. Qing for the Acquisitions of the PRC Group Companies. Such consideration was received by our Company in December 2017. On the same date, our Company allotted and issued 80,000 and 10,000 Shares to P.Grand and Kingtech, respectively. Upon completion of the above subscription of Shares by P.Grand and Kingtech, the issued share capital of our Company has been increased to HK$1,000 divided into 100,000 shares with a nominal value of HK$0.01 each and owned as to 90% by P.Grand and 10% by Kingtech.

GROUP STRUCTURE AFTER REORGANISATION AND BEFORE LISTING

The structure of our Group immediately after completion of the Reorganisation as described in the above steps is as follows:



PRC LEGAL COMPLIANCE

As advised by our PRC Legal Advisers, the transfer of each of the PRC Group Companies under the Reorganisation has been properly and legally completed and settled.

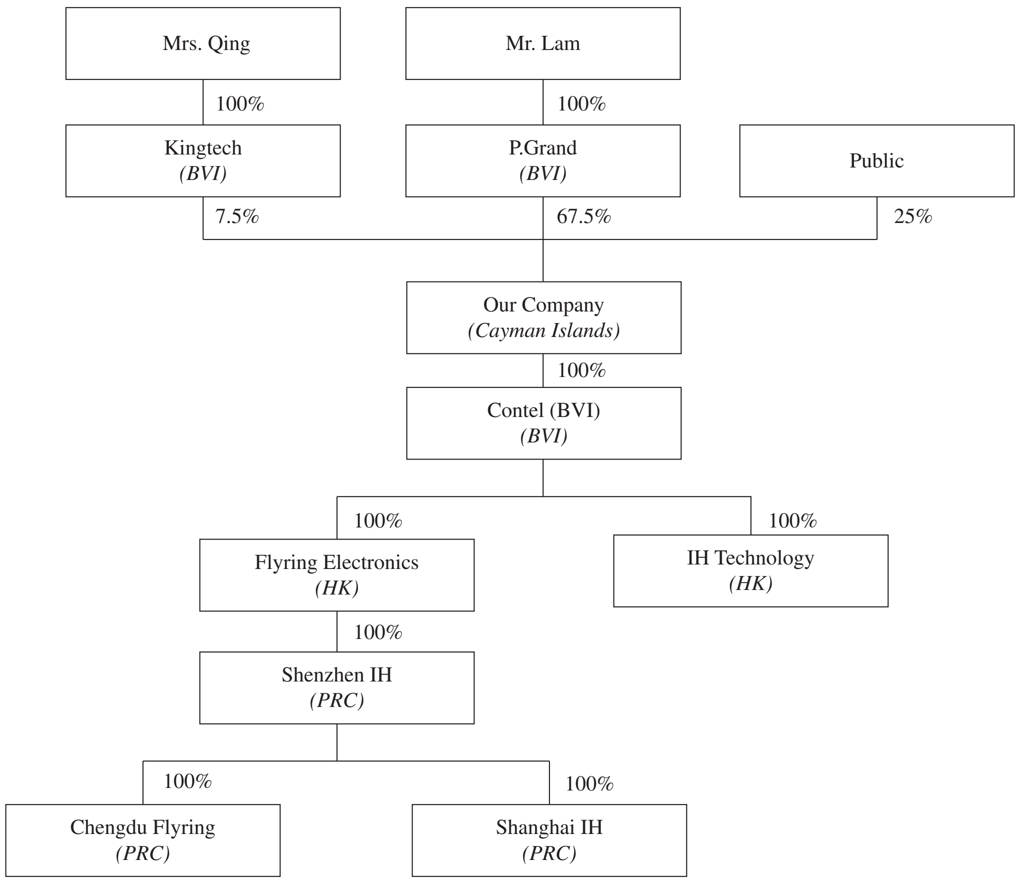
Our PRC Legal Advisers confirmed that all necessary approvals and permits required under the PRC laws and regulations in connection with the Reorganisation have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations.

CAPITALISATION ISSUE AND THE SHARE OFFER

On 21 June 2019, the authorised share capital of our Company was increased from HK$380,000 to HK$20,000,000. Conditional upon the crediting of the share premium account of our Company as a result of the allotment and issue of the Offer Shares pursuant to the Share Offer, our Directors are authorised to capitalise a sum of HK$5,999,000 and apply such sum in paying up in full at par a total of 599,900,000 Shares for allotment and issue to the Shareholders immediately prior to the issue of Shares under the Share Offer as to 539,910,000 Shares to P.Grand and 59,990,000 Shares to Kingtech.

GROUP STRUCTURE AFTER REORGANISATION AND UPON LISTING

The structure of our Group immediately after the completion of the Capitalisation Issue and the Share Offer is set out below:



SAFE REGISTRATION

Pursuant to the Circular of the SAFE on Relevant Issues Relating to Foreign Exchange Control on Offshore Investment, Financing and Round-trip Investments Conducted by Domestic Residents Through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司投融資及返程投資外匯管理有關問題的通知) (“**SAFE Circular No. 37**”) promulgated by SAFE and which became effective on 4 July 2014, (i) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (ii) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知), promulgated by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisers, Mrs. Qing, who is a PRC resident, has completed the registration under the SAFE Circular No. 37 by 22 November 2016.

OVERVIEW

We primarily engage in the sourcing and sale of IC products and the provisions of IC application solutions and value-added services to suit the needs of our customers. Our business is focused on fast-growing and emerging market categories, with an emphasis on providing environmentally-friendly and energy-saving solutions.

ICs are sets of electronic circuits designed with specific functions and have a wide array of applications. However, without the appropriate hardware and software support, the ICs themselves cannot function independently. We provide hardware design and formulate the bills of materials (which include the specific brands and parts of the of ICs required) according to the customers' requirements or specifications, and design the appropriate software where needed. These are packaged into customised reference designs and sent to our customers, who assemble the relevant parts of their products themselves based on our customised reference designs.

Our revenue is derived from charging a margin on top of the ICs we re-sell to our customers that factors in the costs of our value-added services we provided. We do not charge a separate fee for our provisions of value-added services.

Our business focuses on the consumer and industrial product sectors and we specialise in the following five major categories: (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation. Please refer to "Our products and services" in this section for further details.

As a result of the Acquisition of the PRC Group Companies which was completed in January 2017, our operating subsidiaries comprise the HK Group Companies and the PRC Group Companies. We carry out our business through the HK Group Companies and the PRC Group Companies, whereby the HK Group Companies are primarily responsible for procurement from and frontline communication with IC suppliers and R&D in initial conceptualisation, and the PRC Group Companies are primarily responsible for R&D in IC application solutions subsequent to such initial conceptualisation of the HK Group Companies, and marketing and sales of the ICs sourced and the IC application solutions provided by our Group.

Our Group's headquarters are based in Hong Kong, and are principally responsible for the majority of our procurement from and frontline communication with our suppliers. Our Hong Kong office is also responsible for, among other things, the management, financial, administrative and warehousing functions of our Group. Our PRC offices in Shenzhen, Chengdu and Shanghai are mainly responsible for sales and frontline communications with our customers.

Our customers are generally manufacturers within the consumer and industrial product sectors in the PRC. We have a wide customer base of over 500 customers. As at 31 December 2018, we had over 100 active customers (i.e. customers who order from us and require us to deliver products to them every one to three months). During the Track Record Period, save for the PRC Group Companies and Customer C being our top five customers for each of FY2015 and FY2016, the rest of our top five customers were manufacturers of consumer or industrial products. During the Track Record Period, we recorded revenue of approximately US$45.6 million, US$36.4 million, US$53.8 million and US$67.3 million, respectively.

We purchase ICs from our suppliers both (i) under the ship-and-debit arrangement; and (ii) not under the ship-and-debit arrangement. In both situations, we face cash flow mismatch in our business operations. Please refer to "Procurement and suppliers – Price protection policy/ship-and-debit arrangement" and "Procurement and suppliers – Cash flow mismatch" in this section for further details. Our suppliers are either IC manufacturer suppliers or IC distributor suppliers. Most of our IC manufacturer suppliers are renowned manufacturers which specialise in ICs for application in specific sectors. Two out of our top five suppliers for each of FY2015, FY2016 and FY2018 were IC manufacturers, whereas the remaining three of our top five suppliers during the same periods were IC distributor suppliers. Out of our top five suppliers for FY2017, three were IC manufacturers and two were IC distributor suppliers. During the Track Record Period, the total costs of purchases from our suppliers amounted to approximately US$42.0 million, US$33.5 million, US$46.0 million and US$57.3 million, respectively.

We plan to expand our operations through (i) seeking and establishing further authorised distributorship relationships with our current and new suppliers; (ii) further developing our cutting edge product categories, such as mobile devices and smart charging, motor control and sensors and automation; (iii) enhancing our design and R&D capabilities; and (iv) expanding our workforce and recruiting more professional staff in view of the immense business opportunities such as the massive expansion of NB IoT in the PRC. In particular, in November 2018, we entered into an agreement with a new customer which is a subsidiary of a leading mobile operator in the PRC for the provision of 26.0 million units of ICs manufactured by RDA, which will be used in IoT related products, to such customer for a period of two years with a maximum contractual amount of approximately RMB137.0 million (equivalent to US$20.3 million). Please refer to "Our business strategies" in this section for further details of our business objectives and strategies. Owing to the fact that (i) we are generally required to settle our trade payables (both in respect of our purchases of ICs under and not under the ship-and-debit arrangement) to our suppliers before the receipts of our trade receivables from our customers; and (ii) we are required to settle the purchase rebate payments to our suppliers in respect of our purchases of ICs under the ship-and-debit arrangement which would be only rebated in form of credit notes (after the sale of those ICs purchased under the ship-and-debit arrangement) to offset subsequent purchases from the same suppliers, we face cash flow mismatch in our business operations, both under the ship-and-debit arrangement and not under the ship-and-debit arrangement. For FY2018, our cash flow mismatch for purchases under the ship-and-debit arrangement was approximately US$4.9 million and our cash flow mismatch for purchases not under the ship-and-debit arrangement was approximately US$9.8 million. As a result of our business expansion as a whole, our Directors expect that our total cash flow mismatch arising from purchases under the ship-and-debit arrangement and not under the ship-and-debit arrangement will significantly increase.

OUR COMPETITIVE STRENGTHS

We believe that our success and future prospects are primarily driven by a combination of the following competitive strengths:

We are the authorised non-exclusive distributors of our major IC manufacturer suppliers

As at the Latest Practicable Date, we had established formalised relationships with six IC manufacturer suppliers as their authorised non-exclusive distributors, most of which are renowned manufacturers which specialise in ICs for application in specific sectors, and some of which are our top five suppliers during the Track Record Period. We believe that our status as the authorised distributors of these suppliers serves as a testament of our technical capability, the quality of our services provided and our reputation and goodwill within the industry.

We believe that most IC manufacturers, in particular those of international renown, have stringent requirements in selecting their authorised distributors. An authorised distributorship status comes with certain benefits, for instance, we have the privilege of receiving regular first-hand training from our suppliers on their latest products which helps to increase our familiarity and knowledge of our suppliers' IC products, and therefore enhance our capabilities when providing IC application solutions for our customers. As an authorised distributor, we also benefit from more customer referrals from the IC manufacturer suppliers. During the Track Record Period, we received customer referrals from our IC manufacturer suppliers. We believe that it is a market practice that most IC manufacturers would only refer customers, if considered appropriate and suitable, to their authorised distributors. We believe that this provides our customers with security and peace of mind in the knowledge that they are trading with an entity who has an official seal of approval from the IC manufacturer. In addition, our status as authorised distributors or value-added resellers provides us with an official channel to communicate feedback to our suppliers, who, as large-scaled corporate entities with global presence, would normally be too distant for end customers to reach. We believe our suppliers are able to benefit from such feedback and effectively develop next-generation products to suit customer needs. We believe that this positive cycle further strengthens our relationship with our suppliers.

We provide IC application solutions and value-added services to cater to our customers' specific needs

We source and sell IC products to our customers and provide IC application solutions and value-added services to suit the needs of our customers. Leveraging on our extensive expertise and knowledge of our various business categories, we provide value-added services, including concept consultation, technology feasibility studies and after sales support to our customers.

Our Directors believe that our innate understanding of our customers' requirements and our familiarity with our suppliers' IC products enable us to assist our customers in choosing the most suitable ICs and technology for their application. We believe that our in-depth knowledge of our suppliers' products gained from our direct training from our IC suppliers aids us in providing genuine value-added services, such as being able to advise our customers of the character traits of specific products, and of certain issues to look out for during production. We believe that our customers value our capability in providing IC application solutions and value-added services that can suit their needs and help to bring their product manufacturing costs down and to shorten their design time and efforts.

As part of our commitment to provide value-added services, we also provide after-sales on-site support to our customers to ensure that our IC application solutions effectively bring out the specific functions and features of our customers' end products. Our Directors believe that our ability to provide IC application solutions bundled with the most suitable ICs, together with our value-added services to our customers distinguish us from our competitors. We believe that our provisions of IC application solutions and value-added after-sales services enable our customers to bring out the most of their end products.

We provide essential feedback and contribute to our IC manufacturer suppliers' IC product roadmaps which ultimately facilitate the sales of our ICs and provision of our IC application solutions

Our Directors consider that we play a key role in contributing to our IC manufacturer suppliers' IC product roadmaps. Product roadmaps are the strategies in which manufacturers plan to develop their IC products. In the course of conceptualising and providing IC application solutions to our customers, we collate detailed feedback from our customers on our application solutions and on the ICs. We make note of the limitations, flaws and insufficiencies of the ICs, and ensure that such feedback and comments are communicated to our IC manufacturer suppliers. Our Directors consider that our team's technical expertise, coupled with our in-depth knowledge of our supplier's IC products and their capabilities, allows us to provide specific, technical and constructive feedback to our IC manufacturer suppliers.

Our IC manufacturer suppliers take, among others, our feedback and suggestions into account and where suitable, integrate them into the next generation of their IC products by modifying or improving certain technical specifications and functions in the ICs. We believe this process helps our IC manufacturer suppliers to, over time, manufacture ICs that are more focused towards satisfying the needs of our customers and the market. We believe that the availability of these next generation ICs with modified or improved features allows us to provide even more focused and enhanced IC application solutions to our customers. We believe this also benefits our customers in obtaining ICs that are more closely suited to their needs and specifications. We believe that such customers are more likely to return to us to purchase more of such ICs, resulting in more sales for our suppliers, and bringing about a virtuous cycle.

We adopt a market-oriented approach with a responsive business model supported by our own design and R&D capabilities

The industrial electronics industry is fast-paced, and products are constantly being phased out and replaced either by newer models and/or newer technology. In order to stand out from the competition, we strive to provide fast and technically sophisticated services to our customers. To stay on the pulse of the market and to keep abreast of the latest trends, we adopt a market-oriented approach with a responsive business model that is focused on application development. We regularly meet with our suppliers to learn about their newest products. We also regularly meet with our customers to keep abreast of the latest market demands, and we have discussions with our suppliers regularly to keep apprised on the latest technology on offer. We believe that working closely with both our suppliers and customers helps us anticipate market trends, leading to mutual growth and benefit of our suppliers, customers and our Group.

Our design and R&D functions are carried out as a group effort in close collaboration between our different teams. We have our own in-house design and R&D team. As at the Latest Practicable Date, our design and R&D team consisted of 14 application engineers (including Mr. Lam and Mr. Mai who lead our R&D functions), each of whom either has obtained a university degree or has completed a tertiary level of education in engineering, computer science or related disciplines. Our design and R&D team is overseen by Mr. Lam and led by our executive Director, Mr. Mai, both of whom have over 16 years of relevant industry experience.

Our Directors believe that our design and R&D team plays an important role in bridging the functionality gap between our suppliers' products and our customers end product requirements. Our design and R&D team works closely with our sales and marketing teams to understand the specific needs of our customers, and leveraging on our in-depth knowledge of our suppliers' products as well as their latest product and technology updates.

During the Track Record Period, some of our IC manufacturer suppliers had referred customers to us. We believe that such referrals will continue in the future. Further, we believe that by incorporating our suppliers' products in our IC application solutions for our customers' end products, we serve a dual purpose of facilitating our suppliers' demand for customers and developing distribution channels for them which they would not normally be able to accommodate on their own.

We believe that, by maintaining a close-knit relationship with our suppliers, we are able to anticipate future trends and cycles of the market and to obtain the latest product and technology information. We believe that we are able to capitalise on such market intelligence and to assist our suppliers and customers in determining a particular product or business category's feasibility which we believe is valuable product roadmap information to both our suppliers and customers.

We have an experienced management team with industrial knowledge and technical knowhow

We believe that our management team members are crucial to our continued success. Our management team comprises members with experience and specialist knowledge and professional skills to deliver IC application solutions services to our customers. We believe that through the active involvement in our Group's day-to-day operations, our management team has developed an in-depth knowledge of the technology and industrial markets, which has been one of the key factors to our success.

Our Group's executive management team is led by Mr. Lam, our Chairman, Chief Executive Officer and executive Director, who has over 22 years of experience in the semiconductor industry, is responsible for supervising the overall management and strategic planning, providing guidance and business direction of our Group, as well as conducting strategic reviews and research direction of our R&D department according to the latest market trends of the IC and semiconductor industry. Mr. Qing, our executive Director, who has over 17 years of relevant industry experience, is responsible for the overall marketing activities of our Group, including liaising with electronics and industrial manufacturers and promoting the latest electronic products of our suppliers to our customers. Mr. Mai, our executive Director, who has over 16 years of relevant industry experience, is responsible for leading the design and R&D functions of our Group. In addition, most members of our senior management have been involved in the semiconductor industry for over 14 years, and are experienced in the various critical aspects of our operations, including sales and marketing, and administration. We believe that under our management's visionary leadership, our Group's revenue and market share will continue to grow and our business will continue to flourish. Please refer to "Directors and senior management" in this prospectus for further details.

OUR BUSINESS STRATEGIES

We aim to strengthen our market position within the IC application solutions industry by increasing our market share and enhancing the quality of our services. We believe that this will bring sustainable growth to our business and create long-term value in our Group for our Shareholders.

Our Group aims to achieve the abovementioned objectives through the following principal business strategies:

Seeking and establishing further authorised distributorship relationships with our current and new suppliers

Our suppliers are either IC manufacturers or IC distributors. As at the Latest Practicable Date, we were the authorised non-exclusive distributor of six IC manufacturer suppliers and the value-added reseller of one IC manufacturer. During the Track Record Period, two of our top five suppliers were IC manufacturers.

We believe that most IC manufacturers have stringent requirements in selecting their authorised distributors. We believe that an authorised distributorship status serves as a recognition of our value and capabilities. Such status is also accompanied by palpable advantages highly valued by the authorised distributor, namely customer referrals. It is a known industry practice that IC manufacturers may from time to time refer ultimate customers to its authorised distributors, and such referrals by the IC manufacturers are only limited to their authorised distributors. We believe that such referrals are made by the IC manufacturers in recognition and in confidence of the value and capabilities, in particular the capability in providing IC application solutions to suit the needs of our customers, of the authorised distributor. Furthermore, an authorised distributor of recognised brand names enjoys the benefits of enhanced visibility and profile in the industry, which our Directors believe has a positive impact on new business generation. Please refer to "Our competitive strengths – We are the authorised non-exclusive distributors of our major IC manufacturer suppliers" in this section for further details.

Our Directors confirm that, during the Track Record Period, we received invitations from not less than six of our suppliers to become their authorised non-exclusive distributors. We believe this to be a testament towards the confidence of our suppliers in us and their satisfaction with our value-added services in providing IC application solutions to suit the needs of our customers. Our Directors consider that our IC manufacturers wish to engage us as their authorised non-exclusive distributor due to our ability to offer both distribution and services in customising IC application solutions simultaneously.

We believe that being an authorised distributor will assist us in expanding our customer base, which will have a positive impact on our business turnover, revenue generation and results of operations. During the Track Record Period, we received customer referrals from our IC manufacturer suppliers. During the Track Record Period, our revenue generated from customers referred to us by our IC manufacturer suppliers amounted to approximately US$2.9 million, US$3.9 million, US$7.3 million and US$14.6 million, respectively, representing approximately 6.3%, 10.6%, 13.6% and 21.7% of our total revenue, respectively. Subsequent to the Track Record Period, we are expecting to enter into a formal distributorship agreement with an IC manufacturer, whose ICs we have hitherto been purchasing through its authorised distributor. We plan to seek for more opportunities to act as the authorised distributor of more IC manufacturers.

Expanding our operations in fast-growing and emerging market categories

One of our key business strategies is to focus on fast-growing and emerging market categories, and to capitalise on the profit margins provided by the high growth opportunities therein. During the Track Record Period, we specialised in five major categories, which we broadly categorise into: (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation. Our Directors believe that the following three categories to have high growth potential which we will focus on:

Mobile devices and smart charging

During the Track Record Period, our revenue derived from the sales of ICs in the mobile devices and smart charging category amounted to approximately US$5.7 million, US$7.8 million, US$20.9 million and US$34.6 million, respectively, accounting for approximately 12.5%, 21.4%, 38.8% and 51.4% of our total revenue, respectively.

NB IoT is a standard-based low power wide area technology developed for a wide range of IoT devices and services to enable efficient communication among such devices and services and to achieve, among others, power efficiency and longer battery life, enhanced reliability, wider area coverage, wider deployment and massive connection. NB IoT has a variety of applications, including (i) smart city infrastructure (e.g. distant meter reading, remote control of street lights, environment and weather monitoring and monitoring services of bridges, garbage bins and billboards etc.); (ii) transportation and logistics applications (e.g. parking monitoring, road signal control, digital bus stops, smart bikes, cargo tracking and warehouse management); (iii) smart building and smart home applications (e.g. elevator control, air conditioner control, water tank control and smart appliances); and (iv) wearables (e.g. location services, pet camera and specific crowd management). According to the F&S Report, following the recent development of NB IoT, the PRC government plans to build 1.5 million base stations in the PRC supporting in excess of 600 million NB IoT connections by 2020, and in response, two leading mobile operators in the PRC have rolled out extensive NB IoT networks in order to achieve nationwide coverage. As such, a dramatic surge in the number of NB IoT connections in the PRC is expected and it is anticipated that more and more NB IoT products will be available in the market, fuelling further growth in the demand of ICs.

To capture the business opportunity arising from the massive expansion of NB IoT in the PRC, in November 2018, we entered into an agreement with a new customer which is a subsidiary of a leading mobile operator in the PRC for the provision of 26.0 million units of IC manufactured by RDA to such customer for a period of two years with a maximum contractual amount of approximately RMB137.0 million (equivalent to approximately US$20.3 million). Such contractual amount of approximately RMB137.0 million, which represents the maximum amount of sales we may achieve from such customer for the said two years' period, was determined based on an agreed purchase forecast reached between us and such customer during the course of our negotiation. Subsequent to our entry of the agreement with such customer, with an aim to manage our inventory level and to maintain sufficient stock to meet such customer's demands, we have been having ongoing discussions with such customer in relation to, among others, their current and expected demands from time to time. In view of the purchase forecast and our continual ongoing discussions with such customer, we believe that it is the mutual goal of our Group and such customer to achieve such maximum transaction amount for the said two years' period. The ICs supplied by us to such customer, which were and will be purchased by us from RDA under the ship-and-debit arrangement, will be used in IoT related products. During the period from November 2018 to February 2019, we underwent a testing and pilot sale stage with such customer under which we collaborated with such customer to fine-tune the applications of the ICs to better suit its IoT related products. In March 2019, after the testing and pilot sale stage had been completed, such customer started to significantly increase its purchase quantity of ICs from us. Up to 31 May 2019, we generated revenue of approximately US$1.0 million pursuant to such agreement.

Furthermore, we will continue to develop ICs and application solutions in the smart charging category. Wireless charging is a convenient way to charge batteries on mobile devices as it eliminates the need for cables. According to the F&S Report, the wireless charging industry is expected to have two major advancements in the near future.

The first development in the wireless smart charging industry is the improvement in charging speed. Currently the leading Android mobile devices charge wirelessly at approximately 15 watts, whereas the devices of its leading competitor charge at approximately 7.5 watts. According to the F&S Report, manufacturers of wireless charging equipment have developed new wireless technology to provide wireless charging power at 40 watts, more than doubling the current wireless charging speeds. As shorter charging speed means the freedom to achieve more with a mobile device, our Directors believe that it is likely that manufacturers will ramp up their mobile devices' wireless charging speed capabilities in the next few years, and hence the demand for such smart wireless charging products will rise.

The second development in the wireless smart charging industry is the ability to charge a device over the air or from a distance without having to make contact with the charger. Over-the-air or distance charging uses RF technology, by beaming energy from transmitters to devices outfitted with corresponding receivers. The freedom of charging mobile devices from a distance will greatly enhance the mobility and user-friendliness of mobile devices.

We believe that, by leveraging our experience and expertise in the mobile devices and smart charging categories, we will be able to develop and offer our customers ICs and useful application solutions in these cutting edge categories.

Motor control

During the Track Record Period, our revenue derived from the sales of ICs in the motor control category amounted to approximately US$7.2 million, US$6.9 million, US$15.6 million and US$16.2 million, respectively, accounting for approximately 15.9%, 18.9%, 29.0% and 24.1% of our total revenue, respectively.

According to the F&S Report, the usage of energy-saving motors is becoming increasingly prevalent. The application of motors is extremely diverse. Motors are employed in many aspects of automobiles (such as powering the movement of electric cars, driving the windshield-wipers, adding energy to assist power-steering, adjusting the position of car seats), household appliances (such as powering fans, air-conditioning systems, washing machine drums, vacuum cleaners) and in industrial equipment (such as robots, drills, and other machinery and equipment). As general living standards improve, customers and end-users are beginning to demand products with motors which are smaller, quieter, and more efficient. Such demand is expected to boost demand for products such as BLDC motors (a kind of direct current motor that does not utilise a brush), which in turn is expected to drive sales of motor control ICs. According to the F&S Report, from 2014 to 2018, the market size of BLDC motors (a kind of direct current motor that does not utilise a brush) alone grew from approximately RMB16.7 billion to approximately RMB35.1 billion at a CAGR of approximately 20.4%, and is expected to grow at a CAGR of approximately 15.0% to reach approximately RMB70.5 billion in 2023.

Our main focus in the motor control category is to provide application solutions for ICs used in VFDs, which control the speed and torque of motors. Please refer to "Our products and services – Motor control" in this section for further details. Our Directors consider there to be much growth potential in the PRC market for motor control products.

We plan to leverage on our substantial experience in this category and continue to develop applications for motor control ICs, and to specialise in providing energy-saving application solutions.

Sensors and automation

During the Track Record Period, our revenue derived from the sales of ICs in the sensors and automation category amounted to approximately US$2.0 million, US$2.2 million, US$3.9 million and US$2.4 million, respectively, accounting for approximately 4.2%, 6.1%, 7.3% and 3.5% of our total revenue, respectively.

IoT, or the Internet of Things, is the network of physical devices, vehicles, home appliances, and other items embedded with electronics, software, sensors and network connectivity, that enables these "Things" to connect and exchange data and information. With development of the internet and wifi being increasingly available, the IoT, which is the concept of connecting any device to the internet, is set to be a huge global phenomenon. It is estimated that there will be over 30 billion connected devices by 2020.

At the forefront and at the core of IoT, is the role of sensors which carry out the critical functions of sensing, analysis, data transmission and execution. Sensors are ICs that detect events or changes in the environment and send information and data to be processed. Sensors detect force, temperature, ambient atmosphere and air particles, sounds, light, electrical currents, magnetic fields, etc., and have virtually endless applications. Please refer to "Industry overview" in this prospectus for further details. According to the F&S Report, the sensor technology market in the PRC, driven by the rapid development of the IoT industry and encouraged by supportive policies from the PRC government, increased from approximately RMB106.5 billion to approximately RMB221.1 billion during the period of 2014 to 2018 with a CAGR of approximately 20.0%, and is forecast to reach approximately RMB476.9 billion in 2023 with a CAGR of approximately 16.6%.

Our Directors believe that there is huge potential in the sensors and automation category in the foreseeable revolution of IoT. According to the F&S Report, in 2016, 15 out of 20 of the world's top IC manufacturers were putting their business focus into producing sensor ICs. We plan to capitalise on this exponentially growing sector, such as by (i) developing applications to be used on gas and air quality sensors, which would be applied and incorporated in personal mobile devices such as smart phones and smart watches to detect particles and air pollution; (ii) developing applications which would be applied and incorporated in sensors to be applied in smart lighting systems to detect presence of carbon monoxide and carbon dioxide levels in buildings.

In addition, after the Track Record Period, we have been exploring a potential cooperation opportunity with Manufacturer A to develop a NFC smart lock solution for battery-free keyless locks to enable (i) unlocking by using a controlling smartphone; (ii) transmission of electrical energy from the smartphone to the lock during the unlocking process by way of the NFC technology; and (iii) sharing of digital keys. We are close to finalise the terms of the cooperative arrangements and expect to enter into a binding agreement with Manufacturer A in July 2019. According to the F&S Report, keyless locks are the alternative to physical keys that can be easily misplaced or even stolen, and as such, keyless locks have been growing in popularity due to their high level of convenience, efficiency, reliability and safety. However, although most of the latest keyless locks have been engineered to require only a minimal amount of battery power for each use, like other battery-powered devices, the battery's power will diminish as time goes by, eventually leading to battery failure. According to the F&S

Report, only few keyless locks which are battery-free are available in the market. Our Directors consider that the development of the NFC smart lock solution for battery-free keyless locks to cope with the problem of battery failure and to enable digital key sharing represents an immense business opportunity to us.

Further, we plan to invest more resources and enhance our R&D capabilities and expand our design capabilities by purchasing testing equipment for calibrating the sensors. Please refer to "Our business strategies – Expanding our operations and enhancing our design and R&D capabilities" in this section for further details. We are committed to devoting resources and expanding our capabilities in the sensors and automation category in order to fully harness the huge potential prospects that are to be brought about by IoT and battery-free application solutions.

Expanding our operations and enhancing our design and R&D capabilities

Our customers are mainly located in the Eastern, Southern, Western and Fujian regions of the PRC, and our bases of operations are strategically located in Shanghai, Shenzhen and Chengdu to service our customers in those respective geographical regions. According to the F&S Report, Shenzhen, in particular, is considered to be the main tech hub of the PRC. With a robust economy, huge pool of talent and tech resources, our Directors consider that Shenzhen to be home to some of the world's largest tech and electronics manufacturing companies. In order to capture the opportunities and capitalise on the technological resources available in the South China region, we plan to fit out our Shenzhen office with a new laboratory. We intend to equip our new Shenzhen laboratory and our existing Shanghai laboratory with testing and R&D equipment, such as sensor calibration and testing equipment. Our Directors consider that such new laboratory equipment would enhance our design and R&D capabilities for our various business categories. In view of the convenient accessibility of Shenzhen and the close proximity between Hong Kong and Shenzhen, our Directors consider it a strategical advantage to have in place a full scale laboratory in Shenzhen where we can use for collaboration with our suppliers and demonstration of our IC application solutions to our suppliers and customers.

Please refer to "Design and research and development" in this section for details of our existing laboratories.

Expanding our workforce and recruiting more professional staff

As a value-added reseller, we place great value in our professional staff. As at the Latest Practicable Date, our design and R&D team consisted of 14 application engineers (including Mr. Lam and Mr. Mai who lead our R&D functions), each of whom either has obtained a university degree or has completed a tertiary level of education in engineering, computer science or related disciplines. Most members of our sales and marketing team also possess the relevant technical background in order to effectively communicate with our customers and suppliers.

To cope with our business expansion plans and to enhance our design and R&D capacity, we plan to recruit additional application engineers, sales and marketing personnel and administration personnel. Please refer to "Future plans and use of proceeds – Use of proceeds" in this prospectus for further details.

ACQUISITION OF THE PRC GROUP COMPANIES

Since 2011, the HK Group Companies and the PRC Group Companies have been operating under the joint leadership and management of Mr. Lam, Mr. Qing and Mrs. Qing in light of their respective distinctive strength and resources, and there has been a clearly specified allocation of responsibilities between the HK Group Companies and the PRC Group Companies. The HK Group Companies are primarily responsible for procurement from and frontline communication with IC suppliers and R&D in initial conceptualisation, whereas the PRC Group Companies are primarily responsible for R&D in IC application solutions subsequent to such initial conceptualisation of the HK Group Companies, and marketing and sales of the ICs sourced and the IC application solutions provided by our Group. With an aim to strengthen the integration of the HK Group Companies and PRC Group Companies as one business venture and as part of the Reorganisation, a series of transfers took place where Mr. Qing and Mrs. Qing transferred their respective shareholding interests in each of Shenzhen IH, Chengdu Flyring and Shanghai IH to Flyring Electronics since November 2016. Upon completion of all these transfers in January 2017, the PRC Group Companies became wholly-owned, directly or indirectly, by Flyring Electronics which in turn is an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation. Please refer to “History, Reorganisation and corporate structure” in this prospectus for further details.

The revenue of the PRC Group Companies is mainly derived from the sales of the ICs sourced and the IC application solutions provided by the HK Group Companies. Owing to the different ownership structure of the PRC Group Companies prior to the Acquisition of the PRC Group Companies, the results of operations of the PRC Group Companies were not consolidated into the results of operations of our Group during the Pre-Acquisition Period. Upon completion of the Acquisition of the PRC Group Companies, the PRC Group Companies became indirect wholly-owned subsidiaries of our Company. As such, the assets and financial results of the PRC Group Companies have been consolidated into the accounts of our Group after completion of the Acquisition of the PRC Group Companies.

For details of the PRC Group Companies’ top five customers and top five suppliers during the Pre-Acquisition Period, please refer to “Customers” in this section.

OUR BUSINESS MODEL

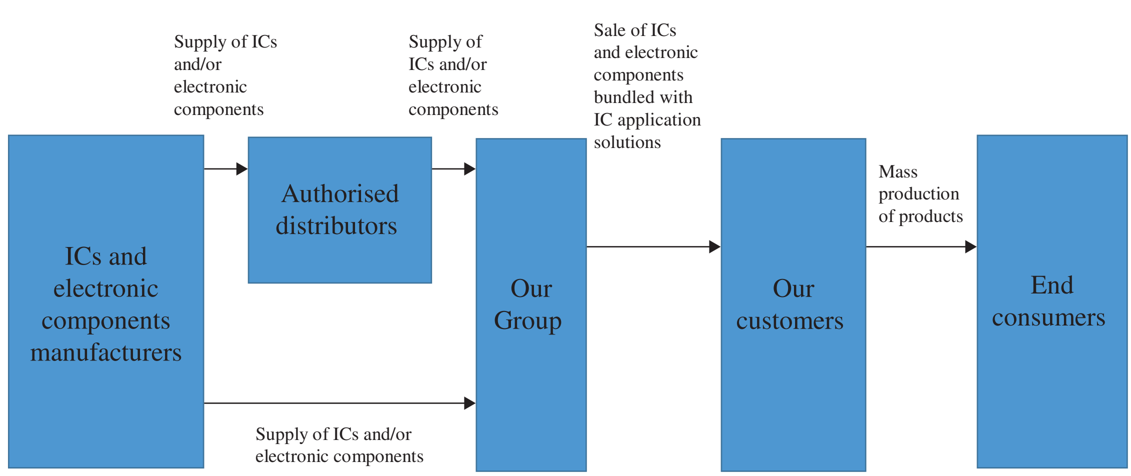
We primarily engage in the sourcing and sale of IC products and the provisions of IC application solutions and value-added services to suit the needs of our customers. Our revenue is derived from charging a “mark-up” or a “margin” on top of the ICs that we re-sell to our customers, which factors-in the cost of our value-added services. We believe that we have, over the years, developed an expertise for analogue semiconductor products that is recognised amongst our industry peers. Our business is focused on fast-growing and emerging market categories, with an emphasis on providing environmentally friendly and energy saving solutions.

ICs, or microchips, are sets of electronic circuits on small flat pieces of semiconductor material such as silicon, and have a wide array of applications, from personal computers and mobile devices to robotics and industrial machinery. ICs are an integral part of electronic devices or machines, and are designed to carry out specific functions, such as controlling certain aspects or actions of machines and equipment. However, without the appropriate hardware and software support, the ICs themselves cannot function independently. We provide the hardware design in the form of circuitry design, and we transfer and fit the circuitry layout onto the PCB. We formulate the bills of materials for the hardware design, including the specific brands and parts of the ICs required and any other electronic components needed according to the customers' requirements or specifications. We also design the appropriate software where needed. We package the above into reference designs and send them to our customers. Our reference designs are sold bundled together with the ICs we sourced. Our customers assemble the relevant parts of their products themselves based on our reference designs.

Traditionally, manufacturers of ICs either sold their products to manufacturers of machines or to distributors of IC components. These distributors are middle men who mainly carry out "buy-sell" and logistical functions only. Such distributors transact in mass quantities with no need or capacity for any value-added designs, as their customers tend to be large scale manufacturers who have their own in-house design capability and only require standardised products. According to the F&S Report, as the PRC's industrial sector boomed, small to mid-scale manufacturers started requiring more than just standardised products and needed support services, such as providing evaluation boards and other design and software services. To cater to these customers, our Group began to emerge, playing a key role in supporting the design and development efforts of our customers in all sectors of the electronics industry.

According to the F&S Report, save for very large customer accounts, IC manufacturers generally appoint authorised distributors to facilitate sales of their IC products instead of engaging in direct sales. IC manufacturers also engage or appoint value-added resellers to sell their IC products to customers who require additional design-in and other value-added services. Such value-added resellers are accorded official recognition by the IC manufacturer as an authorised reseller of its products, thereby providing customers with reassurance of the authenticity of its products. Such value-added resellers are required to procure its ICs from the authorised distributor rather than from the IC manufacturer directly. In short, value-added resellers act like a second tier authorised distributor.

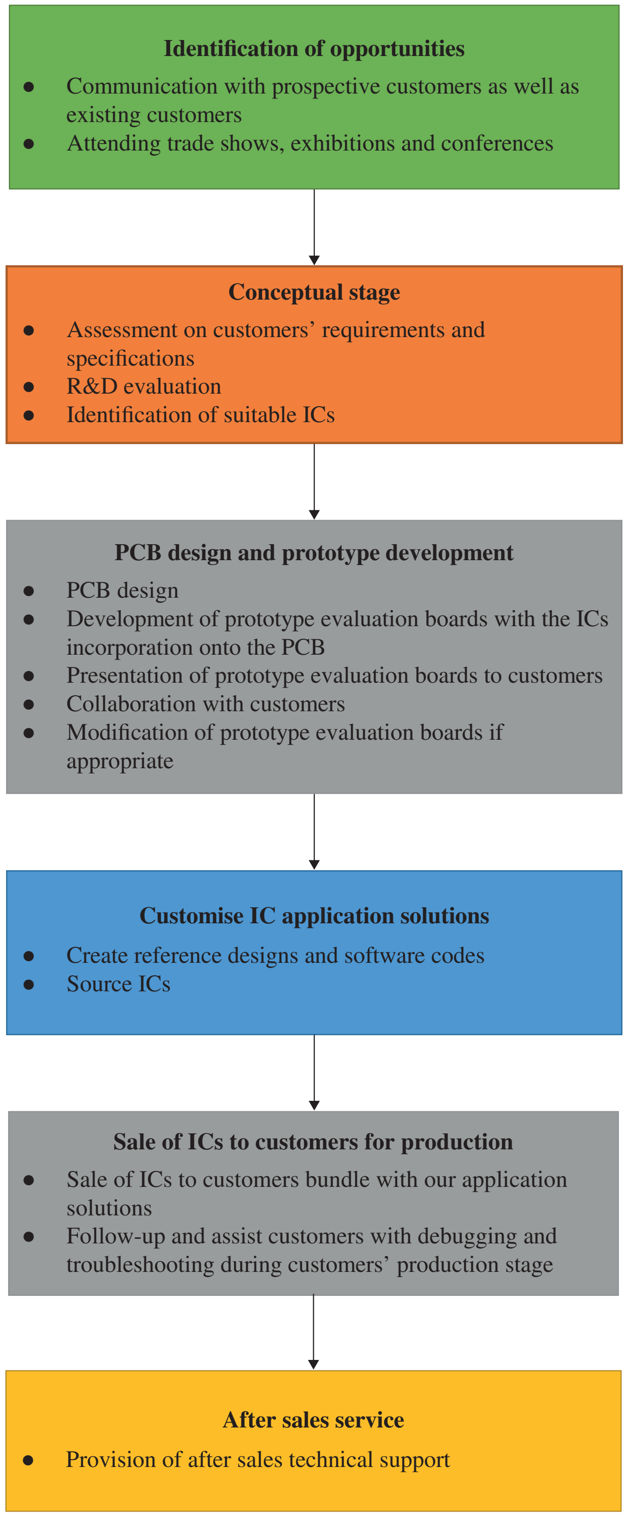
The following diagram sets forth our position in the value chain of the IC sourcing and sales industry:



We believe that we provide our customers with business value by speeding up their product design process and product development cycle and shortening time to market. We also offer improvements to the customers' existing products by lowering costs and/or improving the performance of their products. Quite often, we act as a complement to the customers' in-house design department, by offering additional design capacity when needed and by offering our design expertise in customising IC application solutions in our various product categories.

OUR OPERATIONS

The following diagram illustrates the flow of our operations:



Identification of opportunities

As the authorised distributor of some of our major suppliers, the majority of our customers approach our Group after being referred to us by our major suppliers. We communicate with such prospective customers to ascertain their needs and concerns, after which we determine the viability and feasibility of a new project. Our marketing team also takes the initiative to contact our existing and potential customers to explore our chances of collaboration on new projects or business opportunities with them.

From time to time, our marketing team staff are invited by our suppliers to attend trade shows, exhibitions and conferences. We consider that attending such trade shows and exhibitions not only raises our Group's visibility and credibility, but also educates us on our industry competition, and helps us in identifying new potential business opportunities, consolidating strategic alliances with potential suppliers and expanding our prospective customers base, as we believe that such trade shows and exhibitions tend to draw parties who are generally predisposed towards and are interested in the IC products and the value-added services within the business categories that we operate in.

Conceptual stage

We collaborate with both our suppliers and customers closely at all stages of the project. At the outset, a project commences with either us approaching our customers with the designs and improvements that we could offer to our customers' products or our customers approaching us. Our sales and marketing team collects information from the customer on its desired product requirements, specifications and functions, and depending on the product, our sale and marketing team and R&D team collaborate to decide on the schematics for the product and the suitable ICs to be used.

Once these preliminary matters are decided, we meet with the IC suppliers to discuss matters of price, quantity and availability of the required components. Based on the margins earned from the sales of the ICs, we assess the viability of undertaking the project. Please refer to "Customers – Pricing and credit policies" in this section for further details of our pricing policy. Our suppliers provide training to our engineering staff to ensure that they have a good working understanding of their products.

PCB design and prototype development

Once we decide to undertake a project, we will proceed to create a PCB design to accommodate our customer's product requirements. Our application engineers will use computer design software to design the architecture of the circuitry and link up the various ICs on the PCB, as well as to design the software applications used to operate the ICs. We believe that our in-depth knowledge of our suppliers' products and our close work relationship with our suppliers and customers facilitate us in selecting the most appropriate components for our customers, both in terms of price and function. In the course of conceptualising and developing IC application solutions to suit the needs of our customers, we may, if appropriate and practicable, provide feedback to our suppliers and may suggest incorporating or modifying certain technical specifications and functions in the ICs that we consider suitable for our customers' specific needs. From time to time, our IC manufacturer suppliers would take our feedback and suggestions into account and where suitable, integrate them into the next generation of their IC products by modifying or improving certain technical specifications and functions in the ICs.

Once the PCB layout has been designed, we compose a file which is then sent to a PCB manufacturer to produce the PCBs. Our engineers then solder the ICs onto the PCB to produce prototypes, which we use as evaluation boards. From time to time, we also engage module manufacturer to produce the evaluation boards by soldering the ICs onto the PCBs according to our designs.

Our sales and marketing team will then present these prototype evaluation boards to our customers and we collaborate with our customers, by performing extensive testing, obtaining detailed feedback and improving on the design in line with our customers' requirements and feedback. Our engineers work together with our customers and suppliers to resolve any technical issues. We believe such communication and collaboration with our customers are crucial at this stage to obtain feedback and to determine whether our prototype meets our customers' specific requests.

Providing IC application solutions and testing

When our customers confirm that we may proceed further, we will proceed to create the reference design and, if applicable, programme the software codes to be applied to the products of our customers. We source suitable ICs for our customers. We do not manufacture the PCBs or our customers' products. Our customers will be responsible for sourcing their own PCB manufacturers and assembling their own PCBs using our reference designs and bills of materials.

Sale of ICs to our customers for production

After creating the reference design, we send the reference design and the software codes, if applicable, as a file to our customers. We sell the relevant ICs to our customers for production. Our services go beyond the provision of our IC application solutions to our customers. After we have provided our reference design and software codes to our customers, we work closely with them to carry out debugging in the ramp-up to production. We provide on-site support and conduct failure analysis testing and troubleshooting with our customers to diagnose the issues of the application solution during the production stage. In our experience, issues often arise if our customers do not strictly follow our reference designs or our designated bills of materials, and if they attempt to substitute or change one or more components within the design. As our IC application solutions are specific to the ICs used and take into account their particular specifications, attempts at changing or substituting any parts may result in failure. As such, we believe that our reference designs are inherently protected against the customer's attempt at adjusting our solutions.

After sales services

We pride ourselves on providing quality after sales technical support services to our customers. Although most product issues are ironed out at the production and testing stage, if there are any technical issues with the end products, we will provide after-sales support and troubleshooting services to help solve our customers' problems. By working together, we collaborate with the customer to identify whether the problem is related to our application solutions or from the ICs themselves.

DESIGN AND RESEARCH AND DEVELOPMENT

Our design and R&D capabilities

We primarily engage in sourcing and sale of IC products and the provisions of IC application solutions and value-added services to suit the needs of our customers. We consider that we possess in-depth knowledge of the technical specifications and features, functionalities and applications of the IC products of our suppliers, based on which we carry out R&D and provide IC application solutions for our customers. Our design and R&D functions are carried out as a group effort in close collaboration between our different teams. Our marketing team is responsible for the initial conceptualisation in collaboration with our IC manufacturers, our design and R&D team is responsible for the testing, R&D and design and collaboration with our suppliers, whereas our sales team engages in the application of our designed application solutions work with our customers. Besides our design and R&D team members, most members of our sales and marketing teams also possess technical backgrounds which we believe directly contribute to an effective and seamless collaboration among the different teams in our design and R&D operations.

The following table sets forth details of our existing laboratories:

Laboratory	Function	Approximate GFA *(sq.m.)*	Major equipment	Number of R&D staff as at the Latest Practicable Date
Hong Kong laboratory	R&D in initial conceptualisation	37.7	• General R&D equipment • Generators • Oscilloscopes, analytical and electronic testing equipment for R&D of circuit boards incorporating key ICs	2 *(Note 1)*
Shanghai laboratory	R&D in IC application solutions	29.0	• General R&D equipment • Generators • Oscilloscopes, analytical and electronic testing equipment for R&D of circuit boards incorporating key ICs • Equipment for system testing	5 *(Note 2)*
Shenzhen laboratory	R&D in IC application solutions	46.6	• General R&D equipment • Generators • Oscilloscopes, analytical and electronic testing equipment for R&D of circuit boards incorporating key ICs • Equipment for system testing	7

Notes

1. Including Mr. Lam, our Chairman, Chief Executive Officer and executive Director, who leads our R&D functions in Hong Kong.

2. Including Mr. Mai, our executive Director, who leads our R&D functions in the PRC.

As the R&D work of the HK Group Companies mainly focuses on initial conceptualisation, which involves generation of preliminary business ideas/opportunities and does not require substantial R&D manpower, our Hong Kong laboratory only had two R&D staff as at the Latest Practicable Date. In comparison, the R&D work of the PRC Group Companies primarily focuses on the detailed development of IC application solutions subsequent to the initial concentualisation of the HK Group Companies. As such, our Shanghai laboratory and our Shenzhen laboratory had a total of 12 R&D staff as at the Latest Practicable Date.

Our design and R&D team

As at the Latest Practicable Date, our design and R&D team comprised 14 application engineers (including Mr. Lam and Mr. Mai who lead our R&D functions), each of whom either has obtained a university degree or has completed a tertiary level of education in engineering, computer science or related disciplines. Our design and R&D team is overseen by our Chairman, Chief Executive Officer and executive Director, Mr. Lam, and is headed by our executive Director, Mr. Mai. Mr. Lam, who has over 22 years of experience in the IC and semiconductor industry, is responsible for overall strategic reviews of our R&D team and providing our design and R&D team with leadership and direction in relation to the latest trend of the IC and semiconductor industry. Mr. Mai, who has over 16 years of experience in providing semiconductor-related technical solutions, is responsible for leading the design and R&D functions of our Group. Please refer to "Directors and senior management" in this prospectus for further details of Mr. Lam and Mr. Mai's qualifications and experience.

Our focus and technicality

We source innovative or existing IC technologies developed by IC manufacturers, and apply these technologies to the products of our customers. Once the appropriate ICs are identified, we design the architecture of the circuitry and link up the various ICs on the PCB and to transfer and fit the design onto our customers' products. Where necessary, our application engineers design the software applications and algorithms used to operate the ICs. The application engineers of our design and R&D team also work closely with our customers during their prototype development phase, and through their technical expertise, perform extensive testing to improve the PCB designs and to resolve technical issues. Our application engineers also help our customers in carrying out debugging in the ramp-up to production. Our after sales on-site support provided to our customers in conducting failure analysis and troubleshooting are also carried out by the application engineers of our design and R&D team.

During the Track Record Period, our Group's design and R&D efforts resulted in the successful cross-field applications of magnetic sensor ICs, which enhanced the diversity of the applications of ICs offered to our customers. We plan to start offering such cross-field applications of magnetic sensor ICs to our customers in the second half of 2019 and we believe that more and more customers will be attracted to such cross-field applications. We estimate that such cross-field applications of magnetic sensor ICs will contribute approximately US$0.2 million, US$0.5 million and US$1.0 million to our revenue for the years ending 31 December 2019, 2020 and 2021, respectively. Magnetic sensor ICs are traditionally used in motor control applications. They detect, among other things, the magnetic field along the magnetic coil, and through programmed algorithms, determine where and when to provide power in order to drive the motor. This optimises the efficiency of the power output required by the motor, thereby saving energy and increasing performance.

Using this existing technology, our design and R&D team began to apply the magnetic sensor ICs for use in switches and speed controls (such as throttles and accelerators) of electric vehicles. Ordinarily, speed controls and switches use mechanical switches, that are turned on and off by flicking a lever or clicking a button. However, mechanical switches have a finite lifespan, limited by the number of times they can be turned on and off before the mechanical switch becomes worn down and stops working. Mechanical switches are also susceptible to dust and moisture which affect the mechanical contacts of the switches and decrease their lifespan. This creates problems for speed controls and switches on electric vehicles, which are exposed to the outdoor elements.

During the Track Record Period, our design and R&D team replaced the mechanical switch with a magnetic sensor, thereby turning it into a magnetic switch. By moving the position of the magnet, the magnetic field becomes affected, creating a pulse that when sensed by the magnetic sensor IC, acts as a switch. Magnetic switches are contactless switches and have a much longer lifespan when compared to mechanical switches. They are also able to work in water and are dust proof. We believe that we have developed a new application for the magnetic sensor ICs to be used in a different field.

Building on the same concept of contactless switches, our design and R&D team also applied them to joystick controllers. Joystick controllers are used in gaming controllers for video and computer games, navigation controllers used in electric wheelchairs for the disabled and in aerial unmanned flying drones, as well as in operational controllers for heavy industrial equipment such as excavators. Joysticks commonly employ the use of mechanical switches. During the Track Record Period, our design and R&D team improved our customers' joystick by switching out the mechanical hard switch for a magnet, and installing a three-dimensional magnetic sensor IC beneath it. The magnetic sensor IC senses the disruptions to the magnetic field caused by the movements of the joystick magnet, and is able to detect subtle and nuanced movements of the joystick. Through algorithms, it calculates the distance, direction and speed of the movements intended by the controller.

As illustrated above, we believe that we have developed application solutions for our supplier's magnetic sensor IC which crossed over from its original intended use in motor controls into the fields of transport, medical and industrial applications.

Major achievements of our design and R&D efforts

We set forth below a summary of the major achievements accomplished by our design and R&D team for each of our five major product categories during the Track Record Period:

Product category	Works accomplished/IC applications developed
Mobile devices and smart charging	• Developed and designed applications for antenna-centric products used on mobile devices with 2G/3G/4G or wifi connectivity, such as mobile phones, tablets, smart watches, and various IoT products.
	• Developed and designed applications for various smart charging IC products incorporating quick charge technologies for one of the largest mobile phone manufacturers in the PRC, and for one of the largest personal computer manufacturing companies in the world.
Motor control	• Developed and designed applications for ICs used in VFDs for the controls of ceiling and vertical fans, electronically commutated fans, air-conditioning fan systems, electric bikes, robots, pumps, washing machines, compressors, sewing machines, industrial power tools such as electric picks, and medical power tools such as drills.
	• Developed and designed applications for ARM Cortex-M0 series digital signal processor ("**DSP**"), which are specially designed microcontrollers, and software algorithms for Manufacturer A's ICs to be used in electric bikes.
	• Developed software algorithms for sensor-less field oriented control (FOC) motor control DSPs for fan system applications.
	• Developed applications for giant magnetoresistance (GMR) magnetic field sensors and software algorithms for motor control in image stabilisation gimbal devices.

Product category	Works accomplished/IC applications developed
RF power	• Developed applications for RF power ICs for facilitating signal transmissions in broadband networks, such as FTTH (where the fibre optic cable carries the RF signal to the domestic home) and FTTB (where the fibre optic cable carries the RF signal to a building).
	• Developed and designed applications for laterally diffused metal oxide semiconductor (LDMOS) ICs for use in nuclear magnetic resonance imaging (MRI) signal generators.
	• Developed and designed applications for plasma lighting systems, a relatively new full spectrum/high efficiency light source that has characteristics superior to other commercially available lighting systems.
LED lighting	• Developed and designed applications for LED dimming drivers, changing from conventional switching power type ICs to linear power type ICs, which are low in cost with good dimming performance.
	• Developed and designed applications for LED driver to control stability and prevent light flickering.
	• Developed and designed applications for correlated colour temperature toning controls of LED lighting to replace conventional halogen lamps.
Sensors and automation	• Developed and designed application solutions for 24 gigahertz radar device used for controlling landing of drones and for collision avoidance.
	• Developed and designed application solutions for three dimensional magnetic sensor to be used in joysticks.
	• Developed and designed application solutions for pressure sensor ICs to be used in drones for maintaining stable altitudes while hovering in flight.
	• Developed and designed applications for pressure sensors to be used in wearable devices for measuring altitude of the location of the wearer.

Expected major pipeline projects

We set forth below a summary of certain expected major pipeline projects of our Group for each of our five major product categories for the years ending 31 December 2019 and 2020:

Product category	Pipeline works	Status and major milestone
Mobile devices and smart charging	• Engaging in wireless smart charging application research based on common industry standards in order to design application solutions to meet customers' needs in wireless smart charging applications.	The project has passed the design and prototype development phase and the application solutions are currently under mass production.
	• Carrying out research for applications in 4G, 5G and NB IoT connection solutions for various products, such as domestic electrical goods, sewerage systems, vending machines, lighting solutions, urban bike-sharing programmes, and other big data application solutions.	The project has passed the design and prototype development phase and the application solutions are currently under mass production.
	• Designing 27 watt smart charger solutions with single chip support for quick charge 3.0, which is expected to be utilised by most major android system mobile phone manufacturers, including Xiaomi.	The project has passed the design and prototype development phase and the application solutions are currently under mass production.
Motor control	• Developing enhanced DSP software algorithms for different types of VFD motor control to increase efficiency, and energy saving capacity and noise reduction.	Feasibility study has completed and the project is currently under the design and prototype development phase.
	• Developing application solutions for Manufacturer A's silicon carbide transistor semiconductor devices designed for electric vehicle charger stations, current converters, and on-board charging applications, to achieve higher efficiency and to shorten charging time of electric vehicles.	The project has passed the design and prototype development phase and the application solutions are currently under mass production.

Product category	Pipeline works	Status and major milestone
	• Developing a new model of field oriented control (FOC) high-speed motor control solutions to be applied to wireless vacuum cleaners, hair dryers and other tools to address the increasing demand in wireless electric appliances.	Feasibility study has completed and the project is currently under the design and prototype development phase.
	• Developing motor application solutions for commercial vehicles and passenger cars to achieve stability, simplicity in design and lower rate of malfunction.	Feasibility study has completed and the project is currently under the design and prototype development phase.
RF power	• Developing applications for RF power ICs to be used in microwave plasma chemical vapour deposition (MPCVD) systems, a method by which synthetic diamonds are grown in the laboratory.	The project has passed the design and prototype development phase and the application solutions are currently under mass production.
	• Developing applications for the use of RF power ICs in the RF cavities in a particle accelerator, which is a metallic chamber that contains an electromagnetic field and is primarily used for accelerating charged particles.	Feasibility study has completed and the project is currently under the design and prototype development phase.
	• Developing RF heating solutions to be applied to commercial and household heaters and defrosting machines.	Feasibility study has completed and the project is currently under the design and prototype development phase.
	• Developing RF amplifying modules to be applied to beauty apparatus and thermal ablation equipment for cancer treatments in the medical field.	Feasibility study is in progress.

Product category	Pipeline works	Status and major milestone
LED lighting	• Developing applications for LED lighting solutions in professional applications using chips on board LEDs (lighting panels comprised of multiple LEDs) to enhance displays of clothing, food and groceries.	The project has passed the design and prototype development phase and the application solutions are currently under mass production.
Sensors and automation	• Developing applications for gas and air quality sensors to be used in smart wearable devices and smart lighting systems to detect particles and air pollution.	Feasibility study is in progress.
	• Developing a NFC smart lock solution for battery-free keyless locks to cope with the problem of battery failure and to enable digital key sharing.	Feasibility study has completed and the project is currently under the design and prototype development phase.
	• Developing applications for pressure sensors to be used in smart devices employing 3D GPS technology to provide enhanced altitude and positioning data.	The project has passed the design and prototype development phase and the application solutions are currently under mass production.
	• Developing high-quality contactless rotary switch to be applied to home appliances and IoT network nodes.	Feasibility study has completed and the project is currently under the design and prototype development phase.
	• Developing applications for 24 gigahertz radar sensors to be used for city management, construction site management and crowd control.	The project has passed the design and prototype development phase and the application solutions are currently under mass production.

We do not register any intellectual property rights for any of our designs and application solutions as such designs and application solutions are purely for the application of the IC manufacturers' ICs to our customers' products, and we invent neither the technology of the ICs, nor the design of our customers' products.

During the Track Record Period, our R&D expenses comprised our R&D staff costs, which amounted to approximately US$0.3 million, US$0.2 million, US$0.4 million and US$0.4 million, respectively.

Going forward, as disclosed in "Our business strategies – Expanding our operations and enhancing our design and R&D capabilities" in this section, we plan to, among others, fit out our Shenzhen office with a new laboratory equipped with testing and R&D equipment, such as sensor calibration and testing equipment in order to enhance our design and R&D capabilities.

OUR PRODUCTS AND SERVICES

We source and sell IC products. We also provide IC application solutions and value-added services to suit the needs of our customers. Our Hong Kong office is principally responsible for the majority of our procurement from and frontline communication with our suppliers, whereas our design and R&D functions are carried out at all our Hong Kong office and PRC offices. While our application solutions can be utilised in a wide range of electronic products, we specialise in five major categories, which we broadly categorise into: (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation.

Depending on the complexity of the IC application solution, our development can take between six to nine months from the commencement of our application development to the application of the IC application solution by our customer for production of its end products.

We set forth below a breakdown of our revenue generated by product category for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Mobile devices and smart charging	5,691	12.5	7,770	21.4	20,895	38.8	34,554	51.4
Motor control	7,239	15.9	6,886	18.9	15,595	29.0	16,186	24.1
RF power	20,172	44.3	11,709	32.2	7,721	14.3	7,424	11.0
LED lighting	10,511	23.1	7,778	21.4	5,702	10.6	6,759	10.0
Sensors and automation	1,950	4.2	2,229	6.1	3,893	7.3	2,356	3.5
Total	45,563	100.0	36,372	100.0	53,806	100.0	67,279	100.0

Mobile devices and smart charging

Our mobile devices category focuses on products utilising low power radio frequency connectivity and signal transmissions. Our ICs in the mobile devices category are antennae-centric products, which enable and improve the wireless functions (such as 2G/3G/4G/LTE and wifi connectivity) of the antennae of cars, mobile phones and tablets, smart watches and other wifi-enabled devices. We assist our customers in developing the application solutions for such ICs to match their product requirements and restrictions.

Smart charging is a power management technology used in smart devices such as smart phones, computers and battery packs to provide shorter charging times for these devices. By utilising smart charging ICs, smart devices boost the level of power to be delivered and thus charge the batteries of the smart devices at faster speeds, thereby shortening the overall charging time. Smart charging ICs also gauge various attributes of the batteries, such as the levels of charge and the thermal conditions of the batteries, and reduce the level of power delivered to the batteries when they are nearly full or getting overheated.

Motor control

Motor control ICs are used in modern motors where the speed and torque of the moveable parts of a machine need to be controlled. These motor control applications can be applied to a wide array of devices, from household items such as fans, to heavy industrial equipment such as forklifts and robots. Our motor control application solutions are mainly focused on the ICs used on VFDs. VFDs are a type of motor controller that controls the speed and torque of an electric motor by varying the frequency and voltage of its power supply. By using VFDs, motors are able to save energy, control performance, reduce noise levels of the motor, and improve the lifespan of machines.

Our customers of our motor control category are generally the manufacturers of motors. Our motor control solutions include applications for the controls of ceiling and vertical fans, electronically commutated fans, air-conditioning systems, electric cars and bikes, robotic arms, pumps, washing machines, compressors, sewing machines, industrial power tools such as electric picks, and medical power tools such as drills.

RF power

RF, or radio-frequency, is widely used in the transmission of signals, and has a long distance transmission capacity. RF is widely used in the fields of wireless communication.

RF power means the power supply devices which are used to generate and stabilise RF power. RF power equipment is generally composed of a RF signal source, a RF power amplifier (which is an electronic device that provides power gain) and an attenuator (a device that reduces the power of a signal without distorting its waveform), and a receiver (such as those found on the rooftops of buildings). Our RF power products are used in cable television (which is a system of delivering television programming to subscribers by RF signals transmitted through cables), and broadband networks, such as fibre to the home (FTTH, where the fibre optic cable carries the RF signal to the domestic home) and fibre to the building (FTTB, where the fibre optic cable carries the RF signal to a building). Our customers in the RF power category are generally engaged in broadcasting and signal transmissions, and include operators of television and radio broadcasting.

LED lighting

LED lighting systems utilise LEDs, or light emitting diodes, to provide energy efficient, aesthetic and long-life lighting solutions. LED lighting solutions are cost-effective and have a wide range of applications and can be used indoors, outdoors, and for special lighting effects, such as spot-lights or stage lighting.

An LED lamp or bulb is typically comprised of several components, including the LED which acts as light source, the LED driver IC that regulates power to the LED, reflector cups that refract and reflect the light, and the lens that focuses the light beams.

During the Track Record Period, we had invested much resources into developing applications for LED lighting systems, and our Directors consider our LED application design capabilities to be well developed and mature. One of our main design applications for LED lighting systems was to provide dimming features for LED lamps or bulbs. Although it appears simple to design a dimmer for lighting systems, it is in fact a challenge as LEDs and traditional incandescent lamps operate very differently. If not done correctly, the dimmer will cause instability in the electrical current, which may cause flickering in the LED lamp or bulb, and affect its dimming range and performance. Our Directors consider that our years of experience in and familiarity with this product category enable us to provide fast and comprehensive application solutions for our LED lighting customers.

Sensors and automation

Sensors are used to detect changes or events in the environment. When the sensor detects a change, it provides a corresponding output to the device to meet requirements of data and signal transmission, processing, storage, display, recording and control of information. There are many kinds of sensors, which are used to measure, among other things, force, distance, temperature, sound, light, electrical currents, magnetic fields.

Our application solutions for sensor ICs are coupled together with automation solutions that assist the customer's product in automatically detecting and reacting to various circumstantial changes in the environment. We provide application solutions for our radar sensors to be used on (i) automobile vehicles to assist drivers with parking and provide auto-drive functions; (ii) unmanned aerial drones in maintaining stability of flight and avoiding obstacles; (iii) security systems that link with videos to detect, recognise and track moving objects; (iv) traffic monitoring systems to measure speed of moving vehicles and to monitor traffic congestion; and (v) smart lighting systems that have motion sensing. We also provide application solutions for pressure sensors to be used in smart phones and smart watches for detecting altitude.

Among the five business categories we engage in, sensors and automation is relatively new for us. We have been engaging in the sensors and automation category since 2013. During the Track Record Period, our revenue derived from the sensors and automation category amounted to approximately US$2.0 million, US$2.2 million, US$3.9 million and US$2.4 million, respectively, accounting for approximately 4.2%, 6.1%, 7.3% and 3.5% of our total revenue, respectively. Although the revenue currently derived from this category is relatively less substantial than the others, our Directors are of the view that there will be exponential growth within this sector, and accordingly, we plan to invest much resources into the design and R&D of our sensors and automation category. Please refer to "Our business strategies – Expanding our operations in fast-growing and emerging market categories" in this section for further details of the potential we see in the sensors and automation category and our strategy in this area.

Major IC manufacturers whom we source our ICs from

We procure our ICs from: (i) our IC manufacturer suppliers with whom we have been appointed as authorised non-exclusive distributors, and (ii) distributors of IC manufacturers. Details of the manufacturers of the principal ICs we sourced during the Track Record Period are set forth below:

Description of IC manufacturer	Background of IC manufacturer	Product category of ICs we source	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement
Power Integrations International Ltd. ("**Power Integrations**") (*Note 1*)	Silicon Valley-based supplier of high performance electronic components used in high-voltage power-conversion systems and is listed on NASDAQ with a market capitalisation of around US$2 billion as at the Latest Practicable Date.	Motor control, mobile devices and smart charging, and sensors and automation	✔	October 2016
Supplier A(*Note 2*)	Shanghai based fabless chip company providing audio power amplifier chips, LED backlighting driver ICs, touch screen controllers, dual-mode dual standby SIM card controller ICs, dual-battery power management systems and others, that is listed on the National Equities Exchange and Quotations Co., Ltd. with a market capitalisation of over RMB2 billion as at the Latest Practicable Date.	Mobile devices and smart charging	✔	February 2016
RDA Technologies Limited(*Note 1*) ("**RDA**")	Fabless semiconductor company headquartered in Shanghai, PRC that designs, develops and markets wireless systems on chip and RF semiconductors for cellular, connectivity, and broadcast applications	Mobile devices and smart charging	✔	April 2017
Supplier B(*Note 1*)	Joint venture of a Japanese conglomerate that manufactures, distributes and sells, among others, consumer products, electronic components, audio and visual products. Since 2016, it has been an integral part of a Taiwan-based group	LED lighting	✖	N/A

Description of IC manufacturer	Background of IC manufacturer	Product category of ICs we source	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement
Supplier C(*Note 2*)	Dutch semiconductor manufacturer spun off from another Dutch semiconductor manufacturer in 2015, providing radio frequency products	RF power	✖	N/A
Supplier D(*Note 2*)	U.S.-based company which develops and manufactures solid-state lighting technologies and solutions	LED lighting	✖	N/A
Supplier E(*Note 1*)	PRC-based company which designs and manufactures a broad range of high performance analogue integrated circuits, which is listed on the Taiwan Stock Exchange with a market capitalisation of around NTD45 billion as at the Latest Practicable Date	LED lighting	✖	N/A
Manufacturer A(*Note 3*)	German semiconductor manufacturer which offers a wide range of semiconductor solutions, microcontrollers, LED drivers, sensors and automotive and power management ICs	Motor control, mobile devices and smart charging, and sensors and automation	✖	N/A
Manufacturer B(*Note 3*)	Dutch semiconductor manufacturer providing mixed signal and standard products with an emphasis on security of connected vehicles and IoT	Motor control, mobile devices and smart charging, and sensors and automation	✖	N/A

Note 1: One of our top five suppliers during the Track Record Period of which we were appointed authorised non-exclusive distributor. Please refer to "Procurement and suppliers – Major suppliers" in this section for further details.

Note 2: One of our suppliers of which we were appointed authorised non-exclusive distributor, but was not one of our top five suppliers during the Track Record Period.

Note 3: We purchased ICs of these IC manufacturers from their authorised distributors during the Track Record Period.

SALES AND MARKETING

We market the ICs sourced by us and our services through our sales and marketing teams. Our sales and marketing teams are responsible for identifying suitable potential markets and customers for the effective deployment of our IC application solutions. We acquire new customers primarily through (i) customer referrals from our major suppliers; (ii) attending trade shows, exhibitions and conferences; and (iii) direct marketing by calling potential customers to explore new business opportunities. For details, please refer to "Our operations – Identification of opportunities" in this section. Most of our sales and marketing personnel have a technical background who either possess a university degree or have completed tertiary level of education in engineering, computer science or related disciplines. We consider that our sales and marketing teams are well-versed in the features and functions of our suppliers' products, industry knowledge and technical know-how, and are well-equipped to identify our customers' needs in order to achieve the desired performance of their products. Our Directors consider that under the leadership of our management, we are able to effectively deploy our sales and marketing teams to provide timely responses to our customers' needs and to collaborate with our customers to understand their requirements and to resolve any technical issues. Our sales and marketing team keep abreast of the latest industry development and trends through regular contact with our customers, attendance of industry conferences and trainings provided by our suppliers, which facilitate our design and R&D team in the development of our IC application solutions.

Our suppliers may also approach us from time to time with their new ICs. Using preliminary marketing information or spec sheets provided by our suppliers, our sales and marketing teams conduct market research to ascertain the potential demand of such new ICs and/or electronic components by interviewing our customers and attending trade and exhibition shows to gauge market interest and demand in the product.

Our sales and marketing teams stay abreast of emerging products and technologies that appeal to our existing and potential customers and provide our customers with pre-sale consultations and recommendations tailored to their needs. Through the strategic positioning of our sales and marketing teams in major cities within the PRC, including Shenzhen, Chengdu and Shanghai, we believe we are able to capture the business opportunities and service customers within the areas of Eastern, Southern, Western and Fujian areas of the PRC through visiting our prospective customers and existing customers, and attending trade shows, exhibitions and conferences in these areas.

Our Directors consider our sales and marketing teams to be crucial to our business strategy of expanding operations in the fast-growing and emerging product categories, namely sensors and automation, motor control and mobile devices and smart charging. We plan to continue pursuing our previous marketing channels and to capitalise on our established marketing methods and network. We will continue to collaborate closely with our IC manufacturer suppliers, who we believe are at the forefront of IC technology innovation and invention, and to obtain further customer referrals from them in each of the fast-growing and emerging product categories. We will also continue attending trade shows, exhibitions and conferences both in the PRC and abroad to gauge market demand and interest within the fast-growing and emerging product categories and to identify new business opportunities and customers. Our sales and marketing teams have also identified potential customers within each of the fast-growing and emerging product categories, and will engage in direct marketing by calling them and informing them of available and impending IC products from our IC manufacturer suppliers.

Importing and logistical arrangements

We are required to pay VAT pursuant to the relevant VAT laws and regulations for selling or importing goods to the PRC. Please refer to “Regulatory overview – PRC laws and regulations – PRC laws and regulations relating to taxation – Value-added Tax (“**VAT**”)” in this prospectus for further details.

To facilitate the timely delivery of our products to our customers in the PRC, and to comply with the applicable PRC customs duties and tax regulations, we enlisted the services of two integrated import agencies during the Track Record Period, who mainly provided, among others, the following services:

- *Logistics* – facilitating the logistical arrangements for our products, including delivering and warehousing.

- *Customs clearance* – processing, clearing and paying customs duties and VAT on our behalf in their role as registered custom clearance agencies in relation to the importation of our products into the PRC.

Selection of our import agencies

We select our import agencies based on various factors, including their qualifications and certifications, business reputation, size of operations, scope and quality of services. Our import agencies are registered and certified PRC customs clearance agencies. Our import agencies are also certified Authorised Economic Operators (“**AEO**”) recognised by the Customs administrations of the PRC. According to the F&S Report, AEOs are parties involved in the international movement of goods in functions that have been approved by a national customs administration as compliant with World Customs Organization standards or equivalent supply chain security standards, and include, among others, manufacturers, importers, exporters, carriers brokers, and distributors, etc. In order to be granted AEO certification, entities are required to meet certain AEO requirements, such as customs compliance, record-keeping, financial solvency, security and safety standards, and proven practical standards of competence or professional qualifications.

Logistical arrangements

We generally deliver our products to the warehouses of the import agencies in Hong Kong. The import agencies would check the products against our order, and proceed to process customs declarations, obtain customs clearance, and pay the VAT for our products on our behalf. After obtaining the customs declaration form, the import agencies would issue us invoices, and transport our products to their Shenzhen warehouses, from where our products would be distributed to our offices in the PRC. Our PRC offices would then arrange for delivery of the ICs to our customers.

Material terms of our import agency agreements

We have entered into agreements with each of our import agencies. We set forth below a summary of the material terms of the agreements:

Principal terms		Summary
Term	:	The terms of our agreements are set for a fixed period of three to 10 years with an automatic renewal of one year upon expiry of the initial term.
Services provided	:	The scope of the import agencies' services includes all matters related to the importation of our products into the PRC, including, but not limited to, accepting delivery of our products, carrying out inspection, packaging, warehousing, clearing customs, facilitating delivery, declaring and settling tax in advance on our behalf, collecting payments on our behalf.
Service fees	:	Fees are charged based on agreed rates on the value of the products, and the formulae for calculating the fees of the import agencies are stipulated in the agreements.
Obligations of our Company	:	We are required to, among others, (i) ensure that all information provided to the import agencies regarding the shipment is accurate; (ii) ensure timely settlement of any advanced payments by the import agencies and of their service fees; and (iii) pay any additional duties or late fees as adjudged by the customs authorities within three years of the date of the import.
Obligations of the import agency/ logistics company	:	The import agencies are required to, among other things, (i) ensure that the services provided comply with all requisite laws and regulations; (ii) provide our Group with all tax receipts; and (iii) maintain all confidentiality and trade secrets with our Group unless disclosure is required by law.
Delivery and inspection	:	Delivery destinations and risk allocation of the products during transit are stipulated. Products which are packaged in the original manufacturers' packaging are deemed to be of satisfactory quality and do not require inspection.

Principal terms		Summary
Product risk allocation	:	The import agencies generally assume limited responsibility for any damage caused to our IC products by the import agencies when they are being delivered from the import agencies' Hong Kong warehouses into the PRC. Insurance cover is taken out by either the import agencies or by us according to terms as agreed between the parties.

Our Directors confirm that we did not experience any material delay or issue from the import agencies or the importing arrangement during the Track Record Period.

CUSTOMERS

Our customers include OEMs and ODMs within the consumer and industrial sectors, and are engaged in the production of equipment in relation to our five business categories, namely (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation. Please refer to "Our products and services" in this section for further details. According to the F&S Report, customers primarily work with value-added resellers to speed up their product development cycle and shorten time to market, reduce the cost of their product development, and reduce headcount of customers' in-house engineering staff. We believe that, aside from customer referrals from our IC manufacturers, our customers choose to engage us based on additional considerations such as: (i) our industry reputation; (ii) our ability to understand the customers' needs and to deliver application solutions which are closely tailored to their product requirements; and (iii) our ability in identifying and sourcing the most suitable IC products for them.

We generally do not enter into long term written contracts with our customers (save for the agreement we entered into in November 2018 with a subsidiary of a leading mobile operator in the PRC for the provision of RDA ICs). We sell products to our customers on an order-by-order basis according to the purchase orders placed by our customers from time to time. Our customers are not subject to any regular purchase commitment. Only a rolling forecast, which is non-binding and non-committal in nature, may be provided to us by our customers.

For the agreement we entered into in November 2018 with a subsidiary of a leading mobile operator in the PRC for the provision of RDA ICs, the principal terms are summarised as follows:

Principal terms		
Term	:	Two years without automatic renewal
Products	:	ICs manufactured by RDA
Maximum quantity	:	26.0 million units of IC

Maximum contract amount	:	RMB137.0 million
Price	:	Ranging from US$0.025 to US$2.200 per unit of IC, depending on product model
Price adjustment	:	During the term of the contract, we may adjust the price downward by issuing a letter of price adjustment to the customer if the price drops owing to factors such as market environment or raw material costs.
Quality requirements	:	We are generally required to comply with the quality standards as stipulated in the agreement.
Payment terms	:	The customer is generally required to pay us by bank transfer within 10 to 30 days after acceptance of the IC products and receipt of the VAT invoice.
Packaging and delivery	:	We are responsible for the packaging and delivery of our IC products within three to eight weeks upon receipt of the purchase order placed by the customer.
Warranty period	:	We are subject to a warranty period of one year upon acceptance of our IC products by the customer.
Termination	:	Where any delivery is delayed for more than 30 days, the customer may terminate the agreement.

We have a wide customer base of over 500 customers. As at 31 December 2018, we had over 100 active customers (i.e. customers who order from us and require us to deliver products to them every one to three months). So far as our Directors are aware, during the Track Record Period, although most of our Group's top five customers were located in the PRC, our IC products were sold, delivered to and accepted by our customers both in Hong Kong and in the PRC according to their instructions or preferences.

During FY2015 and FY2016 (before the Acquisition of the PRC Group Companies), the PRC Group Companies were our largest customer. The PRC Group Companies have been engaging in marketing and sales of the ICs procured and the IC application solutions provided by the HK Group Companies. Customers of the PRC Group Companies have been receiving IC application solutions and value-added services to suit their needs. After the Acquisition of the PRC Group Companies which was completed in January 2017, the PRC Group Companies form part of our Group.

Details of our top five customers during the Track Record Period are set forth below:

For FY2015

Rank	Name of customer	Background	Product category sold	Major brands of IC products sold to customer	Year of commencement of business relationship	Revenue	Approximate percentage to total revenue
						(US$'000)	*(%)*
1	PRC Group Companies	Companies based in Shenzhen, Chengdu and Shanghai, PRC, engaging in marketing and sales of ICs and IC application solutions, which form part of our Group after the completion of the Acquisition of the PRC Group Companies in January 2017	Mobile devices and smart charging, motor control, RF power, LED lighting and sensors and automation	Power Integrations, Supplier B, Manufacturer A and Manufacturer B	2011	25,207	55.3
2	Transemic Technology Ltd. ("**Transemic Technology**")	High tech company based in Beijing, PRC, specialising in the provision of RF and microwave electronic components and simulation software in the PRC	RF power	Manufacturer B	2011	3,264	7.2
3	Customer A	LED lighting manufacturer based in Shenzhen, PRC, specialising in providing indoor and outdoor lighting solutions	LED lighting	Manufacturer B	2014	2,574	5.6
4	Customer B	High-tech enterprise based in Shenzhen, PRC, specialising in providing IoT and RF solutions	RF power	Manufacturer B	2014	950	2.1
5	Customer C	Trading company based in Hong Kong, specialising in onselling IC products to South Korea	RF power	Manufacturer B	2012	921	2.0
	Total					32,916	72.2

For FY2016

Rank	Name of customer	Background	Product category sold	Major brands of IC products sold to customer	Year of commencement of business relationship	Revenue *(US$'000)*	Approximate percentage to total revenue *(%)*
1	PRC Group Companies	Companies based in Shenzhen, Chengdu and Shanghai, PRC, engaging in marketing and sales of ICs and IC application solutions, which form part of our Group after the completion of the Acquisition of the PRC Group Companies in January 2017	Mobile devices and smart charging, motor control, RF power, LED lighting and sensors and automation	Power Integrations, Supplier A, Supplier B, Supplier C, Supplier E, Manufacturer A and Manufacturer B	2011	17,607	48.4
2	Laird Wireless Shanghai Limited ("**Laird Wireless**")	Shanghai subsidiary of a company, which ceased to be listed on the London Stock Exchange following the acquisition by a private equity firm in July 2018 and which is the largest supplier of telematics antennae to U.S. car manufacturers	Mobile devices and smart charging, RF power and LED lighting	Manufacturer A	2015	1,449	4.0
3	Customer D	Suzhou branch of a global leader in the provision of LED solutions that is listed on the Taiwan Stock Exchange, with a market capitalisation of around NTD7.5 billion as at the Latest Practicable Date	LED lighting	Manufacturer B	2016	1,106	3.0
4	Customer C	Trading company based in Hong Kong, specialising in onselling IC products to South Korea	RF power	Manufacturer B	2012	1,055	2.9
5	Customer E	LED lighting manufacturer based in Shenzhen, PRC	LED lighting	Supplier B and Manufacturer B	2014	860	2.4
	Total					22,077	60.7

For FY2017

Rank	Name of customer	Background	Product category sold	Major brands of IC products sold to customer	Year of commencement of business relationship	Revenue *(US$'000)*	Approximate percentage to total revenue *(%)*
1	Jiangsu Chen Yang Electronics Co., Ltd. ("**Jiangsu Chen Yang**")	Manufacturer of various electronic and electrical products (including products of Xiaomi) located in Jiangsu, PRC, including power adapters, mobile phone chargers, LED products, set-top boxes, mobile power and automotive products, etc.	Mobile devices and smart charging, and motor control	Power Integrations and Manufacturer A	2014	6,415	11.9
2	Guilin Zhishen Information Technology Co., Ltd. ("**Guilin Zhishen**")	Manufacturer of photography and videography stabilisation equipment based in Guilin, PRC	Mobile devices and smart charging, motor control, and sensors and automation	Manufacturer A	2015	2,640	4.9
3	Dongguan City YoHoo Electronic Technology Co., Ltd. ("**Dongguan City YoHoo**")	Manufacturer of electrical equipment and charging devices based in Dongguan, PRC	Mobile devices and smart charging, and motor control	Power Integrations and Manufacturer A	2016	2,157	4.0
4	Quectel Wireless Solutions Co., Ltd ("**Quectel**")	Leading wireless communications modules manufacturer based in Shanghai, PRC, specialising in products within the IoT sector	Mobile devices and smart charging, RF power, and sensors and automation	RDA and Manufacturer A	2015	2,094	3.9
5	Laird Wireless	Shanghai subsidiary of a company, which ceased to be listed on the London Stock Exchange following the acquisition by a private equity firm in July 2018 and which is the largest supplier of telematics antennae to US car manufacturers	Mobile devices and smart charging, RF power and LED lighting	Manufacturer A	2015	1,908	3.6
	Total					15,214	28.3

For FY2018

Rank	Name of customer	Background	Product category sold	Major brands of IC products sold to customer	Year of commencement of business relationship	Revenue *(US$'000)*	Approximate percentage to total revenue *(%)*
1	Jiangsu Chen Yang	Manufacturer of various electronic and electrical products (including products of Xiaomi) located in Jiangsu, PRC, including power adapters, mobile phone chargers, LED products, set-top boxes, mobile power and automotive products, etc.	Mobile devices and smart charging, motor control, and sensors and automation	Power Integrations and Manufacturer A	2014	9,524	14.2
2	Customer F	A company based in Hong Kong as the component sourcing arm of a PRC based company engaged in the design and production of electronic components	Mobile devices and smart charging	RDA	2017	6,022	9.0
3	Dongguan City YoHoo	Manufacturer of electrical equipment and charging devices based in Dongguan, PRC	Mobile devices and smart charging, and motor control	Power Integrations and Manufacturer A	2016	3,587	5.3
4	Quectel	Leading wireless communications modules manufacturer based in Shanghai, PRC, specialising in products within the IoT sector	Mobile devices and smart charging, RF power and sensors and automation	RDA and Manufacturer A	2015	3,550	5.3
5	Customer G	Manufacturer of various energy-saving lighting products located in Xiamen, PRC, including, LED and compact fluorescent lamps	LED lighting	Supplier E	2013	2,198	3.2
	Total					24,881	37.0

Details of the top five customers of the PRC Group Companies for FY2015 and FY2016 (prior to the Acquisition of the PRC Group Companies) are set forth below for illustrative purpose only:

For FY2015

Rank	Name of customer	Background	Product category sold	Major brands of IC products sold to customer	Year of commencement of business relationship	Revenue *(US$'000)*	Approximate percentage to total revenue of the PRC Group Companies *(%)*
1	Jiangsu Chen Yang	Manufacturer of various electronic and electrical products (including products of Xiaomi) located in Jiangsu, PRC, including power adapters, mobile phone chargers, LED products, set-top boxes, mobile power and automotive products etc	Mobile devices and smart charging, and motor control	Power Integrations and Manufacturer A	2014	4,592	15.6
2	Hangzhou Prevail Optoelectronic Equipment Co., Ltd. ("**Hangzhou Prevail**")	Developer and producer of CATV equipment based in Hangzhou, PRC, and listed on the Shenzhen Stock Exchange, that specialises in RF technology and optical fibre transmission equipment, with a market capitalisation of around RMB2 billion as at the Latest Practicable Date	RF power	Manufacturer B	2007	2,367	8.1
3	Customer H	Large scale manufacturer of LED lighting equipment based in Zhejiang, PRC, and listed on the Shanghai Stock Exchange with a market capitalisation of around RMB4.5 billion as at the Latest Practicable Date	RF power and LED lighting	Manufacturer B	2010	1,792	6.1

Rank	Name of customer	Background	Product category sold	Major brands of IC products sold to customer	Year of commencement of business relationship	Revenue	Approximate percentage to total revenue of the PRC Group Companies
						(US$'000)	*(%)*
4	Zhuhai Enpower Electric Co., Ltd. ("**Zhuhai Enpower**")	Manufacturer of motor controllers and other components of electric cars located in Zhuhai, PRC, and listed on the Shenzhen Stock Exchange with a market capitalisation of around RMB2 billion as at the Latest Practicable Date	Motor control	Manufacturer A	2012	1,649	5.6
5	Customer I	High-tech company based in Jiangsu, PRC, and listed on the Shenzhen Stock Exchange, that specialises in the R&D, manufacturing and marketing of cable TV network equipment, as well as video surveillance and intelligent engineering services, with a market capitalisation of around RMB2 billion as at the Latest Practicable Date	RF power, and sensors and automation	Manufacturer B	2011	1,254	4.3
	Total					11,654	39.7

For FY2016 (prior to the Acquisition of the PRC Group Companies)

Rank	Name of customer	Background	Product category sold	Major brands of IC products sold to customer	Year of commencement of business relationship	Revenue *(US$'000)*	Approximate percentage to total revenue of the PRC Group Companies *(%)*
1	Jiangsu Chen Yang	Manufacturer of various electronic and electrical products (including products of Xiaomi) located in Jiangsu, PRC, including power adapters, mobile phone chargers, LED products, set-top boxes, mobile power and automotive products etc.	Mobile devices and smart charging, and motor control	Power Integrations and Manufacturer A	2014	3,178	14.9
2	Zhuhai Enpower	Manufacturer of motor controllers and other components of electric cars located in Zhuhai, PRC, and listed on the Shenzhen Stock Exchange with a market capitalisation of around RMB2 billion as at the Latest Practicable Date	Motor control	Manufacturer A	2012	1,936	9.1
3	Hangzhou Prevail	Developer and producer of CATV equipment based in Hangzhou, PRC, and listed on the Shenzhen Stock Exchange, that specialises in RF technology and optical fibre transmission equipment, with a market capitalisation of around RMB2 billion as at the Latest Practicable Date	RF power	Manufacturer B	2007	1,177	5.5
4	Customer J	Developer and producer of high-tech products and solutions in satellite navigation, maritime navigation, digital trunking and short-wave communications based in Guangzhou, PRC and a subsidiary of a company listed on the Shenzhen Stock Exchange with a market capitalisation of over RMB20 billion as at the Latest Practicable Date	RF power, and sensors and automation	Manufacturer B	2015	987	4.6

Rank	Name of customer	Background	Product category sold	Major brands of IC products sold to customer	Year of commencement of business relationship	Revenue *(US$'000)*	Approximate percentage to total revenue of the PRC Group Companies *(%)*
5	Customer H	Large scale manufacturer of LED lighting equipment based in Zhejiang, PRC, and listed on the Shanghai Stock Exchange with a market capitalisation of around RMB4.5 billion as at the Latest Practicable Date	RF power and LED lighting	Manufacturer B	2010	943	4.4
	Total					8,221	38.5

During the Track Record Period,

(a) our top five customers collectively accounted for approximately 72.2%, 60.7%, 28.3% and 37.0% of our total revenue, respectively; and

(b) our largest customer accounted for approximately 55.3%, 48.4%, 11.9% and 14.2% of our total revenue, respectively.

To the best of our Directors' knowledge, during the Track Record Period and up to the Latest Practicable Date,

(a) save for the PRC Group Companies, all of our top five customers were Independent Third Parties;

(b) none of our top five customers were also our suppliers and/or subcontractors; and

(c) save for the PRC Group Companies, none of our Directors, their respective close associates, nor any of our Shareholders who owned more than 5% of our share capital had any interest in any of our top five customers.

During FY2015 and FY2016 (prior to the Acquisition of the PRC Group Companies),

(a) the top five customers of the PRC Group Companies collectively accounted for approximately 39.7% and 38.5% of the total revenue of the PRC Group Companies, respectively; and

(b) the largest customer of the PRC Group Companies accounted for approximately 15.6% and 14.9% of the total revenue of the PRC Group Companies, respectively.

To the best of our Directors' knowledge, during the Pre-Acquisition Period,

(a) all of the top five customers of the PRC Group Companies were Independent Third Parties;

(b) none of the top five customers of the PRC Group Companies were also the suppliers and/or subcontractors of the PRC Group Companies; and

(c) none of our Directors, their respective close associates, nor any of our Shareholders who owned more than 5% of our share capital had any interest in any of the top five customers of the PRC Group Companies.

Selection of customers

We generally conduct preliminary know-your-client procedures before we commence business relations with a customer, and take into account such factors as, including but not limited to, the customer's technical capability and familiarity with the product, the operational size of their company, and their distribution and marketing channels. We also regularly monitor our customers' creditworthiness. We do not generally enter into long term written contracts with our customers. According to the F&S Report, this is in line with industry practice. As such, our Directors consider it to be of paramount importance to exercise care in selecting suitable customers when considering whether to commence a new project.

Our customers place their orders with us by way of purchase orders, which typically set out such information as the product/part number required, quantity, price, delivery date and location, and delivery terms. The purchase orders of certain customers may also contain certain clauses requiring us to indemnify them against any intellectual property infringement claims arising from the use of the IC products sourced by us, and confidentiality clauses that prevent us from disclosing details of the transactions without their consent. We generally confirm our customers' orders by countersigning on the purchase orders.

Seasonality

Demand for our customers' products is not much affected by seasonality, except that we generally record lower sales amounts during the month of Lunar New Year of each year. We believe that such decrease in demand is mainly due to the shutdown of our customers' operations in the PRC over the long holiday break for the Lunar New Year.

Pricing and credit policies

We base our pricing strategy according to a range of factors, including, but not limited to, the costs of the ICs, market conditions, market recognition of our customer, the purchase volume of our customer, technical requirements of the application solutions and resources involved. We generally price our ICs on a "cost-plus" basis. As such, we are able to pass on the increase in prices to our customers.

We do not charge a separate fee for our provisions of IC application solution and value-added services rendered, as such services are included and bundled together with the price of the ICs sold. According to the F&S Report, this model is common within the IC sourcing and sales industry. We also review and negotiate prices of our IC products regularly with our suppliers. For customers who purchase in bulk, we strive to negotiate a better price for them from our suppliers.

The following table sets out a breakdown of the average unit price of our IC products for the periods indicated:

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$/unit	*US$/unit*	*US$/unit*	*US$/unit*
Mobile devices and smart charging	0.17	0.12	0.12	0.18
Motor control	0.64	0.51	0.45	0.46
RF power	1.15	0.47	0.20	0.32
LED lighting	0.30	0.25	0.18	0.09
Sensors and automation	0.46	0.35	0.33	0.10
Overall	0.44	0.26	0.19	0.19

The overall average unit price of our IC products was in the declining trend from approximately US$0.44 for FY2015 to approximately US$0.26 for FY2016 and further to approximately US$0.19 for FY2017 and FY2018, which followed (i) the decreasing trend of the overall average unit cost of our ICs; and (ii) the downward trend of average price of imported electronic ICs (excluding memory ICs) in China as disclosed in "Industry overview – Overview of IC sourcing and sales industry in China – Prices of ICs" in this prospectus which was mainly due to the pricing strategy of some foreign IC manufacturers to capture market share and the increase in the IC fabless manufacturers established in the PRC which poses increasing competition in the IC market.

Furthermore, the decrease in the average unit price of our IC products in each of our product categories was mainly driven by the change in the sales mix of our IC models in each of our product categories during the Track Record Period as detailed below:

Mobile devices and smart charging: The decrease in its average unit price from FY2015 to FY2017 was primarily attributable to the commencement of the sale of Supplier A IC products mainly for the application solution of audio codec used in mobile devices from FY2016 contributing to the significant increase in the sales volume from FY2015 to FY2017, which had a relatively lower average unit price mainly due to the fact that audio codec ICs are generally cheaper as compared to our other major types of mobile devices and smart charging IC products. The rebound of its average unit price for FY2018 was primarily attributable to the commencement of the sale of RDA IC products from FY2017 contributing to the sharp increase in the sales volume, which had a relatively higher average unit price mainly due to the fact that RDA IC products that we sold to Customer F and Quectel were mainly main chips used in IoT communication modules which are generally more expensive as compared to our other major types of mobile devices and smart charging IC products.

Motor control: The decrease in its average unit price from FY2015 to FY2017 was primarily attributable to the increase in the sales volume of Product A (which is defined in "Financial information – Discussion of selected profit or loss items – Revenue" in this prospectus) from the same period, which had a relatively lower average unit price mainly due to the fact that Product A is generally cheaper as compared to our other major types of motor control ICs due to its simpler functional design targeting for the cost driven market.

RF power: The decrease in its average unit price from FY2015 to FY2017 was primarily attributable to the transition of the applications of FTTB to FTTH in the PRC contributing to (i) the significant increase in the sales volume of FTTH IC products (which had a relatively lower average unit price) from FY2015 to FY2017; and (ii) the significant decrease in the sales volume of FTTB IC products (which had a relatively higher average unit price) from FY2015 to FY2017, mainly due to the fact that FTTH ICs are generally much cheaper than FTTB ICs because FTTH ICs are used in the application solutions for much lower output power transmission as opposed to FTTB ICs. The rebound of its average unit price for FY2018 was primarily attributable to the sharp decrease in the sales volume of FTTH IC products (which had a relatively lower average unit price) during FY2018; and (ii) a relatively stable sales volume of FTTB IC products (which had a relatively higher average unit price) during FY2018 leading to a higher proportion of RF power IC sales generated from FTTB IC products in FY2018 as compared to that in FY2017.

LED lighting: The decrease in its average unit price was primarily attributable to (i) the increase in the sales volume of Product B (which is defined in "Financial information – Discussion of selected profit or loss items – Revenue" in this prospectus) from FY2015 to FY2016, which had a relatively lower average unit price mainly due to the fact that Product B is designed to have better performance and at the same time at a competitive price as compared to other similar PRC branded ICs sold by our PRC competitors; (ii) our overall price discount strategy of LED lighting IC products during FY2016 to compete with other PRC competitors; (iii) the significant increase in the sales volume of Supplier E LED lighting IC products from FY2016 to FY2018, which had a relatively lower average unit price mainly due to the fact that the LED lighting business of Manufacturer B (a Dutch based IC manufacturer) was acquired by Supplier E (a China-based IC manufacturer) in FY2016 and PRC IC manufacturers' ICs are generally cheaper than foreign IC manufacturers' ICs; and (iv) the significant increase in the sales volume of Supplier D LED lighting IC products for FY2018, which had a relatively lower average unit price mainly due to the fact that Supplier D IC products that we sold were mainly SMD LEDs which are generally cheaper as compared to our other major types of LED lighting IC products.

Sensors and automation: The decrease in its average unit price was primarily attributable to the continuous increase in the sales volume of Products C & D (as defined in "Financial information – Discussion of selected profit or loss items – Revenue" in this prospectus) during the Track Record Period, which had a relatively lower average unit price mainly due to the fact that (i) the silicon-on-insulator (SOI) production technology used in the production of Products C & D is mature in the industry which caused lower production costs; and (ii) we were able to negotiate with the relevant suppliers and Manufacturer A during FY2017 to further lower our unit purchase prices of Products C and D in view of their overstock originally reserved for a global leading mobile phone manufacturing company based in South Korea.

Please refer to "Financial information – Discussion of selected profit or loss items – Revenue" in this prospectus for further details of the discussion and analysis of the fluctuations in our average unit price by IC product categories during the Track Record Period.

We provide quotations to our customers denominated in US$ or RMB, and our customers generally settled our receivables in US$ and in RMB.

During the Track Record Period, delivery of our ICs to our customers generally requires a lead time of approximately one week to two months while delivery of ICs from our suppliers to us generally requires a longer lead time of one to six months, or sometimes even longer. In order to facilitate us in placing orders to our suppliers, we generally require our customers to provide us with non-binding rolling forecasts, and our customers generally provide us with forecasts ranging from three to 10 months. We take into account these forecasts from our customers in order to manage our inventories. All actual orders with our suppliers are placed based on, among others, our projection of demands, market conditions, market trends and market availability of the relevant ICs at the time.

We generally offer credit terms of 30 to 120 days to our customers. Our credit terms offered to our customers vary depending on, among other things, the length of our business relationship, the customer's track record and reputation, and our assessment of the customer's creditworthiness. Our policy is to monitor the punctuality of our customers' payments and make adjustments to their credit terms accordingly. During the Track Record Period, we recorded trade and bills receivables turnover days of approximately 76.9 days, 101.1 days, 99.4 days and 104.6 days, respectively. Our sales manager is responsible for setting the terms and appraising our customers' creditworthiness, and our chief financial officer is responsible for reviewing and approving credit terms extended to our customers.

We monitor our overdue trade receivables regularly, and when appropriate, provide for impairment of trade receivables. Please refer to "Financial information – Discussion of selected balance sheet items – Trade and bills receivables" in this prospectus for further details of our credit control policies and impairment of our trade receivables.

PROCUREMENT AND SUPPLIERS

We generally do not need to procure raw materials for our own operations. We, however, source ICs from our suppliers for our customers. Our marketing team is generally responsible for liaising with our suppliers and, together with our operations team, responsible for placing orders with our suppliers and following up on deliveries.

We purchase ICs from our suppliers both (i) under the ship-and-debit arrangement; and (ii) not under the ship-and-debit arrangement. In both situations, we face cash flow mismatch in our business operations. Please refer to "Procurement and suppliers – Price protection policy/ship-and-debit arrangement" and "Procurement and suppliers – Cash flow mismatch" in this section for further details.

We purchase ICs from either (i) IC manufacturer suppliers, or (ii) IC distributor suppliers. According to the F&S Report, only authorised distributors of IC manufacturer suppliers are able to purchase ICs directly from IC manufacturer suppliers in general. All other non-authorised distributors and customers are generally required to purchase ICs from authorised distributors of IC manufacturer suppliers.

Our IC manufacturer suppliers include renowned manufacturers which specialise in ICs for application in specific sectors. During procurement, we negotiate terms with and purchase supplies from the IC manufacturer suppliers directly. Save for suppliers which are IC manufacturers (for whom we are appointed as their authorised non-exclusive distributor), we do not enter into framework supply agreements with our suppliers. We procure our supplies from our IC manufacturer suppliers with whom we have been appointed as authorised non-exclusive distributors on the terms set out in the distribution agreements. As at the Latest Practicable Date, we were the authorised non-exclusive distributor of six IC manufacturer suppliers. Please refer to "Procurement and suppliers – We are the authorised non-exclusive distributors of certain suppliers" in this section for further details.

We also source ICs from IC distributor suppliers, most of whom are the authorised distributors of certain IC manufacturers. These IC distributor suppliers are like IC supermarkets, who carry a large number of brands and product lines of ICs, and transact in mass quantities. We do not enter into framework supply agreements with our IC distributor suppliers.

The following table sets forth the breakdown of our purchases from IC manufacturer suppliers and from IC distributor suppliers for the periods indicated:

	For the year ended 31 December							
Supplier	**2015**		**2016**		**2017**		**2018**	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
IC manufacturers	6,016	14.3	6,911	20.7	20,507	44.6	26,950	47.0
IC distributors	35,992	85.7	26,541	79.3	25,521	55.4	30,338	53.0
Total	42,008	100.0	33,452	100.0	46,028	100.0	57,288	100.0

As the IC distributor suppliers are intermediaries within the supply chain who receive certain margins on the ICs they on-sell to us (ranging from approximately 2.5% to 3.5% of the price of the purchases), price of the purchases from IC distributor suppliers are generally higher than that of the purchases from IC manufacturer suppliers. Generally speaking, the increasing proportion of purchases directly from IC manufacturer suppliers would enable us to source ICs at a more competitive price through bypassing such intermediaries in the supply chain, and as such, render us greater flexibility and competitiveness in negotiating the price with our customers as compared to purchasing ICs primarily through IC distributor suppliers. On the other hand, as our purchases from certain IC manufacturer suppliers are under the ship-and-debit arrangement under which we are required to purchase the ICs from the suppliers at the uniform price first before we receive the rebates, we expect that the increasing amount of purchases under the ship-and-debit arrangement will also subject us to increased financial burden at the outset which might have an adverse impact on our liquidity and cash flow position. Please refer to "Procurement and suppliers – Price protection policy/ship-and-debit arrangement" in this section for further details.

We place purchase orders with our suppliers, which set out, among other things, the product name, the part number, specifications, quantity, unit price and total amount, date, method and place of delivery. Our suppliers then issue invoices to us, setting out the relevant purchase orders and confirming details such as delivery and payment terms. During the Track Record Period, our total purchases from our suppliers amounted to approximately US$42.0 million, US$33.5 million, US$46.0 million and US$57.3 million, respectively.

We generally procure our supplies of ICs via our HK Group Companies, namely Flyring Electronics and IH Technology. We generally only purchase ICs which are manufactured by renowned IC manufacturers specialising in the types of ICs utilised in our specific product categories. When selecting our suppliers, we consider a variety of factors, including but not limited to (i) their reliability and reputation; (ii) the long-term technological development potential of the supplier's ICs; (iii) the sales and distribution channel management of the suppliers; (iv) the quality of their products; and (v) the availability (and any shortage) of the supplier's ICs.

Major suppliers

Details of our top five suppliers during the Track Record Period are set forth below:

For FY2015

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
1	Edom Technology Co., Ltd ("**Edom**")**	Taiwan-based distributor of semiconductors, which is listed on the Taiwan Stock Exchange with a market capitalisation of around NTD3 billion as at the Latest Practicable Date.	Taiwan	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	2010	✖	N/A	26,830	63.9
2	Silicon Application Corp. ("**SAC**")**	Subsidiary of a group headquartered in Taiwan, and is an authorised global distributor of Manufacturer A and Manufacturer B ICs.	Taiwan	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	2009	✖	N/A	4,915	11.7

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
3	Power Integrations#	Silicon Valley-based supplier of high performance electronic components used in high-voltage power-conversion systems and is listed on NASDAQ with a market capitalisation of around US$2 billion as at the Latest Practicable Date.	U.S.	Motor control, and mobile devices and smart charging	2011	✔	October 2016	4,109[(Note 1)]	9.8
4	Arrow Electronics China Limited ("**Arrow**")**	Hong Kong subsidiary of a company listed on the New York Stock Exchange that is an authorised global distributor of a leading German manufacturer of semiconductor and system solutions with a market capitalisation of around US$6 billion as at the Latest Practicable Date.	U.S.	LED lighting, motor control, sensors and automation	2009	✖	N/A	3,003	7.2

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
5	Supplier B# *(Note 2)*	Hong Kong office of a joint venture of a Japanese conglomerate that manufactures, distributes and sells, among others, consumer products, electronic components, audio and visual products. Since 2016, it has been an integral part of a Taiwan-based group.	Hong Kong	LED lighting	2011	✖	N/A	915	2.1
	Total							39,772	94.7

** denotes that the supplier is an IC distributor

# denotes that the supplier is an IC manufacturer

Note 1: As we were appointed an authorised distributor of Power Integrations in August 2016, ICs purchased from Power Integrations in FY2015 were not subject to the ship-and-debit arrangement.

Note 2: The term of appointment as the authorised non-exclusive distributor of Supplier B ended at the end of FY2016 and our business relationship with Supplier B ceased accordingly. Please refer to note 2 of "Procurement and suppliers – We are the authorised non-exclusive distributors of certain suppliers" in this section for further details.

FY2016

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
1	Edom**	Taiwan-based distributor of semiconductors, which is listed on the Taiwan Stock Exchange with a market capitalisation of around NTD3 billion as at the Latest Practicable Date.	Taiwan	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	2010	✖	N/A	14,857	44.4
2	SAC**	Subsidiary of a group headquartered in Taiwan, and is an authorised global distributor of Manufacturer A and Manufacturer B ICs.	Taiwan	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	2009	✖	N/A	8,914	26.7

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
3	Power Integrations#	Silicon Valley-based supplier of high performance electronic components used in high-voltage power-conversion systems and is listed on NASDAQ with a market capitalisation of around US$2 billion as at the Latest Practicable Date.	U.S.	Motor control, mobile devices and smart charging	2011	✔	October 2016	3,478 (Note 1)	10.4
4	Arrow**	Hong Kong subsidiary of a company listed on the New York Stock Exchange that is an authorised global distributor of a leading German manufacturer of semiconductor and system solutions with a market capitalisation of around US$6 billion as at the Latest Practicable Date.	U.S.	Motor control, mobile devices and smart charging, and sensors and automation	2009	✖	N/A	1,395	4.2

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
5	Supplier B# *(Note 2)*	Hong Kong office of a joint venture of a Japanese conglomerate that manufactures, distributes and sells, among others, consumer products, electronic components, audio and visual products. Since 2016, it has been an integral part of a Taiwan-based group.	Hong Kong	LED lighting	2011	✖	N/A	1,275	3.7
	Total							29,919	89.4

** denotes that the supplier is an IC distributor

# denotes that the supplier is an IC manufacturer

Note 1: The figure shown is a net purchase amount after deducting the rebates under the ship-and-debit arrangement.

Note 2: The term of appointment as the authorised non-exclusive distributor of Supplier B ended at the end of FY2016 and our business relationship with Supplier B ceased accordingly. Please refer to note 2 of "Procurement and suppliers – We are the authorised non-exclusive distributors of certain suppliers" in this section for further details.

For FY2017

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
1	SAC**	Subsidiary of a group headquartered in Taiwan, and is an authorised global distributor of Manufacturer A and Manufacturer B ICs.	Taiwan	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	2009	✖	N/A	11,839	25.7
2	Power Integrations#	Silicon Valley-based supplier of high performance electronic components used in high-voltage power-conversion systems and is listed on NASDAQ with a market capitalisation of over US$2 billion as at the Latest Practicable Date.	U.S.	Motor control, mobile devices and smart charging, and sensors and automation	2011	✔	October 2016	10,753(Note)	23.4

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
3	Edom**	Taiwan-based distributor of semiconductors, which is listed on the Taiwan Stock Exchange with a market capitalisation of around NTD3 billion as at the Latest Practicable Date.	Taiwan	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	2010	✖	N/A	7,801	17.0
4	RDA#	Fabless semiconductor company headquartered in Shanghai, PRC that designs, develops and markets wireless systems on clip and RF semiconductors for cellular, connectivity, and broadcast applications.	Shanghai, PRC	Mobile devices and smart charging	2017	✔	April 2017	4,309*(Note)*	9.4

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
5	Supplier E	PRC-based company which designs and manufactures a broad range of high performance analogue integrated circuits, which is listed on the Taiwan Stock Exchange with a market capitalisation of around NTD45 billion as at the Latest Practicable Date.	Hangzhou	LED lighting	2016	✖	N/A	3,263	7.0
	Total							37,965	82.5

** denotes that the supplier is an IC distributor

# denotes that the supplier is an IC manufacturer

Note: The figure shown is a net purchase amount after deducting the rebates under the ship-and-debit arrangement.

For FY2018

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
1	SAC**	Subsidiary of a group headquartered in Taiwan, and is an authorised global distributor of Manufacturer A and Manufacturer B ICs.	Taiwan	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	2009	✖	N/A	14,311	25.0
2	RDA#	Fabless semiconductor company headquartered in Shanghai, PRC that designs, develops and markets wireless systems on clip and RF semiconductors for cellular, connectivity, and broadcast applications.	Shanghai, PRC	Mobile devices and smart charging	2017	✔	April 2017	12,806	22.4

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
3	Power Integrations#	Silicon Valley-based supplier of high performance electronic components used in high-voltage power-conversion systems and is listed on NASDAQ with a market capitalisation of around US$2 billion as at the Latest Practicable Date.	U.S.	Motor control, mobile devices and smart charging, and sensors and automation	2011	✔	October 2016	7,110	12.4
4	Supplier F▲	Subsidiary of a group headquartered in Shenzhen, PRC which provides supply chain outsourcing services with a focus on information technology distribution, and is listed on the Shenzhen Stock Exchange with a market capitalisation of over RMB10 billion as at the Latest Practicable Date.	Shenzhen, PRC	Mobile devices and smart charging	2017	✖	N/A	6,928	12.0

Rank	Supplier	Background	Location of headquarters	Major categories of ICs purchased	Year of commencement of business relationship	Ship-and-debit arrangement	Commencement of ship-and-debit arrangement	Purchases *(US$'000)*	Approximate percentage to total net purchases *(%)*
5	Edom**	Taiwan-based distributor of semiconductors, which is listed on the Taiwan Stock Exchange with a market capitalisation of around NTD3 billion as at the Latest Practicable Date.	Taiwan	RF power, LED lighting, motor control, mobile devices and smart charging	2010	✖	N/A	5,194	9.1
	Total							46,349	80.9

** denotes that the supplier is an IC distributor

# denotes that the supplier is an IC manufacturer

▲ We indirectly purchased from Power Integrations through Supplier F for the Power Integrations ICs starting from July 2017 under a centralised sourcing arrangement of our customers, Jiangsu Chen Yang and Dongguan City YoHoo, who designated Supplier F as the distributor of Power Integrations ICs for a mobile phone charger project.

Note: The figure shown is a net purchase amount after deducting the rebates under the ship-and-debit arrangement.

During the Pre-Acquisition Period, the PRC Group Companies primarily purchased through the HK Group Companies due to the clearly specified allocation of responsibilities between the HK Group Companies and the PRC Group Companies. In particular, the HK Group Companies were primarily responsible for procurement from and frontline communication with IC suppliers and the development of IC application solutions, and the PRC Group Companies were primarily responsible for marketing and sales of the ICs sourced and the application solutions provided by the HK Group Companies.

For FY2015, the total purchases of the PRC Group Companies from all of their suppliers amounted to approximately US$26.6 million, of which purchases from the HK Group Companies amounted to approximately US$25.2 million, representing approximately 94.6% of the total purchases. Purchases of the PRC Group Companies from other suppliers only accounted for approximately 5.4%, which our Directors consider insignificant.

For FY2016 (prior to the Acquisition of the PRC Group Companies), the total purchases of the PRC Group Companies from all of their suppliers amounted to approximately US$18.2 million, of which purchases from the HK Group Companies amounted to approximately US$17.6 million, representing approximately 96.9% of the total purchases. Purchases of the PRC Group Companies from other suppliers only accounted for approximately 3.1%, which our Directors consider insignificant.

During the Track Record Period:

(a) our top five suppliers collectively accounted for approximately 94.7%, 89.4%, 82.5% and 80.9% of our total purchases, respectively;

(b) our largest supplier accounted for approximately 63.9%, 44.4%, 25.7% and 25.0% of our total purchases, respectively; and

(c) our trade and bills payables turnover days were approximately 55.1 days, 94.4 days, 86.4 days and 92.6 days, respectively.

To the best of our Directors' knowledge, during the Track Record Period and up to the Latest Practicable Date,

(a) all of our top five suppliers were Independent Third Parties;

(b) save for Edom[*(Note)*], none of our top five suppliers was also our customer; and

(c) none of our Directors, their respective close associates or any of our Shareholders who owned more than 5% of our share capital had any interest in any of our top five suppliers.

Note: During the Track Record Period, Edom was also our customer. Please refer to "Procurement and suppliers – Our supplier who is also our customer" in this section for further details.

We set forth below a summary of the information of all our major suppliers during the Track Record Period:

	Role of the supplier within the supply value chain						
Supplier	**IC manufacturer**	**Authorised distributor**	**Whether we are the authorised non-exclusive distributor**	**Year of commencement**	**Major brand of ICs purchased**	**Product category**	**Ship-and-debit arrangement** (Note 2)
Edom	✖	✔	✖	2010	Manufacturer B, Supplier C	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	✖
SAC	✖	✔	✖	2009	Manufacturer A	RF power, LED lighting, motor control, mobile devices and smart charging, and sensors and automation	✖
Power Integrations	✔	✖	✔	2011 (Note 1)	Power Integrations	Motor control, mobile devices and smart charging, and sensors and automation	✔
Arrow	✖	✔	✖	2009	Manufacturer A	Motor control, mobile devices and smart charging, LED lighting and sensors and automation	✖
Supplier B	✔	✖	✔	2011	Supplier B	LED lighting	✖
RDA	✔	✖	✔	2017	RDA	Mobile devices and smart charging	✔

Note 1: We were appointed an authorised non-exclusive distributor of Power Integrations in August 2016.

Note 2: Please refer to "Procurement and suppliers – Price protection policy/ship-and-debit arrangement" in this section for further details.

Depending on the product line, delivery time from our suppliers may take up to six months or even longer. We generally require our customers to provide regular rolling forecasts, and our customers generally provide us with forecasts ranging from three to 10 months. We take into account these forecasts in order to manage our inventories.

We are the authorised non-exclusive distributors of certain suppliers

As at the Latest Practicable Date, we were appointed as the authorised non-exclusive distributor of six of our IC manufacturer suppliers, some of whom are our top five suppliers during the Track Record Period. The table below sets forth the movement in the number of our authorised non-exclusive distributor appointments for the periods indicated:

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
Appointments at the commencement of the year	2	2	4	6
New appointments added during the year	1	3	2	–
Cessation of business relationship	(1)	(1)	–	–
Number of appointments at the end of the year	2	4	6	6

During the Track Record Period, we were appointed as authorised non-exclusive distributors of:

(i) Supplier A in September 2015;
(ii) Supplier E in July 2016;
(iii) Power Integrations in August 2016;
(iv) Supplier C in November 2016;
(v) RDA in February 2017; and
(vi) Supplier D in August 2017.

Please refer to "Our products and services – Major IC manufacturers whom we source our ICs from" in this section for details of the background of these IC manufacturer suppliers.

During the Track Record Period, we purchased, among others, Manufacturer B's RF power and LED lighting ICs from Edom. To the best of our Directors' knowledge, the RF power and LED lighting businesses of Manufacturer B were acquired by third parties in 2016, and continued on their business operations as Supplier C and Supplier E, respectively. Subsequently, we were appointed as authorised non-exclusive distributors of Supplier C and Supplier E in November 2016 and July 2016, respectively. We began purchasing ICs from Supplier E in FY2016, and we expect to commence purchasing RF ICs from Supplier C in 2019 after Listing.

Our Directors confirm that in FY2015, we ceased business relations with a supplier of transistors based in Taiwan as their product prices were not competitive enough and they offered only products of limited range. At the end of FY2016, our business relationship with Supplier B, from whom we purchased LED lighting ICs, ended after our appointment as their authorised non-exclusive distributor expired. To the best of our Directors' knowledge, Supplier B was acquired by one of the world's largest electronics manufacturers, who did not continue Supplier B's businesses in supplying LED lighting ICs. As such, we did not renew our business relationship with Supplier B after FY2016.

As at 31 December 2018, we had six IC manufacturer suppliers who had appointed us as their authorised non-exclusive distributors. They are (i) Power Integrations; (ii) Supplier A; (iii) RDA; (iv) Supplier C; (v) Supplier D; and (vi) Supplier E.

Benefits of being an authorised distributor of IC manufacturer suppliers

Our Directors consider that the status as an authorised distributor brings several benefits. First, it serves as a recognition by the IC manufacturer of our value and capabilities. Second, such status is accompanied by certain palpable privileges which are highly valued by the authorised distributor, namely in the form of customer referrals. Our Directors believe that it is a known industry practice that IC manufacturers may from time to time refer ultimate customers, in particular, big-ticket or major customers, to be serviced only by its authorised distributors (otherwise known as "first-tier" distributors in the industry). Our Directors consider that being assigned such big-ticket or major customers referrals enhances our visibility and profile in the industry, boosts customer confidence in the quality of our products and services, and most importantly, increases our overall business volume. During the Track Record Period, our revenue generated from customers referred to us by our IC manufacturer suppliers amounted to approximately US$2.9 million, US$3.9 million, US$7.3 million and US$14.6 million, respectively, representing approximately 6.3%, 10.6%, 13.6% and 21.7% of our total revenue, respectively. Also, in November 2017, our IC manufacturer supplier, RDA, referred to us a new potential customer which is a subsidiary of a leading mobile operator in the PRC. After RDA's introduction, we approached such potential customer with RDA to explore business opportunities in relation to the IoT application of RDA ICs in the PRC. In November 2018, we entered into an agreement with such new customer for the provision of 26.0 million units of IC manufactured by RDA to such customer for a period of two years with a maximum contractual amount of approximately RMB137.0 million (equivalent to approximately US$20.3 million). The ICs supplied by us to such customer will be used in IoT related products. Please refer to "Procurement and suppliers – Price protection policy/ship-and-debit arrangement" in this section for further discussion on the benefits of being an authorised distributor of an IC manufacturer.

In August 2016, Power Integrations, one of our major IC manufacturer suppliers, appointed us as one of their authorised distributors. During the Track Record Period, our direct purchases from Power Integrations amounted to approximately US$4.1 million, US$3.5 million, US$10.8 million and US$7.1 million, respectively, accounting for approximately 9.8%, 10.4%, 23.4%, and 12.4% of our total net purchases, respectively. We also indirectly purchased from Power Integrations through Supplier F for the Power Integrations ICs starting from July 2017 under a centralised sourcing arrangement of our customers, Jiangsu Chen Yang and Dongguan City YoHoo, who designated Supplier F as the distributor of Power Integrations ICs for a mobile phone charger project. During FY2017 and FY2018, the purchase amount under such arrangement amounted to approximately US$1.3 million and US$6.9 million, respectively, accounting for approximately 2.8% and 12.0% of our total net purchases, respectively. The number of customers which purchased Power Integrations ICs from us was 23, 32, 82 and 103 during the Track Record Period, respectively. During the Track Record Period, our revenue derived from sales of Power Integrations ICs to such customers amounted to approximately US$4.9 million, US$5.0 million, US$13.0 million and US$17.3 million, respectively, accounting for approximately 10.7%, 13.7%, 24.2% and 25.8% of our total revenue, respectively.

In addition, we were appointed as an authorised non-exclusive distributor of RDA in February 2017. During the Track Record Period, our direct purchases from RDA amounted to nil, nil, US$4.3 million and US$12.8 million, respectively, accounting for nil, nil, approximately 9.4% and 22.4% of our total net purchases, respectively. The number of customers which purchased RDA ICs from us was nil, nil, 27 and 44 during the Track Record Period, respectively. During the Track Record Period, our revenue derived from sales of RDA ICs to such customers amounted to nil, nil, approximately US$4.5 million and US$13.6 million, respectively, accounting for nil, nil, approximately 8.3% and 20.2% of our total revenue, respectively.

Further, we were appointed as an authorised non-exclusive distributor of Supplier A, Supplier E, Supplier C and Supplier D in September 2015, July 2016, November 2016 and August 2017, respectively. Save for the fact we did not directly purchased Supplier C ICs during the Track Record Period (which we expect to commence purchasing ICs from Supplier C directly in 2019 after Listing), during the Track Record Period, our total direct purchases from other three suppliers amounted to nil, approximately US$1.3 million, US$5.1 million and US$7.0 million, respectively, accounting for nil, approximately 3.9%, 11.1% and 12.2%, respectively. The number of customers which purchased ICs of such three suppliers from us was nil, 12, 48 and 135 during the Track Record Period, respectively. During the Track Record Period, our revenue derived from sales of ICs of such three suppliers to such customers amounted to nil, approximately US$1.1 million, US$3.5 million and US$6.2 million, respectively, accounting for nil, approximately 3.0%, 6.5% and 9.2% of our total revenue, respectively.

Since being appointed as an authorised distributor of the aforesaid IC manufacturer suppliers, we have experienced a significant increase in the sales of their IC products. As a result of our business expansion as a whole, our Directors expect that our sales of IC products under our authorised distributorships will continue to grow.

Our IC manufacturer suppliers who appoint our Group as their authorised non-exclusive distributor generally enter into framework agreements with us. Typical terms of such agreements are set out below:

Principal terms		**Summary**
Appointment	:	We are appointed as the authorised non-exclusive distributor.
Term	:	Term may range from one year to being open ended. Renewal terms (if applicable) are generally stipulated.
Designated territory	:	We are generally authorised to distribute the supplier's products within a specified geographical territory, namely Hong Kong and the PRC on a non-exclusive basis.
Products	:	We are generally authorised to distribute specified products of the supplier.
Pricing	:	We are generally required to prepare rolling and non-binding forecast for periods stipulated between the parties. Products are purchased from our suppliers at price levels established by the supplier from time to time.
Our general obligations	:	We are generally required to: (i) market, promote and distribute the supplier's products to customers; (ii) participate in training programmes provided by the supplier; (iii) provide sales and inventory reports to the supplier; and (iv) maintain records of customers and their purchases for a specified period of time. We are not subject to any minimum sales target.
Supplier's obligations	:	Our suppliers are generally required to: (i) provide us with pricing and product information; (ii) provide us with marketing assistance from time to time; (iii) grant to us limited licences with which to use intellectual properties related to the products; and (iv) ensure that the products of the supplier are compliant with applicable laws, codes and regulations.
Cancellation	:	Cancellation of orders are generally permitted without cost upon giving prior written notice for a stipulated period.
Return of goods	:	Products are generally not returnable unless defective in quality.

Principal terms		Summary
Termination	:	By notice – parties may generally terminate the agreement by giving notice according to the termination notice period stipulated in the agreement. By breach – the non-breaching party may terminate the agreement if the breaching party does not cure the breach after a specified period following notice of such breach.

During the Track Record Period, we, as an authorised distributor, generally sold ICs to other IC distributors without providing any other services in circumstances where they encountered supply shortage. We also sold an insignificant amount of Supplier A IC products with our IC application solutions and value-added services to Edom who on-sold such IC products to a large-scale mobile phone manufacturing company based in the PRC with whom we were not a registered vendor. Please refer to "Procurement and suppliers – Our supplier who is also our customer" in this section for further details. During the Track Record Period, our revenue generated from the sales to the IC distributors (including sales to Edom attributable to the mobile phone manufacturing company based in the PRC) amounted to approximately US$93,000, US$0.8 million, US$1.3 million and US$0.7 million, respectively, representing approximately 0.2%, 2.1%, 2.4% and 1.1% of our total revenue, respectively, which our Directors consider to be immaterial.

Inventory control and management

Our inventories comprise mainly ICs which we sell on to our customers along with our value-added services. The ICs shipped and delivered to our customers are packed in the original packages and boxes from the IC manufacturers, organised based on their brands and categories, and are mainly stored at our warehouse in Hong Kong.

We generally maintain a minimum level of inventories of ICs of around two months as a buffer to meet any imminent demand and to minimise risks of shortage or delay that may affect our business. During the Track Record Period, we had not experienced any material shortages in inventories that led to dispute with or action from our customers.

To minimise the risk of building up inventories, we have adopted an inventory management policy, pursuant to which we regularly review our inventory level through our enterprise resource planning system and by carrying out physical stock counts and stock inspections internally, generally on a monthly basis, to monitor inventory movements of our inventories, and to make adjustments to our procurement where necessary to maintain a reasonable inventory level to meet any unexpected and imminent demand of our customers.

We conduct inventory ageing analyses each month, comparing inventory flow within corresponding periods to review and identify any instances of over-stocking. The results of such review are sent to our chief financial officer, who considers whether any impairment is required to be made. During the Track Record Period, we recorded inventory turnover days of approximately 34.7 days, 53.4 days, 45.5 days and 40.9 days, respectively.

Credit policy

We are generally granted a credit limit and credit term by our major suppliers. During the Track Record Period, most of our purchases were settled through banks with credit periods up to 120 days. Our purchases were generally settled in US$.

Price protection policy/ship-and-debit arrangement

According to the F&S Report, most IC manufacturers in the semiconductor industry that operate in different international markets adopt a price protection policy called the ship-and-debit arrangement. It provides a means for IC manufacturers and suppliers to prevent parallel imports by controlling and regulating the price differences of their IC products between various global markets, and to align their product prices among their distributors around the world. This helps to prevent distributors and sellers from taking advantage of market arbitrage and profiting from potential price differences found in different markets around the world. Not all IC manufacturers adopt the ship-and-debit arrangement, and for the ones that do, not all of their product lines are subject to the ship-and-debit arrangement. Under the ship-and-debit arrangement, IC manufacturers sell certain products or product parts to distributors or value-added resellers at a pre-determined worldwide price and agree with such distributors or value-added resellers a rebate rate for every unit sold. In other words, distributors or value-added resellers can claim an agreed amount of purchase costs from their suppliers for each unit shipped. Depending on the countries or markets the distributors or value-added resellers are based, rebate rates would be different. Ship-and-debit arrangements enable suppliers to sell their goods at a uniform price, while distributors or value-added resellers can react to local market conditions and lower the price they sell to their customers in that market after taking into consideration rebate rate from such suppliers, thereby maintaining reasonable profit margins in the process.

Since 2016, we began to engage in the ship-and-debit arrangement with certain of our IC manufacturer suppliers, namely Power Integrations, Supplier A and RDA. Under the terms of the ship-and-debit arrangement, we are required to purchase the supplier's products "into stock" at a uniform price (otherwise known as book price). The rebates offered by the IC manufacturer suppliers to their authorised distributors are the difference in amount between the book prices and the net purchase costs of the ICs purchased. We generally negotiate the net purchase costs and rebate percentages of ICs under the ship-and-debit arrangement with our IC manufacturer suppliers throughout the various stages of the projects which feature such ICs. Our net purchase costs and rebate percentages of ICs are generally finalised and agreed with our IC manufacturer suppliers when the design and development stage is substantially complete, which is typically around two months before the ICs are due to be sold to our customers. We issue purchase orders to our IC manufacturer suppliers after the net purchase costs and rebate percentages have been agreed. After a sale to our customer is made, we are required to submit to the relevant supplier a monthly point of sale report which in general sets out such details as the name and geographic location of our customers, types of the ICs sold, sales volume, book price and the expected rebate amount during the period between the fifth day and the tenth day of the following month. The relevant supplier subsequently issues a rebate in the form of a credit note to us, which we use to set-off against the costs of our next purchase of the same IC products and/or different IC products from the same supplier. Depending on, among others, the types of the IC, the product categories to which it belongs and the market condition, we generally receive rebates from our suppliers in the form of a credit note within approximately 10 to 30 days after submitting the monthly point of sale report to them. As the point of sale report is submitted to the relevant supplier on a monthly basis during the period between the fifth day and the tenth day of the following month, there may be a time gap of up to 40 days between the date of sale and the date of the submission of the monthly point of sale report. During the Track Record Period, we continuously had shorter inventory turnover days of ICs purchased under the ship-and-debit arrangement than those of

ICs not purchased under the ship-and-debit arrangement, which was primarily attributable to fact that the lead time (i.e. the period between the time we place purchase orders to our suppliers and the time we receive the ICs from our suppliers) of our purchases from IC distributor suppliers (ranging from eight to 32 weeks on average) is generally much longer than that of our purchases from IC manufacturer suppliers (ranging from four to eight weeks on average). As such, we were required to maintain a higher level of inventories not purchased under the Arrangement to avoid inventory shortage. Given that the ICs purchased under the ship-and-debit arrangement from the IC manufacturer suppliers have a shorter lead time, we are able to achieve a shorter inventory turnover period for such ICs. As such, we can minimise its exposure to additional financial burden in the form of our gross purchase payments (being the aggregate of our net purchase payments and our rebate payments) for our purchases of ICs under the ship-and-debit arrangement given that the claim of rebates (in the form of monthly point of sale report) is only submitted to the relevant IC manufacturer suppliers after our sale of such IC products. As a result of the aforesaid, we tend to place orders for those ICs which are subject to the ship-and-debit arrangement in such quantity with an aim to reduce the stock level purchased under the ship-and-debit arrangement. On the other hand, given the generally longer lead time of our purchases from IC distributor suppliers, which our Directors believe is primarily attributable to the extra time required for our IC distributor suppliers to place orders from their suppliers, we tend to maintain a higher stock level purchased through the IC distributor suppliers. Our ICs procured under the ship-and-debit arrangement are typically sold within a shorter period of time as compared to that of our other ICs. During the Track Record Period, we recorded inventory turnover days of approximately 20.8 days, 17.7 days and 19.2 days for FY2016, FY2017 and FY2018, respectively, for ICs under ship-and-debit arrangement whereas the inventory turnover days of our other ICs (i.e. ICs not purchased under ship-and-debit arrangement) were approximately 55.8 days, 60.1 days and 54.4 days, respectively. Products sold by our suppliers under the ship-and-debit arrangement are generally set out in a standard price list by the relevant supplier, where the unit price of which applies uniformly to all distributors.

During the Track Record Period, since (i) we were able to sell most of the ICs we procured under the ship-and-debit arrangement within shorter periods of turnover time (i.e. around one month after purchasing from our IC manufacturer suppliers); and (ii) we generally received rebates from our IC manufacturer suppliers for sales of ICs under the ship-and-debit arrangement in the form of credit notes within approximately 10 to 30 days after submission of our point of sales reports, we generally managed to receive our rebates in the form of credit notes from the relevant IC manufacturer suppliers approximately two months after purchasing the relevant ICs. Our average rebates turnover days (which equals the total rebates divided by the average of the opening and closing balances of our accrued purchase rebates and multiplied by 365 days) were approximately 57.1 days and 69.1 days for FY2017 and FY2018, respectively. For FY2017 and FY2018, our average rebates turnover days under the ship-and-debit arrangement with our three IC manufacturer suppliers, namely Power Integrations, Supplier A and RDA, were approximately 55.0 days and 67.8 days, 98.3 days and 53.9 days, and 75.6 days and 89.6 days, respectively.

Accounting treatment of rebates for purchases of ICs under the ship-and-debit arrangement

We estimate the rebate amounts of the ICs when they are delivered to us from our IC manufacturer suppliers. We deduct the rebate amounts from the purchase costs of our IC inventories, and recognise the corresponding accrued purchase rebates in our consolidated statement of financial position. We re-assess the accrued purchase rebates at each month end, and any variance is charged or credited to the cost of our inventories. Once the IC manufacturer suppliers issue credit notes to us, we set off the accrued purchase rebates against the trade payables due to such suppliers.

During the Track Record Period, the total amount of rebates received from our suppliers under the ship-and-debit arrangement amounted to nil, approximately US$2.9 million, US$13.8 million and US$8.4 million, respectively, representing nil, approximately 8.8%, 30.0% and 14.7% of our total net purchases, respectively, of which the rebates of nil, approximately US$2.8 million, US$12.9 million and US$7.9 million were reflected in our cost of sales upon the sale of our IC products, respectively. The remaining amount of rebates was included in the cost of our unsold inventories.

Since we are aware of the rebate margins set by the IC manufacturer suppliers prior to the sale of the IC products, we use the net purchase amounts (i.e. after deducting the estimated rebate from the book price) of the relevant ICs when negotiating the sale price of the relevant IC products with our customers. As we use the net purchase amounts of the ICs when we set and negotiate their price mark-ups, the rebates for our ICs under the ship-and-debit arrangement do not impact or affect our gross profit margins.

We set forth the details in relation to the amounts paid to and rebates obtained from our three suppliers under the ship-and-debit arrangement during the Track Record Period in the tables below:

	For the year ended 31 December 2016							
	Under the ship-and-debit arrangement							
	Revenue	**Sales volume**	**Purchases (gross)**	**Rebates**	**Purchases (net)**	**Approximate percentage of rebates to purchases (gross)**	**Other purchases not subject to ship-and-debit arrangement**	**Total purchases (net)**
	US$'000	*'000 units*	*US$'000*	*US$'000*	*US$'000*	*%*	*US$'000*	*US$'000*
Power Integrations*(Note 1)*	1,406	7,983	3,690	2,542	1,148	68.9	2,330	3,478
Supplier A*(Note 2)*	1,084	13,491	1,541	403	1,138	26.2	–	1,138
Total/Overall	2,490	21,474	5,231	2,945	2,286	56.3	2,330	4,616

Notes:

(1) During FY2016, our revenue and sales volume generated from the sale of Power Integrations ICs not purchased under the ship-and-debit arrangement (before the appointment as the authorised distributor of Power Integrations) amounted to approximately US$3.6 million and 18.2 million units, respectively.

(2) Although we were appointed as Supplier A's authorised non-exclusive distributor in 2015, we only started engaging in ship-and-debit arrangement with Supplier A in 2016.

	For the year ended 31 December 2017							
	Under the ship-and-debit arrangement							
	Revenue	Sales volume	Purchases (gross)	Rebates	Purchases (net)	Approximate percentage of rebates to purchases (gross)	Other purchases not subject to ship-and-debit arrangement	Total purchases (net)
	US$'000	*'000 units*	*US$'000*	*US$'000*	*US$'000*	*%*	*US$'000*	*US$'000*
Power Integrations *(Note)*	11,214	48,437	23,767	13,014	10,753	54.8	–	10,753
Supplier A	2,189	26,901	2,298	542	1,756	23.6	–	1,756
RDA	4,463	16,878	4,560	251	4,309	5.5	–	4,309
Total/Overall	17,866	92,216	30,625	13,807	16,818	45.1	–	16,818

	For the year ended 31 December 2018							
	Under the ship-and-debit arrangement							
	Revenue	Sales volume	Purchases (gross)	Rebates	Purchases (net)	Approximate percentage of rebates to purchases (gross)	Other purchases not subject to ship-and-debit arrangement	Total purchases (net)
	US$'000	*'000 units*	*US$'000*	*US$'000*	*US$'000*	*%*	*US$'000*	*US$'000*
Power Integrations *(Note)*	8,561	31,773	14,514	7,404	7,110	51.0	–	7,110
Supplier A	2,142	28,007	2,080	305	1,775	14.7	–	1,775
RDA	13,565	39,245	13,517	711	12,806	5.3	–	12,806
Total/Overall	24,268	99,025	30,111	8,420	21,691	28.0	–	21,691

Note: We indirectly purchased from Power Integrations through Supplier F for the Power Integrations ICs starting from July 2017 under a centralised sourcing arrangement of our customers, Jiangsu Chen Yang and Dongguan City YoHoo, who designated Supplier F as the distributor of Power Integrations ICs for a mobile phone charger project. During FY2017 and FY2018, our purchases through Supplier F amounted to approximately US$1.3 million and US$6.9 million, respectively, which were not subject to the ship-and-debit arrangement. Accordingly, during FY2017 and FY2018, our revenue and sales volume generated from the sale of Power Integrations ICs purchased through Supplier F amounted to approximately US$1.8 million and 11.8 million units, and US$8.7 million and 44.3 million units, respectively.

During the Track Record Period, our revenue generated from the sale of ICs purchased under the ship-and-debit arrangement amounted to nil, approximately US$2.5 million, US$17.9 million and US$24.3 million, respectively.

The increase in our net purchases of ICs from Power Integrations from approximately US$3.5 million for FY2016 to approximately US$10.8 million for FY2017 was primarily attributable to (i) the commencement of the ship-and-debit arrangement as authorised distributors of Power Integrations in October 2016; and (ii) the increase in our revenue generated from the sale of Power Integrations ICs purchased under the ship-and-debit arrangement as detailed in "Financial information – Discussion of selected profit or loss items – Revenue – Mobile devices and smart charging" in this prospectus. The decrease in our net purchases of ICs from Power Integrations to approximately US$7.1 million for FY2018 was primarily attributable to we indirectly purchased from Power Integrations through Supplier F for the Power Integrations ICs starting from July 2017 under a centralised sourcing arrangement of our customers, Jiangsu Chen Yang and Dongguan City YoHoo, who designated Supplier F as the distributor of Power Integrations ICs for a mobile phone charger project.

The increase in our net purchases of ICs from Supplier A and RDA under the ship-and-debit arrangement from approximately US$1.1 million and nil for FY2016, respectively, to approximately US$1.8 million and US$4.3 million for FY2017, respectively, and further to approximately US$1.8 million and US$12.8 million for FY2018, respectively, was primarily attributable to (i) the commencement of the ship-and-debit arrangement as authorised distributors of Supplier A and RDA in February 2016 and April 2017, respectively; and (ii) the increase in our revenue generated from the sale of Supplier A and RDA ICs purchased under the ship-and-debit arrangement as detailed in "Financial information – Discussion of selected profit or loss items – Revenue – Mobile devices and smart charging" in this prospectus.

According to the F&S Report, the discrepancies in rebate percentages granted by the IC manufacturer suppliers are due to a number of reasons, including but not limited to:

(a) difference in geographical markets: IC manufacturers with worldwide sales coverage of their products may sell their ICs to all their distributors at a higher global uniform price, and grant to their distributors in certain geographical regions a higher rebate percentage level in order to react to local market conditions. Our Directors consider Power Integrations to be an IC manufacturer with global sales coverage. IC manufacturers with mainly domestic sales coverage on the other hand, would set the initial sale price of their IC products to a level more suited to local markets with little deviation in sale prices between domestic regions, resulting in a lower rebate percentage level granted to their distributors. Our Directors consider Supplier A and RDA to be such IC manufacturers with mainly domestic sales coverage;

(b) diversity in product categories: ICs applied in various product categories may carry different margins. Generally, ICs applied in product categories which are used in consumer end products with a comparatively lower threshold would be purchased and sold with a lower rebate margin. Our Directors consider that our IC products purchased from RDA fall within such category. On the other hand, ICs applied in more sophisticated machinery and equipment within the industrial and medical sectors would be purchased and sold with higher rebate margins. Also, ICs with more diverse applications would generally be purchased and sold with higher rebate margins. Our Directors consider that our IC products purchased from Supplier A fall within such category;

(c) disparity in market size of the end products: the market size of the end products may have an impact on the rebate margins of the ICs. Generally, ICs destined for mass market electronics products tend to have lower margins due to intense competition and ready availability. Our Directors consider that our IC products purchased from RDA fall within such category. On the other hand, ICs applied in relatively niche industrial category products are able to call for higher margins as the prices of industrial end products are more readily able to absorb the price difference. Our Directors consider that our IC products purchased from Supplier A fall within such category.

According to Frost & Sullivan, in the IC industry, the rebate percentages/rates offered by IC manufacturers/suppliers can be very different. For instance, Power Integrations offered approximately 51.0% of rebates to us for our gross purchases in FY2018, whereas Supplier A and RDA offered approximately 14.7% and 5.3% of rebates to us for our gross purchases in the same year, respectively. According to Frost & Sullivan, the rebate percentage/rate offered by Power Integrations was relatively higher during the Track Record Period mainly because, among others, (i) the IC components offered by Power Integrations are more technologically advanced; (ii) the IC components offered by Power Integrations have more diverse applications and can be used in more electronic products; and (iii) Power Integrations focuses on various global markets where price differences of identical or similar IC components are large, and therefore it grants to its distributors/value-added resellers a higher rebate percentage level in certain geographical areas where market price of IC components is relatively low in order to prevent market arbitrage. In comparison, Supplier A and RDA's rebate rates were much lower during the Track Record Period, as they mainly focus on the PRC market which is competitive with a large number of suppliers and distributors. Thus, they set the initial sale price of their IC products to a level which is more suited to local market, resulting in a lower rebate percentage level granted to their distributors/value-added resellers. However, given that Supplier A offers IC products with more diverse applications and some of its IC products are specifically designed for relatively niche markets, such as industrial category products, Supplier A's rebate percentage/rate under the ship-and-debit arrangement was higher than RDA during the Track Record Period.

While we generally discuss the net purchase costs and corresponding rebate rates of ICs under ship-and-debit arrangement with the IC manufacturer suppliers throughout the various stages of projects, we generally only agree and finalise the net purchase costs and rebate rates with the IC manufacturer suppliers when we substantially complete the design and development stages of the projects (typically around two months before we sell the relevant ICs to our customers).

The rebate rates negotiated between distributors/value-added resellers and IC manufacturers/suppliers are subject to change from time to time based on sale performance of specific products within a period of time, market dynamics and market price of IC products which are determined by taking into account a variety of factors, such as product specification, industry categories, regions of sale, prices of raw materials, market demand and supply, and other factors. According to Frost & Sullivan, in recent years, the trend in the rebate percentages/rebate rates, in some cases, has been decreasing continuously on a global basis due to more competition that led to the reductions in average selling price of IC components. Such competition has caused the upstream suppliers to adjust their selling price of IC components in order to secure their market share. This has contributed to a narrowing price gap of IC products in the global markets. For instance, the market price of IC components in the PRC was relatively low as compared to that in the foreign markets, such as Europe, and there were lesser market price fluctuations in the PRC due to enhanced transparency in prices with a large number of buyers and sellers of IC components. A larger reduction in selling price of IC components in Europe has narrowed the price differences between the markets in the PRC and Europe. As such, there was less risk for distributors/value-added resellers to take advantages of market arbitrage and profiting from price differences in the said markets. Therefore, IC manufacturers/suppliers have adjusted a lower rebate percentage level for distributors/value-added resellers accordingly.

We also endeavour to negotiate for further discounts on the net purchase costs and obtain better rebate margins after we begin selling such ICs to our customers. We attend regular quarterly business reviews meetings with our IC manufacturer suppliers, where we review our sales and performance with our IC manufacturer suppliers. We revisit and discuss the net purchase costs and rebate percentages with our IC manufacturer suppliers, and we believe that, depending on, among others, the identities and size of the relevant customers, and the volume of ICs sold or expected to be sold to customers, in particular where the customers start to engage in mass production of their products. We are generally able to obtain a better rebate percentage if our customers' scale of operation and/or the quantity of ICs we sell to them are large. We may also bargain for better net purchase costs and rebate margins if we have the opportunity to roll-out successful IC application solutions on current or previous projects to other customers, thereby creating new projects with the IC manufacturer suppliers and increased purchases from them. In addition, competitors on the market (such as other IC manufacturer suppliers) may also launch and develop similar products, and we may have to negotiate further discounts to the net purchase costs of the ICs in order to ensure that we and the ICs that we sell remain competitive to our customers.

According to the F&S Report, although ship-and-debit arrangements are used widely within the technology hardware and semiconductor industry, the adoption of such arrangement imposes a larger financial burden on the distributors who are then placed in a relatively reactive position in comparison to typical buy-and-sell arrangements. Not only are we required to pay a higher amount upfront for the purchases of our IC stocks, but the longer we take in selling our ICs to our customers (and therefore claiming back the debit from our suppliers), the worse our cash flow position becomes.

An IC manufacturer may not adopt the ship-and-debit arrangement for all its product lines. If it does, its authorised distributors have to comply with the requirements of the IC manufacturer and enter into a ship-and-debit arrangement with the IC manufacturer if they wish to purchase the relevant IC products. The ship-and-debit arrangement may appear financially onerous at first blush. However our Directors believe that even in the face of such price protection policies, the benefits in being appointed an authorised distributor of our IC manufacturer suppliers outweigh the drawbacks and are beneficial to us in the long run. First, as an authorised distributor of our IC manufacturer suppliers, our Directors consider that we would benefit from having more customer referrals from our IC manufacturer suppliers, which would increase our overall business volume. Second, we would have direct access to the IC manufacturers, which our Directors believe would enhance our customers' confidence in the authenticity and quality of our products. Having direct access to the IC manufacturer would also provide us increased opportunities in receiving regular first-hand training from our suppliers on their latest products and available technology, which is crucial to our business model as it would facilitate our provisions of IC application solutions to suit the needs of our customers and the sourcing of the most suitable ICs for our customers. In addition to increased business volume, we believe we would also obtain better profit margins as an authorised distributor by removing the middle man.

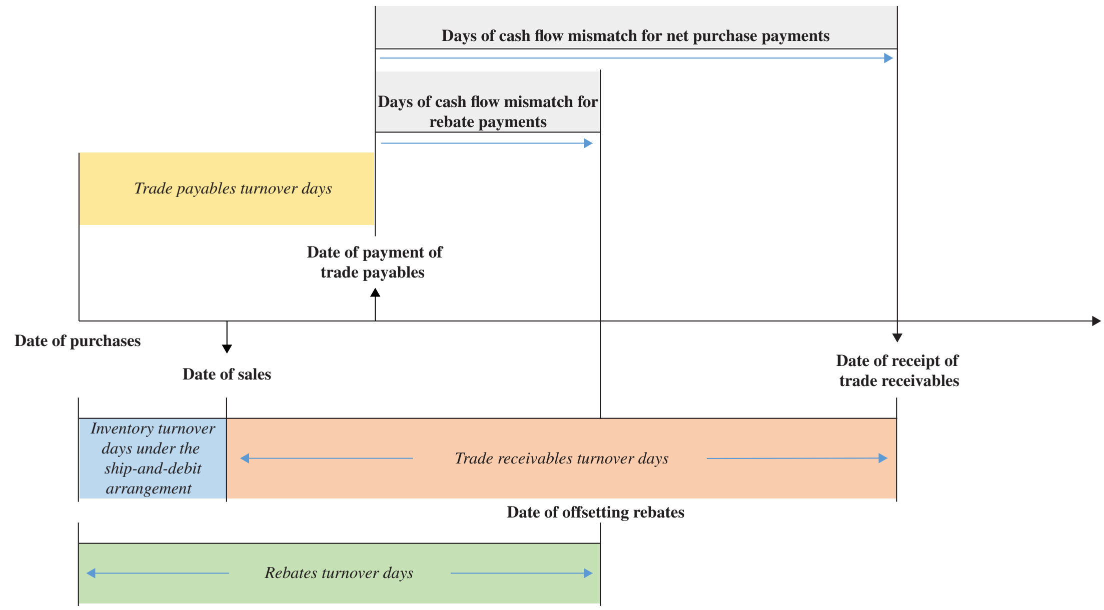
In addition to the above benefits for being the authorised distributors of the IC manufacturer suppliers, our Directors consider that the ship-and-debit arrangement, which comes as part and parcel of the authorised distributorship appointment if the IC manufacturer supplier adopts such arrangement, comes embedded with further indirect benefits. The burdensome upfront financing costs incurred under the ship-and-debit arrangement, which last until the relevant IC products are sold to the customers and we receive rebates from the IC manufacturer suppliers, create an entry barrier for most distributors. Our Directors consider that such entry barrier is, however, favourable to those distributors who have the financial capabilities to bear with the increased financial burden and the technical capabilities to meet the customers' demands and requirements hence facilitating the sale to the customers, such as our Group. Furthermore, in addition, our Directors consider that ICs sold under the ship-and-debit arrangement to be generally in a category of higher or more advanced technological development, thereby creating another barrier against users of such products (namely the distributors who provide IC application solutions to suit the needs of their end customers, or the end customers themselves) with lesser technological competence. Our IC application solutions often embrace ICs that require a more advanced level of technical skill that allows us to meet or even exceed our customers' expectations and specific requests, as well as to bring out the most of our customers' end products. We believe that by engaging in products sold under the ship-and-debit arrangement, we are better able to reflect and showcase the true value of our business model within the supply chain. According to Frost & Sullivan, the practice of the ship-and-debit arrangement is often adopted by well-established IC manufacturers, as they tend to prevent distributors and sellers from taking advantage of market arbitrage and profiting from potential price differences identified in different markets around the world. Especially for IC products which are more technologically advanced, well-established IC manufacturers generally enter into the ship-and-debit arrangement to avoid the risk of market arbitrage. According to Frost & Sullivan, the practice of the ship-and-debit arrangement for ICs which are more technologically advanced is common in the IC sourcing and sales industry.

We place great emphasis on our cooperation with the IC manufacturer suppliers. We only become the authorised distributor of an IC manufacturer supplier (i) if we are satisfied that such IC manufacturer supplier has in place a sound internal control mechanism for managing its authorised distributors and projects; and (ii) if the IC manufacturer supplier considers us to possess sufficient technical know-how and ability and capacity to manage our inventories and adequate financial resources to manage the cash flow mismatch that may arise in the course of the authorised distributorship. All our IC manufacturer suppliers have in place a comprehensive project registration mechanism, which requires all its distributors to register the details of each project before the commencement of each project, including the customer's name and contact information, account name, the types, functions and specifications of ICs required, the estimated purchase amount, estimated shipping date, target market, application nature and category of the end product. The IC manufacturer will take the above factors into account before recognising a customer and approving the registration of a project. To the best of our Directors' knowledge, such IC manufacturers will not approve of or register a project in the event of overlapping projects and customers. After the IC manufacturer supplier has approved the registration of a customer and the corresponding project, the relevant authorised distributor is generally required to submit written reports to, and attend design-in tracking ("**DIT**") meetings with, the IC manufacturer supplier, generally on a monthly basis to report and update on its design-in progress and the pipeline of its sale of the relevant ICs to its customers under the projects that it has registered with the IC manufacturer supplier. At the DIT meetings, the IC manufacturer reviews all the registered projects carried out with us on matters of progress. These DIT meetings also provide a regular forum for us to discuss any matters of overlapping projects which we have become aware of, as well as to raise any issue or concern with the IC manufacturer. As our customers are aware of the registration and project approval mechanisms and the regular reporting processes of our IC manufacturer suppliers and such mechanisms and processes involve tripartite communication among our IC manufacturer suppliers, our customers and us, the customers' consent to our registering and updating the relevant project details with the IC manufacturer suppliers is implied under the circumstances. It is the policy of our IC manufacturer suppliers and us to protect the confidential information of our customers in accordance with the applicable laws, rules and regulations. We believe that our IC manufacturer suppliers, which adopt such registration and project approval mechanisms, are able to manage their authorised distributors accordingly and prevent other distributors or resellers from depriving us of our customer after we have contributed our IC application solutions to such project.

Cash flow mismatch

Owing to the fact that (i) we are generally required to settle our trade payables (both in respect of our purchases of ICs under and not under the ship-and-debit arrangement) to our suppliers before the receipts of our trade receivables from our customers; and (ii) we are required to settle the purchase rebate payments to our suppliers in respect of our purchases of ICs under the ship-and-debit arrangement which would be only rebated in form of credit notes (after the sale of those ICs purchased under the ship-and-debit arrangement) to offset subsequent purchases from the same suppliers, we face cash flow mismatch in our business operations, both under the ship-and-debit arrangement and not under the ship-and-debit arrangement as illustrated in the diagrams below.

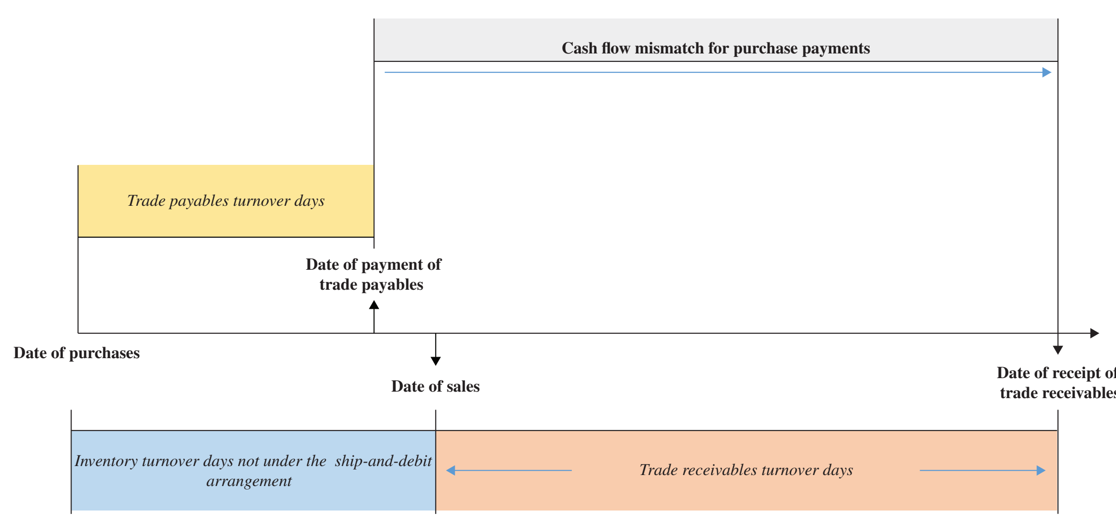
Cash flow mismatch under the ship-and-debit arrangement



Our cash flow mismatch for net purchase payments under the ship-and-debit arrangement arises from the timing difference between the payment of gross purchase costs by us (as reflected by our trade payables turnover days) and the receipt of trade receivables from our customers (as reflected by the total of our inventory turnover days of ICs purchased under the ship-and-debit arrangement and our trade receivables turnover days).

Our cash flow mismatch for rebate payments arises from the timing difference between the payment of gross purchase costs by us (as reflected by our trade payables turnover days) and the use of credit notes to offset subsequent purchases (as reflected by the total of our inventory turnover days and our rebates turnover days).

Cash flow mismatch not under the ship-and-debit arrangement



Our cash flow mismatch of purchase payments not under the ship-and-debit arrangement arises from the timing difference between the payment of purchase costs by us (as reflected by our trade payables turnover days) and the receipt of trade receivables from our customers (as reflected by the total of our inventory turnover days for ICs not purchased under the ship-and-debit arrangement and our trade receivables turnover days).

Illustration of our cash flow mismatch for FY2018

For illustration purpose of the calculation of our cash flow mismatch for FY2018, we rounded (i) our inventory turnover days for ICs purchased under the ship-and-debit arrangement to 20 days; (ii) our inventory turnover days for ICs not purchased under the ship-and-debit arrangement to 50 days; (iii) our rebates turnover days to 70 days; (iv) our trade payables turnover days to 40 days; and (v) our trade receivables turnover days to 90 days.

Accordingly, for FY2018, (i) the days of our cash flow mismatch for net purchase payments under the ship-and-debit arrangement was approximately 70 days; (ii) the days of our cash flow mismatch for rebate payments under the ship-and-debit arrangement was approximately 30 days; and (iii) the days of our cash flow mismatch for purchase payments not under the ship-and-debit arrangement was approximately 100 days. In other words, for FY2018, we were generally required to cover 70 days and 100 days of our trade payables for net purchase payments before we can recover our trade receivables under the ship-and-debit arrangement and not under the ship-and-debit arrangement, respectively, and the turnaround time for us to receive our rebates from the IC manufacturer suppliers after gross purchase payments of ICs under the ship-and-debit arrangement was approximately 30 days.

Taking into account (i) our total gross purchases (including our net purchases and rebates) under the ship-and-debit arrangement; and (ii) our total purchases not under the ship-and-debit arrangement for FY2018, our cash flow mismatch (i.e. revolving purchase payments) for net purchase amount of ICs under the ship-and-debit arrangement and not under the ship-and-debit arrangement were approximately US$4.2 million and US$9.8 million, respectively, and our cash flow mismatch (i.e. revolving purchase payments) for rebate payments for ICs purchased under the ship-and-debit arrangement were approximately US$0.7 million. Our total cash flow mismatch (i.e. revolving purchase payments) under the ship-and-debit arrangement (including net purchase payments and rebate payments) were approximately US$4.9 million whereas the total cash flow mismatch (i.e. revolving purchase payments) not under the ship-and-debit arrangement were approximately US$9.8 million.

We plan to expand our operations through (i) seeking and establishing further authorised distributorship relationships with our current and new suppliers; (ii) further developing our cutting edge product categories, such as mobile devices and smart charging, motor control and sensors and automation; (iii) enhancing our design and R&D capabilities; and (iv) expanding our workforce and recruiting more professional staff in view of the immense business opportunities such as the massive expansion of NB IoT in the PRC. In particular, in November 2018, we entered into an agreement with a new customer which is a subsidiary of a leading mobile operator in the PRC for the provision of 26.0 million units of ICs manufactured by RDA, which will be used in IoT related products, to such customer for a period of two years with a maximum contractual amount of approximately RMB137.0 million (equivalent to US$20.3 million). Please refer to "Our business strategies" in this section for further details of our business objectives and strategies. As a result of our business expansion as a whole, our Directors expect that our total cash flow mismatch arising from purchases under the ship-and-debit arrangement and not under the ship-and-debit arrangement will significantly increase.

Our supplier who is also our customer

Edom, our largest supplier during the Track Record Period, is a Taiwan-based authorised distributor for various large brand-name IC manufacturers, including Manufacturer B ICs. Edom mainly operates in the PRC, Taiwan and other Asian markets. Edom is a company engaged in the distribution of semiconductors and is listed on the Taiwan Stock Exchange.

During the Track Record Period, our purchases from Edom amounted to approximately US$26.8 million, US$14.9 million, US$7.8 million and US$5.2 million, accounting for approximately 63.9%, 44.4%, 17.0% and 9.1% of our total purchases respectively. Of our total purchases from Edom during the Track Record Period, approximately 98.6%, 97.6%, 82.3% and 100.0% were ICs from Manufacturer B, which were mainly applied in our RF power and LED lighting categories. To the best of our Directors' knowledge, the RF power and LED lighting businesses of Manufacturer B were acquired by third parties in 2016, and continued on their business operations as Supplier C and Supplier E, respectively. As a result of the sale of Manufacturer B of its RF power and LED lighting businesses, our purchases from Edom have been decreasing. Our Directors do not consider our Group to be reliant on Edom based on the following factors:

- Edom is not the only authorised distributor of Manufacturer B ICs in the Asia region;

- we negotiate the purchase price of ICs directly with Manufacturer B; and

- we were appointed as authorised distributors of each of Supplier C and Supplier E in November 2016 and July 2016, respectively, which had acquired the RF power and LED lighting businesses that were spun off from Manufacturer B, respectively.

Our purchases from Edom have been decreasing over the Track Record Period, and our Directors believe that the trend will continue, as we are focusing and will continue to focus our efforts on the businesses of our other product categories of motor control, mobile devices and smart charging, and sensors and automation. Please refer to "Risk factors – Risks relating to our business – We are dependent on our major suppliers, and our business, financial condition and results of operations could be adversely affected if our relationships with these major suppliers are terminated, interrupted, or modified in any way adverse to us" in this prospectus for further details of risks associated with supplier concentration in relation to our largest supplier.

During the Track Record Period, we sold Supplier A ICs (for which we are appointed as an authorised non-exclusive distributor) to Edom. Our sales to Edom attributed to approximately 0.1%, 1.9%, 2.3% and 1.0% of our total revenue for the Track Record Period, respectively. We sold our products to Edom, which was procuring our Supplier A IC products on behalf of a large-scale mobile phone manufacturing company based in the PRC. As we were not a registered vendor with this mobile phone manufacturing company, we were unable to sell our products to them directly. Our Directors confirm that the prices of the Supplier A ICs sold to Edom were priced according to prevailing market prices at the relevant time and were based on genuine business needs, and were transacted in the ordinary course of business.

Concentration of suppliers

During the Track Record Period, net purchases from our top five suppliers collectively amounted to approximately US$39.8 million, US$29.9 million, US$38.0 million and US$46.3 million, respectively, accounting for approximately 94.7%, 89.4%, 82.5% and 80.9% of our total purchases, respectively. During the Track Record Period, our largest suppliers were IC distributor suppliers. For FY2015 and FY2016, our largest supplier was Edom, from which we mainly purchased Manufacturer B ICs, amounting to approximately US$26.8 million and US$14.9 million, respectively, accounting for approximately 63.9% and 44.4% of our total purchases, respectively. For FY2017 and FY2018, our largest supplier was SAC, from which we mainly purchased Manufacturer A ICs, amounting to approximately US$11.8 million and US$14.3 million, respectively, accounting for approximately 25.7% and 25.0% of our total purchases, respectively. Please refer to "Procurement and suppliers – Major suppliers" in this section for further details.

According to the F&S Report, supplier concentration is a regular phenomenon within the IC industry, as value-added resellers typically align themselves with a few established IC manufacturers for product quality assurance and supply reliability. Further, authorised distributors and value-added resellers often receive customer referrals from their IC manufacturers. We believe that such practice not only benefits the authorised distributor but also the IC manufacturer itself by indirectly limiting such authorised distributor in procuring supplies from such IC manufacturer supplier. As such, it is not uncommon for authorised distributors and value-added resellers to procure a substantial part of ICs from a few major suppliers.

Despite the aforesaid figures suggesting supplier concentration, our Directors consider that the risk thereof can be controlled and that our business is sustainable due to the following reasons:

- to our Directors' best knowledge and information, some of our existing IC suppliers supply ICs of same or comparable specifications and cost. As we have already established a good working relationship with our existing IC suppliers, our Directors consider that we would be able to leverage our existing relationship and obtain the necessary supplies from our other existing IC suppliers in the event that any of our major suppliers ceases to supply certain ICs to our Group;

- according to the F&S Report, large-scaled international IC manufacturers often appoint more than one authorised distributor, which act like IC supermarkets carrying many similar or comparable brands of IC products, to distribute their IC products. Both Edom and SAC, two of our largest suppliers during the Track Record Period, are authorised IC distributors, from which we mainly purchased Manufacturer B and Manufacturer A ICs, respectively. As such, if Edom and SAC were to cease sales of relevant ICs to us, we could approach another IC distributor supplier to obtain the relevant brand of ICs. For instance, during the Track Record Period, we also purchased Manufacturer A ICs from Arrow, which amounted to approximately US$3.0 million, US$1.4 million, US$2.6 million and US$1.9 million, accounting for approximately 7.2%, 4.2%, 5.6% and 3.4% of our total purchases, respectively. Further, as set out in "Procurement and suppliers – Our supplier who is also our customer" in this section, based on our Directors' knowledge, Manufacturer B sold its RF power and LED lighting businesses to Supplier C# and Supplier E# respectively. As such, we expect our purchases of Manufacturer B ICs from Edom to decrease going forward as we expect to purchase the relevant corresponding ICs from Supplier C# and Supplier E# instead;

- according to the F&S Report, there is a number of alternative IC manufacturers available in the industry that manufacture and supply the same or comparable ICs for each of the five major product categories that we engage in. In addition, our Group has identified approximately six to 16 major multi-national IC manufacturers which manufacture ICs of each of our product categories. As such, our Directors consider that, given our Directors and senior management's expertise and experience in the IC sourcing and sales industry, in the event that any of our major suppliers ceases to supply certain ICs to our Group, our Directors believe that we would not experience any significant difficulties in securing ICs from readily available alternative sources in a timely manner; and

- our Directors consider that our senior management's experience, technical expertise, strong market contacts and industry knowledge allow us to identify and establish relationships with new suppliers where necessary. For instance, during the Track Record Period, (i) we used to source Manufacturer B's RF power and LED lighting ICs from Edom. Based on our Directors' knowledge, Manufacturer B sold these two business lines to Supplier C# and Supplier E#, respectively. We were subsequently appointed as the authorised non-exclusive distributors of Supplier C# and Supplier E# in November 2016 and July 2016, respectively, thereby gaining two distributorship relationships in the process; and (ii) we began to source LED lighting ICs from Supplier D# subsequent to the expiry of our appointment as an authorised distributor of Supplier B#.

denotes that the supplier is an IC manufacturer

QUALITY CONTROL

We purchase our supplies from well-established IC manufacturers or IC distributors. When selecting our suppliers, we take into consideration factors, including but not limited to, their reliability and reputation, and the quality of their products. Pursuant to our internal inventory management policy, our warehouse staff conduct visual inspections on our incoming supplies to confirm conformity with our purchase orders, and to ensure that the packaging has not been damaged or tampered with. According to our Group's inventory management policy, if our warehouse staff discover any damaged or deformed packaging upon inspection, they are required to examine the IC products within immediately for any damage. If such products are damaged, the procurement team shall be notified, who shall be responsible for considering the return of the defective or damaged products to the IC manufacturer supplier. Depending on the manufacturer supplier, the defective or damaged IC products may be replaced or refunded.

To ensure the quality standards of the IC products we sell to our customers, our suppliers provide us with new and original products from the manufacturer and provide us with proof of origin. Since all of the ICs we sell are delivered and sold in their original packaging, and are only opened during the production or manufacturing processes by our customers, our customers rely on the warranties provided by the manufacturers of the ICs. In rare instances where certain batches of ICs are found to be defective, we would assist our customers in liaising with the relevant manufacturer supplier in troubleshooting and replacing any defective parts as necessary. Our Directors confirm that, during the Track Record Period, there were no significant incidents of defective products which led to product recalls by our suppliers.

INSURANCE

During the Track Record Period, we maintained insurance policies covering, among others, employees' compensation, office and inventory insurance. With respect to our employees in the PRC, we also maintain social welfare insurance in accordance with the relevant PRC laws and regulations.

Our Directors are of the view that our current insurance cover is adequate and in line with our industry practices. During the Track Record Period, we incurred aggregate insurance expenses of approximately US$12,000, US$12,000, US$14,000 and US$21,000, respectively. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not make any material claims under the insurance policies taken out by us.

PRODUCT LIABILITY

We primarily engage in the sale of ICs and provisions of IC application solutions and value-added services to suit the needs of our customers. As we do not engage in the manufacturing of the ICs ourselves, we are not exposed to risks of product liability claims arising from the use of the application solutions we provide or the ICs we supply to our customers.

As most of the ICs we sell are in the original packaging provided by the manufacturer, and will only be opened during production, we do not provide warranties for the products we sell. Whilst we believe that ICs from our suppliers are of good quality, in rare instances, batches of certain ICs supplied may be defective. In such instances, we would assist our customers in liaising with the relevant supplier to determine the cause of the defect after our preliminary examination, and where applicable arrange for the defective parts to be replaced.

During the Track Record Period, we did not experience any material product return due to product quality defects or damages.

PROPERTIES

As at the Latest Practicable Date, we leased and occupied five properties comprising offices and our research, design and development facilities. We set forth below a summary of our leased properties:

Location	Approximate total site area	Usage	Expiry of lease
Unit No. A, 13th Floor, Block 1, Leader Industrial Centre, Nos. 188-202 Texaco Road, Tsuen Wan, New Territories, Hong Kong	5,249.0 sq.ft.	Headquarters, Hong Kong office and warehouse	30 June 2020
Unit 218, 2nd Floor Block 2, 15 South Rail Station West Road Wuhou District, Chengdu, PRC	37.9 sq.m.	Chengdu office	13 November 2019
Rooms 208 and 210, Block 7, Incubation Park, No. 1480, Tianfu Avenue North Section, Wuhou District, Chengdu, PRC	472.4 sq.m.	Chengdu office	28 February 2021
Rooms 701 and 708, Ruite Building, No. 1888 Yi Shan Road, Minhang District, Shanghai, PRC	655.9 sq.m.	Shanghai office	4 March 2022
Unit 1907-08, Zhouyue Building, 98 Fuhua 1st Road, Futian District, Shenzhen, Guangdong, PRC	405.8 sq.m.	Shenzhen office	10 October 2021

Our Directors confirm that we are using these leased properties in accordance with the permitted usages under the relevant lease agreements. As at the Latest Practicable Date, we were not aware of any challenge being made by any third party on the titles of any of the above properties which might affect our current occupation. Our PRC Legal Advisers have advised us that our leased properties in the PRC possess all required property ownership certificates*(房屋所有權證).

LICENCES AND PERMITS

Owing to the nature of our business, our Directors confirm that we are not required to obtain any manufacturing or production permit, licence or approval in the sale of ICs and the provision of our value-added services.

Our Directors confirm that, during the Track Record Period, we had (i) obtained all material licences, permits or certificates necessary to conduct our business in all the relevant jurisdictions; (ii) complied in our operations with all relevant laws and regulations of the applicable jurisdictions and the terms and conditions set out in the relevant approvals or licences granted to us in all material aspects; and (iii) complied in all material aspects with the labour laws and environmental laws in all relevant jurisdictions.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

We do not manufacture the products we sell to our customers, and as such, we are not exposed to any significant health, safety or environmental risks. Owing to the nature of our business, our Directors confirm that we are not subject to any environmental protection laws.

To enhance the personal health and safety of our workers, we have posted signs and guidelines in our warehouse, to emphasise to our employees the importance of, among others, correct posture in lifting heavy boxes and objects, using equipment, and to keep a tidy work environment. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we were not subject to any fines or penalties due to non-compliance with health, safety or environmental regulations.

EMPLOYEES

Our Directors believe that our employees and skilled professionals are amongst our most valuable assets. Our employees, led by our directors and senior management staff, are designated into teams comprising sales and marketing, operations, design and R&D, and finance and accounting.

We entered into a separate employment contract with each of our employees, the terms and conditions of which are in compliance with the relevant PRC and Hong Kong labour and employment laws. Our Directors confirm that as at the Latest Practicable Date, our Group had complied with all MPF-related legal obligations under the law by enrolling all qualifying employees in MPF contributions for them.

As at 31 December 2015, 2016, 2017 and 2018 and the Latest Practicable Date, our Group had a total of 16*(Note 1)*, 60*(Note 2)*, 84*(Note 3)*, 99*(Note 3)* and 105*(Note 3)* full-time employees. The following table sets forth the breakdown in numbers of our staff according to their respective functions and teams as at the Latest Practicable Date:

Department/team	**Number of personnel**
Hong Kong office	
Senior management	3
Sales and marketing	5
Operations	10
Design and R&D	1
Finance and accounting	6
Chengdu office	
Senior management	1
Sales and marketing	4
Operations	2
Finance and accounting	2
Shanghai office	
Senior management	3
Sales and marketing	20
Operations	12
Design and R&D	4
Finance and accounting	3
Shenzhen office	
Sales and marketing	12
Operations	7
Design and R&D	7
Finance and accounting	3
Total	105*(Note 3)*

Notes:

1. Including our full-time employees in Hong Kong only without taking into account the full-time employees of the PRC Group Companies prior to the Acquisition of the PRC Group Companies

2. Including our full-time employees in Hong Kong and the PRC without taking into account the full-time employees in Chengdu Flyring prior to the completion of the Acquisition of Chengdu Flyring

3. Including all of our full-time employees in Hong Kong and the PRC after the Acquisition of the PRC Group Companies

Recruitment and remuneration policy

According to our Group's recruitment policy, our senior management and heads of department are responsible for the recruitment of personnel within their respective teams, according to the needs and operations of their respective teams and departments. We select our employees through internal referrals and through recruitment advertisements placed on job-search websites.

We generally set the remuneration of our employees according to a range of factors, including (but not limited to) prevailing market rates and availability, our Group's performance, the employee's capabilities, the importance of the employee's position within our Group, his or her qualifications and education background. Our employees are entitled to annual discretionary bonus based on our Group's performance and our employee's performance.

Training

We encourage all our employees to take part in self-improvement by attending training sessions internally and externally. Our professional staff are required to attend training workshops conducted by our suppliers from time to time to enhance their knowledge and expertise in relation to our suppliers products, which facilitates their understanding of such products when marketing and providing IC application solutions to our customers.

Staff benefits

In compliance with the applicable laws and regulations in Hong Kong, our Group maintains employees' compensation insurance for our employees in Hong Kong. In compliance with applicable statutory requirements in the PRC and existing requirements of the local government in the PRC, our Group participates in social security programmes for our employees in the PRC. Such social insurance included basic pension insurance, maternity insurance, occupational injury insurance and housing provident fund.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Directors and senior management are responsible for the formulation and overseeing the implementation and effectiveness of our internal control and risk management systems, which are designed to ensure our ongoing compliance with the applicable laws, regulations and rules relevant to our business operations and/or corporate governance, and to prevent any recurrence of non-compliance incidents. We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. We engaged an internal control consultant to review our internal control system and we have implemented and will continue to implement the relevant suggestions they propose. In addition, we will adopt or have adopted and implemented the following internal control measures:

(a) we have appointed Alliance Capital as our compliance adviser with effect from the Listing Date to advise us on compliance matters with regard to any Listing Rules issues;

(b) our Directors and members of senior management had attended training conducted by the legal advisers to our Company as to Hong Kong laws in March 2018 on the continuing obligations of a listed company in Hong Kong and on directors' duties, responsibilities and liabilities;

(c) we will appoint a Hong Kong law firm upon Listing as our Group's external legal advisers as to Hong Kong laws to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations and, if necessary, to provide us training and updates from time to time;

(d) we have established internal policies governing the risk management of various aspects of our Group, including, among others, operational, financial, legal and internal audit; and

(e) our Audit Committee, comprising three independent non-executive Directors, will review and supervise, among others, the financial reporting process and internal control system of our Group.

INTELLECTUAL PROPERTY

We do not own the intellectual property rights to the IC application solutions that we provide to our customers.

As at the Latest Practicable Date, we owned the right to four domain names and we had three trade marks registered in Hong Kong and two trade marks registered in the PRC and we had also applied for registration of one trade mark in the PRC. Please refer to "Further information about our Company's business – 2. Intellectual property rights of our Group" in Appendix IV to this prospectus for further details.

To the best of our Directors' knowledge, during the Track Record Period and as at the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, nor are aware of any such claim either pending or threatened against us.

AWARDS

The following table sets forth the major awards received by us during our operational history:

Award	Awarding body	Year
Performance award for highest demand creation in China for a product line of Manufacturer A	Manufacturer A	2018
Best new project design application engineer for another product line of Manufacturer A	Manufacturer A	2018

LEGAL PROCEEDINGS

Litigation

As at the Latest Practicable Date, our Group was not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to the Directors to be pending or threatened by or against our Group, that would have a material adverse effect on its operation results or financial condition. Our Directors confirm, and the PRC Legal Advisers concur that, our Group has obtained all material licences, permits, approvals and certificates necessary to conduct its business operations and has complied with all applicable laws, rules and regulations in all material respects during the Track Record Period.

Our Directors confirm that, during the Track Record Period and as at the Latest Practicable Date, no disciplinary action has been taken against members of our Group and/or its employees.

NON-COMPLIANCE

Our Directors confirm that, save for the non-compliance disclosed below, our Group has complied with the laws and regulations applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date. To the best of our Directors' knowledge, none of our Group, our Shareholders, Directors, employees, or other intermediaries was involved in any bribery or kickback arrangements or incidents in relation to our Group's business operations during the Track Record Period and up to the Latest Practicable Date.

The table below sets forth summaries of an incident of non-compliance with applicable laws and regulations during the Track Record Period. Our Directors believe that the following incident of non-compliance will not have a material operational or financial impact on us.

Particulars of the non-compliance	Reasons for the non-compliance	Potential/actual maximum penalty	Immediate remedial actions
IH Technology and Flyring Electronics failed to furnish profits tax return for the year of assessment 2015/16 within the prescribed time limit under Section 51(1) of the IRO. IH Technology and Flyring Electronics were assessed additional tax payable by way of penalty of HK$9,000 and HK$100,000 for the late filings, which had been fully settled on 3 October 2017 and 5 April 2017, respectively.	IH Technology and Flyring Electronics designated an administrative staff to handle their statutory filings and accounting matters who did not have relevant expertise in accounting or other financial matters. IH Technology and Flyring Electronics adopted a new accounting system in early 2016 and were in the course of transitioning data into the new accounting system at the relevant time when the tax returns were due for filing. In addition, as the business of IH Technology and Flyring Electronics expanded rapidly and their transactions increased significantly in both volume and complexity, the then local audit firm, who took charge of the statutory audit work of IH Technology and Flyring Electronics before the Track Record Period, had difficulties accommodating the increased workload for the statutory audit work of IH Technology and Flyring Electronics on time, in June 2016, Moore Stephens CPA Limited was engaged to carry out audit works for IH Technology and Flyring Electronics, which required additional time to finalise the accounts for the year ended 31 December 2015.	Under Section 51(1) of the IRO, an assessor may give notice in writing to any person requiring him within a reasonable time stated in such notice to furnish any return. Under Section 80(2) of the IRO, any person who without reasonable excuse makes an incorrect return by omitting or understating anything in respect of which he is required by the IRO to make a return, or fails to comply with the requirements of a notice given to him to file a return within the stipulated time, commits an offence. The maximum penalty is a fine at HK$10,000 and a further fine of treble the amount of tax which has been undercharged in consequence of such incorrect return or in consequence of the failure to file a return. In respect of the offence under Section 80(2) of the IRO, if no prosecution has been instituted, the IRD has the discretion under Section 82A of the IRO to impose an additional tax of not exceeding treble the amount of tax which has been undercharged in consequence of the incorrect return or failure to file a return.	IH Technology and Flyring Electronics submitted the 2015/2016 profits tax returns and computation to the IRD on 14 December 2016 and 11 October 2016, respectively, after their respective financial statements for the year ended 31 December 2015 were finalised. IH Technology and Flyring Electronics had paid all taxes arising from the profits tax returns for the year of assessment 2015/16 in the aggregate amount of HK$332,924 and HK$5,550,169, respectively, all within the respective payment deadlines. As the business of IH Technology and Flyring Electronics have been expanding and their transactions have been increasing in both volume and complexity, the management team of our Group realised the need to enhance resources on accounting and financial capabilities, and recruited Ms. Au Ka Man Silkie ("**Ms. Au**") as the chief financial officer of our Group in October 2016 to oversee our accounting and financial functions. Ms. Au has over 12 years of experience in accounting and financial management. Further, in view of our expansion plan and anticipated increase in the finance department's workload, we also hired a team of accounting staff comprising two members to support Ms. Au, with one of them holding the qualification of Certified Public Accountant. Each of these accounting staff has over seven years of experience in auditing, accounting and/or taxation. IH Technology and Flyring Electronics also engaged a tax consultant in September 2016, which is a professional firm in Hong Kong providing professional tax services as tax representative. Having considered the above actions, our Directors are of the view that our Group can handle tax matters more effectively.

As advised by Mr. Jon K. H. Wong, our legal counsel, where the Commissioner of Inland Revenue elects to charge a person additional tax, the person assessed to additional tax under Section 82A will not be liable to be charged on the same facts with an offence under Section 80(2). Considering the reasons for IH Technology and Flyring Electronics' failure to prepare and submit their profits tax returns for the year of assessment 2015/16 on time, and that IH Technology and Flyring Electronics have already been penalised by the IRD by way of additional tax pursuant to Section 82A(1), he is of the opinion that the possibility for IH Technology, Flyring Electronics or Mr. Lam as their director facing further criminal prosecution or liabilities in respect of those late filings is remote.

To ensure sound implementation of internal control policies and to avoid reoccurrence of the above non-compliance, we have implemented/will implement the following:

(a) we have adopted a set of internal control policies to strengthen the management of tax matters of our Group and to ensure the integrity and legitimacy of our Group, and to comply with applicable tax laws and regulations;

(b) we have appointed our chief financial officer, who is a certified public accountant, in October 2016, to oversee the financial operations and to supervise our accounting and finance departments. The management accounts and financial information prepared by our accounting staff will be reviewed by our chief financial officer before approval by our Directors;

(c) we have engaged and will continue to engage the tax consultant ("**Tax Consultant**") to provide advice and to prepare tax returns on behalf of our Group. Our Tax Consultant will be responsible for submitting tax returns on behalf of our Group, who will be required to return a copy of the submitted tax returns to our Group for record keeping;

(d) our accounting staff and our executive Directors will receive training from our chief financial officer concerning applicable tax laws and regulations to keep them informed of any updates on applicable tax laws and regulations;

(e) we will continue to engage the internal control consultant after the Listing to review the adequacy and effectiveness of our internal control system, including areas of financial compliance; and

(f) our senior management will review our Group's internal control policies and procedures annually in relation to tax compliance or upon advice by our Tax Consultant on the latest changes to and updates on the applicable tax laws and regulations.

MARKET AND COMPETITION

Owing to increasing demand from IC downstream industries, and with more emphasis and demand being attached to professional and efficient IC designs, downstream companies such as electronics and industrial equipment manufacturers are tending to outsource their design services to IC distributors or value-added resellers in order to save costs and improve productivity. According to the F&S Report, from 2014 to 2018, the market size of the IC sourcing and sales industry in the PRC increased from approximately RMB301.5 billion to approximately RMB653.2 billion, with a CAGR of approximately 21.3%.

According to the F&S Report, the IC sourcing and sales business of the PRC is highly fragmented, with over 2,200 players engaged in providing design and sales services for electronic product manufacturers in 2017. The F&S Report identified nine major market players in the PRC that accounted for approximately 2.4% of the PRC IC sourcing and sales market share in 2017 while our Group accounted for approximately 0.1% of the market share in the PRC IC sourcing and sales market in the same year.

The F&S Report states that there are high entry barriers into the IC sourcing and sales industry. First, market players are required to possess a high level of technological knowledge. Owing to the fast pace of downstream application areas, especially in the electronic devices market, new entrants are required to keep up with the newest technology trends and have to constantly adjust their R&D and provide technological advanced IC products to meet the needs of customers. Market participants are required to have R&D capabilities and industry know-how. The technology requirement could pose a significant entry barrier for new entrants to the IC sourcing and sales industry. Second, new market entrants may find it difficult to penetrate the value chain of the IC industry within the PRC, which is already well-established. New market entrants may have difficulties in building relationships with qualified suppliers and with acquiring suitable customers, or may find it challenging to negotiate profitable terms when bargaining with suppliers and customers. Third, new entrants require sufficient working capital to purchase IC components from domestic and foreign IC manufacturers and suppliers.

Please refer to "Industry overview" in this prospectus for further details of the competitive analysis of the IC sourcing and sales market in the PRC.

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (assuming that the Over-allotment Option is not exercised and without taking into account the exercise of any option which may be granted under the Share Option Scheme), P.Grand and Kingtech will directly hold approximately 67.5% and 7.5% of the total issued share capital of our Company, respectively. P.Grand is wholly owned by Mr. Lam and Kingtech is wholly owned by Mrs. Qing.

On 21 March 2018, Mr. Lam, Mr. Qing and Mrs. Qing entered into the Confirmatory Deed, pursuant to which Mr. Lam, Mr. Qing and Mrs. Qing confirmed, among other things, that they will, in respect of the management and operations of our Group, including but not limited to development strategies, business planning, annual budgeting, investment plans and human resources, make key decisions together.

For the purposes of the Listing Rules, Mr. Lam, Mr. Qing and Mrs. Qing, together as a concert group pursuant to the Confirmatory Deed, will be interested in more than 30% equity interest indirectly in our Company, upon Listing, and each of Mr. Lam, Mr. Qing, Mrs. Qing, P.Grand and Kingtech are considered as a group of Controlling Shareholders of our Group. For the background of Mr. Lam and Mr. Qing, please refer to "Directors and senior management" in this prospectus.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates upon the Listing.

Management independence

Our Board comprises three executive Directors and three independent non-executive Directors. Mr. Lam is the Chairman and an executive Director and Mr. Qing is also an executive Director.

Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders upon the Listing.

Operational independence

We have established our own organisational structure comprised of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established various internal controls procedures to facilitate the effective operation of our business. Our Directors confirmed that our Group will not enter into any other transactions of similar nature with our connected persons and their associates after the Listing that will affect our operational independence.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Mr. Lam, one of our Controlling Shareholders, provided certain guarantees, pledges and mortgages for the loans of our Group. For details, please refer to note 22 of Part II of the Accountants' Report in Appendix I to this prospectus. The guarantees, pledges and mortgages provide by Mr. Lam will be released upon the Listing. Other than the above, our Directors confirm that as at the Latest Practicable Date, all financial assistance, including amounts due to, and loans or guarantees provided by our Controlling Shareholders to our Group, were repaid or released or otherwise settled in full. Therefore, there is no financial dependence on our Controlling Shareholders.

COMPETING BUSINESS

Each of Mr. and Mrs. Qing, who are our Controlling Shareholders, has 50% equity interest in 上海高倫電子有限公司 (Shanghai Gaolun Electronics Co., Ltd*) ("**Shanghai Gaolun**"). Shanghai Gaolun is a company established in the PRC with a registered capital of RMB500,000. Shanghai Gaolun is principally engaged in the sale of electronic components. According to the records of the National Enterprise Credit Information Publicity System, Shanghai Gaolun's business status was stated to be suspended (歇業) since 2013 and later stated to be terminated (停業) since 2016. On 16 July 2018, the application for deregistration of Shanghai Gaolun has been approved by the local Administration for Industry and Commerce ("**AIC**"). Since then, Shanghai Gaolun has ceased to exist.

As Shanghai Gaolun had no active operations during the Track Record Period, based on its AIC filing and tax filing records, it did not record any revenue and recorded net loss of approximately RMB36,000, RMB36,000, RMB36,000 and RMB9,000 for each of the three years ended 31 December 2017 and the period from 1 January 2018 to the date of its deregistration in July 2018, respectively. Each of Mr. and Mrs. Qing and Shanghai Gaolun confirmed that Shanghai Gaolun was not subject to any material non-compliance, claims, litigation or legal proceedings for the three years ended 31 December 2018 and up to the Latest Practicable Date.

Our Directors confirm that, save as disclosed above, none of the business or interest of our Directors, Controlling Shareholders and their respective associates competes or may compete with the business of our Group, or has or may have any conflicts of interest with our Group under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage any conflict of interests arising from the competing business of our Controlling Shareholders and to safeguard the interests of our Shareholders:

(i) as part of our preparation for the Share Offer, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provides that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;

(ii) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself from the board meetings on matters in which such Director or any of his close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of our independent non-executive Directors;

(iii) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. For details of our independent non-executive Directors, please refer to "Directors and senior management – Directors – Independent non-executive Directors" in this prospectus;

(iv) in the event that our independent non-executive Directors are requested to review any conflict of interests circumstances between our Group on one hand and our Controlling Shareholders and/or our Directors on the other, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information and our Company shall disclose the decisions of our independent non-executive Directors either through its annual report or by way of announcements; and

(v) we have appointed Alliance Capital as our compliance adviser, which will, upon our consultation, provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various Listing Rules requirements relating to directors' duties and corporate governance.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Our Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and conduct of business of our Company. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposal for profit distributions as well as exercising other powers, functions and duties as conferred by our Articles of Association. We have entered into service contracts with each of our executive Directors. We have also entered into letters of appointment with each of our independent non-executive Directors.

The table below shows certain information with respect to our Directors and senior management as at the Latest Practicable Date:

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Relationship with our Directors and senior management
Directors						
Mr. Lam Keung (林強)	46	Chairman, Chief Executive Officer and Executive Director	April 2010	August 2016	Responsible for supervising overall management and strategic planning of our Group and the overall strategic review of the R&D department of our Group	None
Mr. Qing Haodong (卿浩東)	55	Executive Director	December 2016	December 2017	Overseeing the marketing activities of our Group	Brother-in-law of Ms. Feng Ying
Mr. Mai Lu (麥魯)	44	Executive Director	January 2017	March 2018	Overseeing the R&D functions of our Group	None
Mr. Dan Kun Lei, Raymond (鄧昆雷)	48	Independent non-executive Director	June 2019	June 2019	Overseeing management independently and providing independent advice to our Board	None
Mr. Wong Kwun Ho (黃冠豪)	35	Independent non-executive Director	June 2019	June 2019	Overseeing management independently and providing independent advice to our Board	None

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Relationship with our Directors and senior management
Mr. Lai Man Shun (黎萬信)	46	Independent non-executive Director	June 2019	June 2019	Overseeing management independently and providing independent advice to our Board	None
Senior management						
Mr. Wang Kai (汪凱)	39	Head of sales	December 2016	–	Overseeing the sales business of our Group	None
Ms. Cheng Yu Pik (鄭宇璧)	38	Head of operations	July 2009	–	Overseeing the business and administrative functions of our Group	None
Ms. Au Ka Man Silkie (歐嘉敏)	36	Chief financial officer and company secretary	October 2016	–	Overseeing the financial operations and corporate secretarial matters of our Group	None
Ms. Feng Ying (馮瑛)	50	Head of PRC operations	January 2017	–	Overseeing the PRC business and administrative function of our Group	Sister-in-law of Mr. Qing

DIRECTORS

Executive Directors

Mr. Lam Keung (林強), aged 46, joined our Group in April 2010 and was appointed as a Director in August 2016. He was re-designated as our executive Director and appointed as the Chairman and the Chief Executive Officer in March 2018.

Mr. Lam is responsible for supervising the overall management, making strategic planning of our Group, implementing Board resolutions, as well as providing guidance and directions of our Group. Mr. Lam also conducts overall strategic review of the R&D department of our Group, giving R&D directions in relation to the latest trend of the IC and semiconductor industry.

Mr. Lam has over 22 years of experience in the IC and semiconductor industry. Prior to joining our Group, Mr. Lam worked at Rohm Electronics (H.K.) Company Limited (currently known as Rohm Semiconductor Hong Kong Company Limited) from September 1995 to August 2003 and his last position was assistant sales manager where he was responsible for the sale of IC products. Mr. Lam worked as a senior manager in marketing department at Synergy International Technology Limited from October 2003 to February 2010, where he was responsible for the sales and marketing of semiconductor solutions.

Mr. Lam joined IH Technology as a general manager in April 2010 and was subsequently promoted to serve as a director of IH Technology in November 2010. Mr. Lam has also been serving as a director of Flyring Electronics since January 2011. Mr. Lam served as an independent non-executive director of EFT Solutions Holdings Limited, a company whose shares are listed on the GEM of the Stock Exchange (stock code: 8062), from 23 November 2016 to 26 March 2019, which is principally engaged in sourcing of electronic fund transfer at point-of-sale terminals and peripheral devices, and provision of electronic fund transfer at point-of-sale system support services and software solution services.

Mr. Lam obtained a bachelor's degree in electrical engineering from the University of Tennessee, the United States in December 1993.

Mr. Lam was one of the directors of Top Dragon Realty Limited, a company incorporated in Hong Kong, which was struck off and dissolved on 20 July 2001 under section 291 of the Predecessor Companies Ordinance. Under section 291(5) of the Predecessor Companies Ordinance, if a company does not show cause to the contrary upon a notice is served on that company, the Companies Registrar in Hong Kong may strike the name of the company off the register after the expiration of a specified period.

Mr. Lam confirmed that there was no wrongful act on his part leading to the dissolution of the above company. The company was inactive at the time when it was dissolved, and so far as he was aware, the dissolution of the company has not resulted in any liability or obligation being imposed against him.

Upon Listing, Mr. Lam, through P.Grand, a company which is 100% beneficially owned by him, will hold approximately 67.5% of our issued share capital (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme). In addition, pursuant to the Confirmatory Deed, Mr. Lam, Mr. Qing and Mrs. Qing confirmed that they have been in cooperation to jointly manage and control the operations of the HK Group Companies and the PRC Group Companies since 2011. In view of the fact that Mr. Lam, Mr. Qing and Mrs. Qing have been and will continue to be acting in concert in the control, management and operation of our Group, Mr. Lam is also deemed to be interested in all the Shares held by Kingtech which is 100% beneficially owned by Mrs. Qing.

Mr. Qing Haodong (卿浩東), aged 55, joined our Group in December 2016 and was appointed as a Director in December 2017. He was re-designated as our executive Director in March 2018.

Mr. Qing is responsible for the overall marketing activities of our Group. He is also responsible for liaising with electronics manufacturers and promoting the latest electronic products to customers.

Mr. Qing has over 17 years of experience in the IC and semiconductor industry. Prior to joining our Group, Mr. Qing was an automation engineer at Sichuan Food Fermentation Industry Research and Design Institute (四川省食品發酵工業研究設計院) from September 1985 to November 2000, where he was responsible for the electrical design for automation control equipment. Mr. Qing joined Chengdu Flyring as a sales manager in November 2000. Mr. Qing has been serving as the supervisor at Chengdu Flyring, Shenzhen IH and Shanghai IH since February 2006, May 2005 and August 2009, respectively.

Mr. Qing was a shareholder, director, and the legal representative of Shanghai Xingke Semiconductor Co., Ltd.* (上海星科半導體有限公司) ("**Shanghai Xingke**"), a company established in the PRC on 31 October 2003, which was once mainly engaged in the marketing and sales of the electronic products and components. As Shanghai Xingke did not have any business operation in the past three years, its directors and shareholders decided to dissolve the company and accordingly Shanghai Xingke commenced the dissolution procedures in October 2017. The dissolution of Shanghai Xingke was completed on 4 January 2018. So far as Mr. Qing was aware, Shanghai Xingke was not insolvent as at the time of dissolution, and the cancellation of registration of Shanghai Xingke with local SAIC authority has not resulted in any punishment or fines imposed by any competent authorities, nor has it resulted in any outstanding or potential claims or liabilities against Shanghai Xingke.

Mr. Qing took certain positions in the below PRC companies ("**Relevant Companies**"), the business licences of which have been revoked by local SAIC authorities:

Relevant companies	**Date of establishment**	**Date of revocation**	**Mr. Qing's position(s)**
Chengdu Hengchangtong Electronics Co., Ltd.* (成都恒昌通電子公司)	31 May 1993	28 April 2004	a shareholder, a director and the legal representative
Chengdu Hengchang Hengxin Electronics Co., Ltd.* (成都恒昌恒信電子有限公司)	30 August 1999	6 January 2005	a shareholder and the legal representative
Shanghai Lianjun Electronics Co., Ltd.* (上海聯君電子有限公司)	17 October 2002	14 December 2007	a shareholder and a supervisor
Kunming Yingbang Real Estate Brokerage Co., Ltd.* (昆明盈邦房地產經紀有限公司)	19 June 2006	12 April 2012	a shareholder and a director
Beijing Sanhe Runheng Technologies Co., Ltd.* (北京三和潤恒科技有限公司)	14 November 2005	10 October 2012	a shareholder and a supervisor

The business licences of the Relevant Companies were revoked due to not having engaged in any business activities within the three years prior to the date of the revocation. As at the time of the revocation, none of the Relevant Companies was insolvent, had any outstanding liabilities or was involved in any pending claims. As at the Latest Practicable Date, the Relevant Companies have not been dissolved. Mr. Qing confirmed that since the revocation and as at the Latest Practicable Date, the Relevant Companies have not carried out any business activities and, so far as he was aware, the revocation of the business licences of the Relevant Companies has not resulted in any punishment or fines imposed by any competent authorities, nor has it resulted in any outstanding or potential claims or liabilities against Relevant Companies.

Mr. Qing obtained his professional certificate in industrial electronics and enterprise (工企電專業) from Harbin Jixie Industry School* (哈爾濱機械工業學校), the PRC, in August 1985.

Mr. Qing is the spouse of Mrs. Qing, who beneficially owns 100% of Kingtech. In addition, pursuant to the Confirmatory Deed, Mr. Lam, Mr. Qing and Mrs. Qing confirmed that they have been in cooperation to jointly manage and control the operations of the HK Group Companies and the PRC Group Companies since 2011. In view of the fact that Mr. Lam, Mr. Qing and Mrs. Qing have been and will continue to be acting in concert in the control, management and operation of our Group, Mr. Qing is also deemed to be interested in all the Shares held by his spouse Mrs. Qing through Kingtech, and all the Shares held by Mr. Lam through P. Grand.

Mr. Mai Lu (麥魯), aged 44, joined our Group in January 2017 and was appointed as the executive Director of our Company in March 2018.

Mr. Mai oversees the design and R&D functions of our Group and is responsible for the overall daily management of the design and R&D team.

Mr. Mai has over 16 years of experience in providing technical solutions of semiconductors. Mr. Mai worked as an assistant engineer at the Chinese People's Liberation Army from July 1996 to July 2001, and his last rank at the Chinese People's Liberation Army was Professional Technology Lieutenant (專業技術中尉). Mr. Mai worked as a sales engineer at Rohm Semiconductor (Shenzhen) Co. Ltd. from July 2001 to February 2003, where he was responsible for sales and providing technical supports to the customers, and worked as a manager at the R&D department of Shanghai Huanwei Electronics Company Limited* (上海環微電子有限公司) from March 2003 to August 2010, where he was responsible for overseeing the R&D department of the company.

Mr. Mai joined Shanghai IH as head of the R&D department in September 2010.

Mr. Mai obtained his bachelor's degree in electronics and information system (電子學與信息系統學位) from National University of Defense Technology (中國人民解放軍國防科學技術大學, currently known as 中國人民解放軍國防科技大學), the PRC, in July 1996.

Independent non-executive Directors

Mr. Dan Kun Lei Raymond (鄧昆雷), aged 48, was appointed as an independent non-executive Director of our Company in June 2019.

Mr. Dan has over 18 years of experience in the information technology industry.

Mr. Dan has worked as a senior systems consultant at Automated Systems (H.K.) Limited since April 2017, where he was mainly responsible for providing technical and professional consultancy services to its customers. Mr. Dan worked as a senior bid manager at CITIC Telecom International CPC Limited from December 2015 to April 2017, where he was responsible for managing bidding projects in relation to information technology products. Prior to joining CITIC Telecom International CPC Limited, he was an account manager at Huawei Tech. Investment Co., Limited from June 2013 to November 2015, where he was responsible for providing technical services to the customers during the process of sales. Mr. Dan worked as a business consulting officer at Hewlett-Packard HK SAR Limited from June 2010 to May 2013, where he was responsible for providing pre-sale support, performing technology assessment and maintaining customer relationship. Prior to that, he also gained experience from different information technology or telecommunication companies including Shen Milsom & Wilke Limited, PCCW Limited a company whose shares are listed on the Stock Exchange (stock code: 0008) and Unisys China/Hong Kong Limited from May 1999 to June 2010 in various positions.

Mr. Dan obtained his bachelor's degree in computer systems engineering from La Trobe University, Australia, in May 1997, and his master's degree in management from Macquarie University, Australia, in October 2000.

Mr. Wong Kwun Ho (黃冠豪), aged 35, was appointed as an independent non-executive Director of our Company in June 2019.

Mr. Wong has over 10 years of experience in financial management and public offering transactions. Mr. Wong became a certified public accountant and a qualified member of HKICPA in February 2012.

Mr. Wong has been serving as an independent non-executive director of Ascent International Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 264), since August 2018. He has been serving as an associate director for investment banking division of Zhongtai International Capital Limited since January 2018 and was further appointed as an executive director in January 2019, where he is responsible for origination and execution of deals and transactions, such as initial public offering and financial advisory cases. Mr. Wong worked as a vice president of corporate finance division at CCB International Capital Limited from April 2017 to December 2017 and was mainly responsible for execution of initial public offering and bond offering cases. Mr. Wong worked as an assistant vice president of the corporate finance department at Guotai Junan Capital Limited from September 2013 to April 2017, mainly responsible for origination and execution of deals and transactions, such as initial public offering and financial advisory cases. Prior to that, Mr. Wong also gained accounting and transactional experience from different financial companies and accounting firms including Fortune Financial Capital Limited, Guosen Securities (HK) Capital Company Limited and PricewaterhouseCoopers Ltd. from September 2008 to September 2013.

Mr. Wong obtained his bachelor's degree of business administration (Honours) in accountancy in November 2008 from City University of Hong Kong.

Mr. Lai Man Shun (黎萬信), aged 46, was appointed as an independent non-executive Director in June 2019.

Mr. Lai has over 17 years of experience in information technology and telecommunication industry. He has been a general manager of EFT Payments (Asia) Limited since July 2016, mainly responsible for the business relationship management, development planning and overall supervision of different departments of the company. Immediately before that, Mr. Lai worked at EFT Solution Limited as the head of business development from March 2016 to June 2016. Before that, he was a chief executive officer and founder of Paxex International Limited from 2010 to 2016, mainly responsible for the overall business of the company. He was also a sales director and co-founder of RICC Limited, mainly responsible for the management of the business developments from 2001 to 2010.

In addition, Mr. Lai was a director of RICC Limited ("**RICC**"), a company incorporated in Hong Kong on 19 October 2001, which was once mainly engaged in call centre outsourcing service business before July 2010. On 8 April 2016, RICC was struck off and dissolved under Section 744(3) of the Companies Ordinance, pursuant to which if the Registrar of Companies in Hong Kong has reasonable cause to believe that a company is not carrying on business or in operation, the Registrar of Companies in Hong Kong may strike the name of the company off the register after the expiration of a specified period.

Mr. Lai confirmed that there was no wrongful act on his part leading to the strike off of the above company. The company was inactive at the time when it was dissolved, and so far as he was aware, the dissolution of the company has not resulted in any liability or obligation being imposed against him.

Mr. Lai obtained his bachelor's degree in science from La Trobe University, Australia, in May 1997.

Disclosure required under Rule 13.51(2) of the Listing Rules

Each of our Directors confirms that save as disclosed above: (i) he has not held directorships in the last three years in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he does not hold any other position in our Company or any of its subsidiaries; (iii) there is no other information that should be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and (iv) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of our Directors that need to be brought to the attention of our Shareholders.

Save as disclosed in "Disclosure of interests" in Appendix IV to this prospectus, each of our Directors certifies that he does not have any interests in the Shares within the meaning of Part XV of the SFO.

Senior management

Mr. Wang Kai (汪凱), aged 39, joined our Group in December 2016 and was appointed as the head of sales of our Group in March 2018.

Mr. Wang has over 16 years of experience in the sales and marketing of semiconductors, ICs and electronic component products. Mr. Wang oversees the sales business of our Group. He is also responsible for the overall management of the sales teams of our Group.

Mr. Wang worked as a sales representative for Chengdu Flyring in September 2001. He was subsequently promoted to a sales manager in July 2005, where he was responsible for regional sales operations in the PRC, covering south-western and south-eastern areas of the PRC. Mr. Wang has been serving as a director of Shanghai IH since August 2009, and assumed the position of sales manager of Shanghai IH subsequent to his appointment as a director of Shanghai IH. Apart from overseeing the daily management of Shanghai IH, Mr. Wang is also responsible for the overall sales operations of our Group. He has also been serving as a director of Shenzhen IH since May 2015.

Mr. Wang obtained his high diploma certificate in mathematics education from Zigong Shifan High Diploma Professional School* (自貢師範高等專科學校), the PRC, in June 2001.

Ms. Cheng Yu Pik (鄭宇璧), aged 38, joined our Group in July 2009 and was appointed as the head of operations of our Group in March 2018.

Ms. Cheng has over 14 years of experience in the semiconductor industry. Ms. Cheng is responsible for overseeing the business and administrative functions of our Group, including collaborating with other members of the senior management and staff members to formulate and implement policies and procedures; interfacing cross-functionally at all levels within our Group as well as with external resources (such as logistic companies, governmental agencies); and providing routine reports to the Board regarding operations, business performance and human resources.

Ms. Cheng joined IH Technology in July 2009. Prior to joining our Group, she worked at Synergy International Technology Limited from August 2003 to June 2009 and her last position was senior customer service coordinator where she was responsible for coordinating with suppliers and handling enquiries. Ms. Cheng worked as a general clerk at Kingdan Development Limited from September 2000 to July 2003, where she was responsible for dealing with suppliers, clients and customs declarations.

Ms. Cheng obtained her matriculation certificate from Caritas Bianchi College of Careers, Hong Kong, in October 2000.

Ms. Au Ka Man Silkie (歐嘉敏), aged 36, joined our Group in October 2016 and was appointed as the chief financial officer and company secretary of our Company in March 2018.

Ms. Au has over 12 years of experience in business administration and management. Ms. Au is responsible for overseeing the financial operations of our Group, as well as supervising accounting and finance departments. She is also responsible for company secretarial matters of our Group.

Prior to joining our Company, Ms. Au was the chief executive officer of Pro Max CPA Limited from June 2014 to September 2016, where she was responsible for the overall management, strategy planning and daily operations of the company. She worked at SBC CPA Limited from April 2008 to March 2014 and her last positions were senior unit manager and practising director, where she was responsible for the overall management of the accounting departments and human resources. She also worked as an assistant accountant at Success Accounting & Taxation Limited (currently known as SBC Accounting & Taxation Limited) from June 2006 to March 2008, where she was responsible for preparing full set of accounts.

Ms. Au obtained a bachelor's degree in business administration from Lingnan University, Hong Kong, in November 2006. She became a member of HKICPA in January 2011.

Ms. Feng Ying (馮瑛), aged 50, joined our Group in January 2017 and was appointed as the head of PRC operations of our Group in March 2018. Ms. Feng is the sister of Mrs. Qing and the sister-in-law of Mr. Qing.

Ms. Feng has over 17 years of experience in the management of our Group. Ms Feng is responsible for overseeing the business and administrative function of the PRC entities of our Group. Prior to joining our Group, Ms. Feng worked as an analyst in Sichuan Yinshan Sugar Manufacturing Factory* (四川省銀山糖廠) from September 1987 to 2000, responsible for quality inspection. Ms. Feng joined Chengdu Flyring as supervisor in November 2000 and was responsible for supervising and inspecting the daily management, operation, financial situation and the work of directors and senior managers of Chengdu Flyring. Ms. Feng has been serving as the legal representative, the director and the general manager of Chengdu Flyring since June 2003, responsible for administration and the daily operations of Chengdu Flyring. Ms. Feng obtained her graduate certificate majored in paper making from the Neijiang Light Chemical Technician Training School* (內江市輕化技工學校), the PRC, in 1987.

CORPORATE GOVERNANCE

Our Company complies or intends to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules, save for Code A.2.1 which requires that the roles of chairman and chief executive officer be separated and performed by different individuals.

Mr. Lam is both our Chief Executive Officer and Chairman. Our Board believes that vesting the roles of both Chief Executive Officer and Chairman in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within our Group. Our Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including two other executive Directors and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of our Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, our Directors consider that the present arrangement is beneficial to and in the interest of our Company and our Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code in each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports after the Listing.

Board diversity policy

We have adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the objective and approach to achieve and maintain diversity on our Board in order to enhance the effectiveness of our Board and to maintain the highest standards of corporate governance and recognises and embraces the benefits of diversity in our Board. We endeavor to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the implementation of our business strategy. Pursuant to the Board Diversity Policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, gender, age, cultural, education background and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to our Board. Our Board believes that such merit-based appointments will enable our Company to best serve our Shareholders and other stakeholders going forward.

Our Board comprises six members, including three executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including management and strategic development, marketing, research and development and accounting experiences in addition to IC and semiconductor business. Further, our Board has a good mix of new and experienced Directors that Mr. Lam, one of our executive Directors, joined our Group since its establishment in 2010, who have valuable knowledge and insights of our Group's business over the years, while another two executive Directors, Mr. Qing and Mr. Mai, who joined us in 2016 and 2017, respectively, have extensive experience in the IC and semiconductor industry. In addition, the other three newly appointed independent non-executive Directors are expected to bring in fresh ideas and new perspectives to our Group as well and an element of independence. After due consideration, our Board believes that based on our existing business model and the background and experience of our Directors, notwithstanding that we currently have no female representation on our Board, its composition still satisfied the principles set out in the Board Diversity Policy. Nevertheless, in recognising the particular importance of gender diversity, our Company confirms that our nomination committee will use its best efforts to identify and recommend suitable female candidates to our Board for its consideration and our Company will, within one year from the Listing Date, appoint at least one female Director. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels. Upon Listing, our Group will engage more resources in training the female staff in our Group with an aim to promoting them to the position of senior management or Director of our Company.

Our Company's nomination committee will be tasked to review the Board Diversity Policy and the composition of our Board from time to time and make recommendations as to the appointment of members of our Board as and when appropriate. Our Company will also take into consideration factors based on our Group's business model and specific needs from time to time in determining the optimum composition of our Board. Our Board shall monitor and review our nomination policy regularly to ensure that it meets our Group's needs and maintains good corporate governance practice.

REMUNERATION POLICY

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, allowances and benefits in kind and discretionary bonuses which were paid to our Directors during the Track Record Period was approximately US$322,000, US$273,000, US$400,000 and US$413,000, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, allowances and benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals during the Track Record Period was approximately US$546,000, US$413,000, US$609,000 and US$604,000, respectively.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. Further, none of our Directors waived any remuneration during the same periods.

Under our arrangements currently in force, our Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) by our Company for the year ending 31 December 2019 will be approximately US$380,000.

BOARD COMMITTEES

Audit Committee

We established an Audit Committee on 21 June 2019 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely: Mr. Wong Kwun Ho, Mr. Dan Kun Lei Raymond and Mr. Lai Man Shun, with Mr. Wong Kwun Ho being the chairman of the committee.

The primary duties of the Audit Committee are to make recommendations to our Board on the appointment and dismissal of external auditors, to review financial statements and provide advice in respect of our financial reports, internal control procedure and risk management system of our Group, oversee the audit process, develop and review our policy, and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We established a Remuneration Committee on 21 June 2019 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, being Mr. Lai Man Shun, Mr. Lam Keung and Mr. Dan Kun Lei Raymond, with Mr. Lai Man Shun being the chairman of the committee.

The primary duties of the Remuneration Committee include: (i) making recommendations to our Directors regarding our policy and structure for the remuneration of all of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to our Board on the remuneration packages of our Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

Nomination Committee

We established a Nomination Committee on 21 June 2019 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. Lam, Mr. Lai Man Shun and Mr. Wong Kwun Ho, with Mr. Lam being the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to review our Board Diversity Policy and make recommendations to our Board on the appointment of members of our Board.

MANAGEMENT PRESENCE

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please refer to "Waiver from strict compliance with the Listing Rules – Management presence" in this prospectus.

COMPLIANCE ADVISER

We have agreed to appoint Alliance Capital Partners Limited as our compliance adviser (the "**Compliance Adviser**") upon Listing pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company on the following matters:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(iii) where we propose to use the proceeds of the initial public offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment of Alliance Capital Partners Limited will commence from (and including) the Listing Date and end on (and including) the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised under "Share Option Scheme" in Appendix IV to this prospectus.

Each of the following persons will, immediately following completion of the Capitalisation Issue and the Share Offer (taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the share options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member(s) of our Company:

LONG POSITIONS IN OUR COMPANY

		As at the Latest Practicable Date		Immediately after the Capitalisation Issue and the Share Offer	
Name	**Capacity/ Nature of interest**	**Number of Shares**	**Approximate percentage of shareholding**	**Number of Shares**	**Approximate percentage of shareholding (Assuming the Over-allotment Option is not exercised at all)**
Mr. Lam[(1)(2)]	Interest in a controlled corporation / Person acting in concert	100,000	100%	600,000,000	75%
P.Grand	Beneficial Owner	90,000	90%	540,000,000	67.5%
Mrs. Qing[(1)(3)]	Interest in a controlled corporation / Person acting in concert	100,000	100%	600,000,000	75%
Kingtech	Beneficial Owner	10,000	10%	60,000,000	7.5%
Mr. Qing[(1)(4)]	Interest of spouse / Person acting in concert	100,000	100%	600,000,000	75%

Notes:

(1) Pursuant to the Confirmatory Deed, Mr. Lam, Mr. Qing and Mrs. Qing have acknowledged and confirmed, among other things, that they are acting in concert with each other. Accordingly, each of Mr. Lam, Mr. Qing and Mrs. Qing is deemed to be interested in all the Shares in which any of them is interested under the SFO.

(2) P.Grand is 100% owned by Mr. Lam, and Mr. Lam is deemed to be interested in all the Shares held by P.Grand under the SFO.

(3) Kingtech is 100% owned by Mrs. Qing, and Mrs. Qing is deemed to be interested in all the Shares held by Kingtech.

(4) Mr. Qing is the spouse of Mrs. Qing.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Share Offer (taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the share options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

Authorised share capital:	*HK$*
2,000,000,000 Shares	20,000,000

Assuming the Over-allotment Option is not exercised at all, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Share Offer will be as follows:

Issued Share Capital:		*HK$*	**Approximate percentage of issued share capital** *(%)*
100,000	Shares in issue as at the date of this prospectus	1,000.00	0.01
599,900,000	Shares to be issued under the Capitalisation Issue	5,999,000.00	74.99
200,000,000	Shares to be issued pursuant to the Share Offer	2,000,000.00	25.00
800,000,000	Total	8,000,000.00	100.00

Assuming the Over-allotment Option is exercised in full, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Share Offer will be as follows:

Issued Share Capital:		*HK$*	**Approximate percentage of issued share capital** *(%)*
100,000	Shares in issue as at the date of this prospectus	1,000.00	0.01
599,900,000	Shares to be issued under the Capitalisation Issue	5,999,000.00	72.28
230,000,000	Shares to be issued pursuant to the Share Offer	2,300,000.00	27.71
830,000,000	Total	8,300,000.00	100.00

Notes:

(1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

(2) Assuming a total of 30,000,000 Shares will be issued upon exercise of the Over-allotment Option in full.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules).

RANKING

The Offer Shares are ordinary Shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as set out in the above tables, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

GENERAL MEETING

Pursuant to the Cayman Companies Law and the terms of the Memorandum and Articles of Association, our Company may from time to time by ordinary shareholders' resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by shareholders' special resolution. For details, please refer to "2. Articles of Association – (a) Shares – (iii) Alteration of capital" in Appendix III to this prospectus. Pursuant to the Cayman Companies Law and the terms of the Memorandum and Articles of Association, all or any of the special rights attached to the Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, please refer to "2. Articles of Association – (a) Shares – (ii) Variation of rights of existing shares or classes of shares" in Appendix III to this prospectus.

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in "Share Option Scheme" in Appendix IV to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

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

(i) 20% of the total amount of Shares of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme); and

(ii) the total number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

(i) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

(ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or

(iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Company's Shareholders in a general meeting.

Further details of this general mandate are set out in "Further information about our Company – 3. Written resolutions of the Shareholders of our Company passed on 21 June 2019" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the number of the Shares of our Company in issue or to be issued immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "Further information about our Company – 6. Repurchase by our Company of our own securities" in Appendix IV to this prospectus.

This mandate will expire at the earliest of:

(i) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

(ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or

(iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Company's Shareholders in a general meeting.

Further details of this general mandate are set out in "Further information about our Company – 3. Written resolutions of the Shareholders of our Company passed on 21 June 2019" in Appendix IV to this prospectus.

*The following discussion and analysis should be read in conjunction with (i) our audited consolidated financial information for the Track Record Period and the accompanying notes ("**Financial Information**"), included in Part I and Part II of the Accountants' Report in Appendix I to this prospectus; and (ii) the pre-acquisition financial information of the PRC Group Companies for the Pre-Acquisition Period included in Part IV to Part VI of the Accountants' Report in Appendix I to this prospectus. Our Financial Information and consolidated financial statements, and the pre-acquisition financial information of the PRC Group Companies have been prepared in accordance with HKFRSs, which may differ in certain respects from generally accepted accounting principles in other countries. Potential investors should also read the entire Accountants' Report in Appendix I to this prospectus and should not rely merely on the information contained in this section.*

The discussion and analysis in this section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in "Risk factors" in this prospectus.

Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this prospectus may be due to rounding.

OVERVIEW

We primarily engage in the sourcing and sale of IC products and the provision of IC application solutions and value-added services to suit the needs of our customers. Our business is focused on fast-growing and emerging market categories, with an emphasis on providing environmentally-friendly and energy-saving solutions.

Our revenue is derived from charging a margin on top of the ICs we re-sell to our customers, that factors-in the costs of our value-added services. We do not charge a separate fee for our provision of IC application solution and rendered.

We specialise in five major IC product categories, which we broadly categorise into (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation.

During the Track Record Period, our revenue amounted to approximately US$45.6 million, US$36.4 million, US$53.8 million and US$67.3 million, respectively, representing a CAGR of approximately 13.9%, while our adjusted net profit (excluding our listing expenses) amounted to approximately US$2.3 million, US$1.6 million, US$3.1 million and US$4.2 million, respectively, representing a CAGR of approximately 21.6%.

BASIS OF PREPARATION

Our Financial Information was prepared in accordance with HKFRSs and is presented in US$, while the functional currency of our Company is HK$ and the functional currencies of the HK Group Companies and the PRC Group Companies are US$ and RMB, respectively.

Upon completion of our Reorganisation on 25 December 2017, our Company became the holding company of the companies now comprising our Group. Our Financial Information incorporated the financial statements of our Company and its subsidiaries comprising our Group for the Track Record Period.

The transfers of the entire issued share capital of Flyring Electronics and IH Technology to Contel (BVI) on 25 November 2016 and 12 April 2017, respectively, have been accounted for by our Group as a reorganisation of companies, using the principles of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations*. Our Financial Information has been prepared as if Flyring Electronics and IH Technology had been subsidiaries of our Group throughout the Track Record Period. Shenzhen IH, Shanghai IH and Chengdu Flyring were acquired by Flyring Electronics during the Track Record Period and have been accounted for using the principles of acquisition accounting under HKFRS 3 *Business Combination*s from the respective dates of acquisition. Under the principles of merger accounting, the assets and liabilities of the combining entities or businesses are consolidated using the existing book values from the controlling shareholder's perspective. No amount is recognised in respect of goodwill or any gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's or parties' interests. Please refer to "Business combination" in note 5 of Part II of the Accountants' Report in Appendix I to this prospectus for further details.

Please refer to note 2.2 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of our basis of presentation and "History, Reorganisation and corporate structure – Reorganisation" in this prospectus for further details of our Reorganisation.

MATERIAL ACQUISITIONS DURING THE TRACK RECORD PERIOD

Since 2011, the HK Group Companies and the PRC Group Companies have been operating under the joint leadership and management of Mr. Lam, Mr. Qing and Mrs. Qing in light of their respective distinctive strength and resources, and there has been a clearly specified allocation of responsibilities between the HK Group Companies and the PRC Group Companies. The HK Group Companies are primarily responsible for procurement from and frontline communication with IC suppliers and R&D in initial conceptualisation, whereas and the PRC Group Companies are primarily responsible for R&D in IC application solutions subsequent to such initial conceptualisation of the HK Group Companies, and marketing and sales of the ICs sourced and the IC application solutions provided by our Group. With an aim to strengthen the integration of the HK Group Companies and the PRC Group Companies as one business venture and as part of the Reorganisation, a series of transfers took place where Mr. Qing and Mrs. Qing transferred their respective shareholding interests in each of Shenzhen IH, Chengdu Flyring and Shanghai IH to Flyring Electronics since November 2016. Upon completion of all these transfers in January 2017, the PRC Group Companies became wholly-owned, directly or indirectly, by Flyring Electronics which in turn are indirect wholly-owned subsidiaries of our Company upon completion of the Reorganisation.

During FY2015 and FY2016 (prior to the Acquisition of the PRC Group Companies), given the allocation of responsibilities between the HK Group Companies and the PRC Group Companies as aforesaid, the HK Group Companies were the largest supplier of the PRC Group Companies, representing approximately 94.6% and 96.9% of the total purchases of the PRC Group Companies, respectively. During FY2015 and FY2016, the PRC Group Companies were the largest customer of our Group, representing approximately 55.3% and 48.4% of our total revenue, respectively.

For further details of the Acquisition of the PRC Group Companies, please refer to "Business – Acquisition of the PRC Group Companies" in this prospectus.

Owing to the different ownership structure of the PRC Group Companies prior to the Acquisition of the PRC Group Companies, the results of operations of the PRC Group Companies were not consolidated into the results of operations of our Group during the Pre-Acquisition Period. Upon completion of the Acquisition of the PRC Group Companies, the PRC Group Companies became indirect wholly-owned subsidiaries of our Company. As such, the financial information of the PRC Group Companies were consolidated to our Financial Information. Therefore, the business operations of the PRC Group Companies caused our revenue, cost of sales and gross profit to increase. In addition, since the PRC Group Companies were the largest customer of our Group prior to the Acquisition of the PRC Group Companies and distributed our IC products to the ultimate customers in the PRC, our gross profit margin increased after the Acquisition of the PRC Group Companies. However, the Acquisition of the PRC Group Companies also caused our staff costs, operating lease expenses and other operating expenses to increase, altogether causing our selling and distribution expenses, and general and administrative expenses to increase.

To comply with the requirements of Rule 4.05A of the Listing Rules and to present material information necessary for investors to assess the financial information of the PRC Group Companies during the Pre-Acquisition Period, this prospectus includes (i) the audited pre-acquisition financial information of the PRC Group Companies set out in Part IV to Part VI of the Accountants' Report in Appendix I to this prospectus; and (ii) the discussion and analysis of the pre-acquisition financial information of the PRC Group Companies set out in "Financial information of the PRC Group Companies" in this section.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition, results of operations and the period to period comparability of our financial results are principally affected by the following factors:

Pricing of our IC products and changes in our sales mix

Our product pricing strategy and sales mix directly impacted our financial results and financial conditions historically and are expected to continue affecting our revenue and financial performance in the future. During the Track Record Period, we primarily derived our revenue from the sale of five categories of our IC products, namely (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation. We normally set the price of our IC products on a cost-plus basis after taking into account a variety of factors, including the costs of the ICs, market conditions, market recognition of our customer, the purchase volume of our customer, technical requirements of the application solutions and resources involved. Please refer to "Business – Customers – Pricing and credit policies" in this prospectus for further details of our IC product pricing strategy. As a result, our different IC products may generate different gross profit margins primarily due to IC product pricing strategy as discussed above and thus, our overall gross profit margin may vary with the changes in our sales mix year by year.

We may not be able to set the prices at desired level for some of our IC products and our sales mix may fluctuate significantly in response to the technological changes in the electronics market, and the changes in market demand and market competition. If there are any significant changes in our sales mix and IC product prices, our overall gross profit margin and profit margin will be both affected by the changes in revenue and gross profit margin attributable to our each IC product. As a result, our financial condition and results of operations may be materially and adversely affected.

Please refer to "Discussion of selected profit or loss items – Revenue – Sensitivity analysis of average unit price" in this section for further details of our sensitivity analysis of the average unit price of our IC products.

Reliance on our major suppliers

Our success depends on our continued relationship with our major suppliers since we rely on our major suppliers (who are manufacturers or distributors for manufacturers) to supply their products to us. Thus, our ability to maintain long-term stable business relationships with our major suppliers to provide us with quality and price competitive IC products on a timely basis is crucial for our business development and results of operations. During the Track Record Period, our top five suppliers supplied us approximately 94.7%, 89.4%, 82.5% and 80.9% of our total purchases, respectively. Please refer to "Business – Procurement and suppliers – Major suppliers" in this prospectus for further details of our top five suppliers.

Although we have entered into framework supply agreements with our certain major suppliers, we cannot assure you that the supply from our major suppliers is not interrupted or delayed due to any circumstances and the terms of supply are acceptable to us. It will also be difficult for us to establish new or alternative supplier relationships to ensure a steady supply in a timely and cost-efficient manner. In those circumstances, we may not be able to offer IC products demanded by our customers, or to offer them in sufficient quantities and at prices acceptable to them. As a result, our business, financial condition and results of operations will be materially and adversely affected.

Increase in our purchases under ship-and-debit arrangement

Currently, some of our major suppliers, namely Power Integrations, Supplier A and RDA, who are IC manufacturers and have adopted a price protection policy in the form of ship-and-debit arrangement in selling certain of their ICs to us. Please refer to "Business – Procurement and suppliers – Price protection policy/ship-and-debit arrangement" in this prospectus for further details. During the Track Record Period, the gross purchases under the ship-and-debit arrangement amounted to nil, approximately US$5.2 million, US$30.6 million and US$30.1 million, respectively, and the purchase rebates under the ship-and-debit arrangement amounted to nil, approximately US$2.9 million, US$13.8 million and US$8.4 million, respectively (which were equivalent to nil, approximately 56.3%, 45.1% and 28.0% of our total gross purchases under the ship-and-debit arrangement during the Track Record Period, respectively).

Under the ship-and-debit arrangement, we are required to settle the payables of the procurement costs of ICs at the initial uniform prices first before we receive the rebates back from our suppliers. As a result, our financial burden increases at the outset which might have an adverse impact on our liquidity and cash flow position. In addition, when our purchases under the ship-and-debit arrangement continue to increase in the future or there is a substantial increase in the initial uniform prices of our ICs under the ship-and-debit arrangement, we may not have sufficient internal financial resources and available bank facilities to pay for our purchases at the initial uniform prices at the outset, our business and results of operations will be materially and adversely affected.

Fluctuations in our material costs

Our cost of sales primarily comprised our material costs of ICs directly sourced from our suppliers and our material costs accounted for approximately US$41.3 million, US$33.0 million, US$46.6 million and US$57.4 million (or approximately 90.7%, 90.6%, 86.7% and 85.3% of our total revenue) during the Track Record Period, respectively. Since we have not entered into long-term supply contracts with purchase commitment with our suppliers, prices of ICs are subject to market fluctuations from time to time. Since the prices of our IC products are determined on a cost-plus basis, the revenue from the sale of our IC products will also be affected by the fluctuations in our material costs of ICs. If there is a substantial increase in the material costs of ICs, we may not be able to shift all or some of the increment in our material costs of ICs to the prices of our IC products and our gross profit margin may reduce accordingly. As a result, our business and results of operations will be materially and adversely affected.

Please refer to "Discussion of selected profit or loss items – Cost of sales – Sensitivity analysis of material costs" in this section for further details of our sensitivity analysis of our material costs.

Fluctuations in foreign currency exchange rates

The functional currencies of our operating subsidiaries are either US$ or RMB, but some of their business transactions are denominated in currencies other than their functional currencies, primarily HK$ and RMB. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in our profit or loss. Therefore, we are exposed to foreign currency risk as the business operations of our operating subsidiaries include sales and purchases that involve currencies other than their functional currencies. Any significant changes in the exchange rates may impact us and could adversely affect our business, result of operations and financial condition.

In addition, as at the end of the reporting period, the assets and liabilities of our operating subsidiaries are translated into the presentation currency of our Group (i.e. US$) at the exchange rates ruling at the end of the reporting period, and their income and expense items are translated into US$ at the weighted average exchange rates for the year. The resulting exchange differences are recorded in our other comprehensive income and the cumulative balance is included in translation reserve in our consolidated statements of changes in equity. Therefore, fluctuations in exchange rates between US$ and other currencies affect the translation of our certain operating subsidiaries' non-US$ financial statements into US$ when we prepare our consolidated financial statements which will affect our financial position.

During the Track Record Period, we did not have any derivative financial instrument to hedge our currency risk.

As at 31 December 2015, 2016, 2017 and 2018, we had net monetary assets of nil, approximately US$5.2 million, US$8.7 million and US$9.8 million denominated in RMB (other than the functional currency of our certain operating subsidiaries), respectively. If US$ had weakened 5% against RMB, with all other variables remaining constant, our net profit for the year would have increased by approximately US$0.2 million, US$0.3 million and US$0.4 million for the Track Record Period, respectively, and vice versa. Please refer to note 30 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of our foreign currency risk and the sensitivity analysis of fluctuation in exchange rate between RMB and US$.

CRITICAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

We have identified various accounting policies that are significant to the preparation of our Financial Information, and the understanding of our financial condition and results of operations. Details of which are disclosed in note 5 of Part II of the Accountants' Report in Appendix I to this prospectus.

Our Directors are required to make judgements, estimates and assumptions that affect our application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on our historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed by our management on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Details of which are disclosed in note 6 of Part II of the Accountants' Report in Appendix I to this prospectus.

The following paragraphs discuss, among others, our critical accounting policies, estimates and judgements applied in preparing our Financial Information:

Revenue recognition

Our revenue is measured at fair value of the consideration received or receivable which is based on the price specified in the sales contracts and is shown net of value-added tax (if applicable). The revenue generated from the sale of our IC products (which are bundled with value-added services) is recognised when the control of the promised IC products and services have been transferred to our customer at the amount that reflects the consideration expected to be entitled in exchange of those goods and services and there is no unfulfilled obligation that could affect our customer's acceptance. In general, we recognise our revenue based on shipment terms.

Inventories

Our inventories are stated at the lower of cost and net realisable value. Our cost of inventories is determined on a first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing our inventories to their present location and condition. Net realisable value is the estimated selling price for our inventories less all estimated costs of completion and costs necessary to make the sale.

Our inventories are reviewed periodically at least at the end of each reporting period to assess whether any write-down or reversal of write-down of our inventories is required. The estimate is based on estimation for the net realised value of our inventories. We review the inventory ageing analysis at the end of reporting period and identify for slow-moving inventories that are no longer suitable for consumption and saleable. Then, we estimate the net realisable value for such inventories based primarily on the latest invoice price and current market conditions.

Trade and bills receivables

Our trade and bills receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Our trade and bills receivables are derecognised when the rights to receive cash flows from our trade and bills receivables expire or are transferred and substantially all of the risks and rewards of ownership have been transferred or in which we neither transfer nor retain substantially all of the risks and rewards of ownership and we do not retain control of our trade and bills receivables.

We recognise allowances for expected credit loss in accordance with HKFRS 9 – Financial instruments and a considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor.

Please refer to "Impairment of financial assets" in note 5 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of our accounting policy of impairment of trade and bills receivables.

Trade and bills payables

Our trade and bills payables are recognised when we become a party to the contractual provisions of the instrument which are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method. Our trade and bills payables are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Effect on the adoption of HKFRS 9 *Financial instruments*

Our Financial Information has been prepared based on our underlying financial statements, in which HKFRS 9 is mandatory effective for the financial year beginning on or after 1 January 2018 and earlier adoption is permitted. We have applied HKFRS 9 consistently since the beginning of, and throughout, the Track Record Period, such that our Financial Information prepared under HKFRS 9 is comparable on a period-to-period basis. We have assessed the effect on the application of HKFRS 9 on our financial position and performance as compared to the requirements of Hong Kong Accounting Standard 39 *Financial instruments: Recognition and Measurement* ("**HKAS 39**") and concluded that HKFRS 9 requires the determination of expected credit loss of financial assets measured at amortised cost whereas the recognition of impairment provision based on incurred model under HKAS 39. We have assessed that the adoption of these two different models would not result in significant difference between bad debt provision under HKAS 39 and allowance of expected credit loss under HKFRS 9. The adoption of HKFRS 9 therefore would not result in significant impact on our Group's financial position and performance as compared with HKAS 39.

Effect on the adoption of HKFRS 15 *Revenue from contracts with customers*

We have adopted HKFRS 15 consistently starting from the beginning of and throughout the Track Record Period. HKFRS 15 supersedes HKAS 18 *Revenue* ("**HKAS 18**"), HKAS 11 *Construction Contracts* and the related interpretations.

We have applied HKFRS 15 retrospectively and the cumulative effect of initial application of HKFRS 15 is recognised in our Financial Information as at the date of initial application, 1 January 2015. Any difference at the date of initial application is recognised in the opening balance of our retained profits (or other components in our equity, as appropriate). Furthermore, in accordance with the transition provisions of HKFRS 15, we have elected to apply HKFRS 15 retrospectively only to contracts that are not completed as at 1 January 2015.

HKFRS 15 was adopted by our Group without restating any comparative information, and we concluded that there is no significant impact in respect of the adoption of HKFRS 15 on our Group's financial position and performance as compared with HKAS 18.

OUR RESULTS OF OPERATIONS

The following table includes items from our consolidated statements of profit or loss for the Track Record Period, which has been extracted from, and should be read in conjunction with Part I and II of the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	45,563	36,372	53,806	67,279
Cost of sales	(41,521)	(33,138)	(47,233)	(57,874)
Gross profit	4,042	3,234	6,573	9,405
Other income	18	15	551	89
Selling and distribution expenses	(100)	(110)	(1,089)	(1,546)
General and administrative expenses	(944)	(1,108)	(1,899)	(1,900)
Provision for allowance for expected credit loss on trade receivables	(182)	–	–	(91)
Listing expenses	–	(430)	(561)	(1,543)
Finance costs	(78)	(146)	(451)	(864)
Profit before income tax	2,756	1,455	3,124	3,550
Income tax expenses	(448)	(322)	(601)	(939)
Profit for the year	2,308	1,133	2,523	2,611
Profit for the year attributable to:				
Owners of our Company	2,300	1,173	2,547	2,611
Non-controlling interests	8	(40)	(24)	–
	2,308	1,133	2,523	2,611

DISCUSSION OF SELECTED PROFIT OR LOSS ITEMS

Revenue

During the Track Record Period, we generated the revenue from the sale of our IC products classified in five product categories, namely (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation.

The following table sets out a breakdown of our revenue by product category for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Mobile devices and smart charging	5,691	12.5	7,770	21.4	20,895	38.8	34,554	51.4
Motor control	7,239	15.9	6,886	18.9	15,595	29.0	16,186	24.1
RF power	20,172	44.3	11,709	32.2	7,721	14.3	7,424	11.0
LED lighting	10,511	23.1	7,778	21.4	5,702	10.6	6,759	10.0
Sensors and automation	1,950	4.2	2,229	6.1	3,893	7.3	2,356	3.5
Total	45,563	100.0	36,372	100.0	53,806	100.0	67,279	100.0

Our revenue decreased by approximately US$9.2 million (or approximately 20.2%) from approximately US$45.6 million for FY2015 to approximately US$36.4 million for FY2016, which was primarily driven by (i) the decrease in our revenue derived from the sale of the RF power IC products by approximately US$8.5 million; and (ii) the decrease in our revenue derived from the sale of the LED lighting IC products by approximately US$2.7 million, partially offset by the increase in our revenue derived from the sale of the mobile devices and smart charging IC products by approximately US$2.1 million.

Our revenue increased by approximately US$17.4 million (or approximately 47.9%) to approximately US$53.8 million for FY2017, which was primarily driven by (i) the increase in our revenue derived from the sale of the mobile devices and smart charging IC products by approximately US$13.1 million; and (ii) the increase in our revenue derived from the sale of the motor control IC products by approximately US$8.7 million, partially offset by (i) the decrease in our revenue derived from the sale of the RF power IC products by approximately US$4.0 million; and (ii) the decrease in our revenue derived from the sale of the LED lighting IC products by approximately US$2.1 million.

Our revenue increased by approximately US$13.5 million (or approximately 25.0%) to approximately US$67.3 million for FY2018, which was primarily driven by (i) the increase in our revenue derived from the sale of the mobile devices and smart charging IC products by approximately US$13.7 million; and (ii) the increase in our revenue derived from the sale of the LED lighting IC products by approximately US$1.1 million, partially offset by the decrease in our revenue derived from the sale of the sensors and automation IC products by approximately US$1.5 million.

Mobile devices and smart charging

Our mobile devices category focuses on products utilising low power radio frequency connectivity and signal transmissions. Our ICs in the mobile devices category are antennae-centric products, which enable and improve the wireless functions (such as 2G/3G/4G/LTE and wifi connectivity) of the antennae of cars, mobile phones and tablets, smart watches and other wifi-enabled devices. Smart charging is a power management technology used in smart devices such as smart phones, computers and battery packs to provide shorter charging times for these devices. By utilising smart charging ICs, smart devices boost the level of power to be delivered and thus charge the batteries of the smart devices at faster speed, thereby shortening the overall charging time. Smart charging ICs also gauge various attributes of the batteries, such as the levels of charge and the thermal conditions of the batteries, and reduce the level of power delivered to the batteries when they are nearly full or getting overheated.

During the Track Record Period, the mobile devices and smart charging category was our fastest growing product category and became the largest revenue stream for our Group. Our revenue generated from the sale of the mobile devices and smart charging IC products amounted to approximately US$5.7 million, US$7.8 million, US$20.9 million and US$34.6 million (or approximately 12.5%, 21.4%, 38.8% and 51.4% of our total revenue) during the Track Record Period, respectively, representing a CAGR of approximately 82.4%.

Such revenue growth from the sale of our mobile devices and smart charging IC products during the Track Record Period was primarily attributable to:

(i) the increasing sales demand of mobile devices and smart charging IC products resulting from the fast technology advancements and wide applications of mobile phones, tablets and IoT devices, etc., in the world, especially in the PRC; and

(ii) the benefits for the engagement as the authorised non-exclusive distributor of Power Integrations, Supplier A and RDA, for example, among others, customer referrals, enhancing customers' confidence in the authenticity and quality of our IC products and facilitating our IC application designing and IC sourcing for our customers. For further details, please refer to "Business – Procurement and suppliers – We are the authorised non-exclusive distributors of certain suppliers" and "Business – Procurement and suppliers – Benefits of being an authorised distributor of IC manufacturer suppliers" in this prospectus.

We believe that, by leveraging our experience and expertise in the mobile devices and smart charging category, we will be able to develop and offer our customers useful IC application solutions in certain cutting edge categories, such as improvement in charging speed of wireless charging, over-the-air or distance charging and NB IoT connections in the PRC. For further details, please refer to "Business – Our business strategies – Expanding our operations in fast-growing and emerging market categories – Mobile devices and smart charging" in this prospectus.

Motor control

Motor control ICs are used in modern motors where the speed and torque of the moveable parts of a machine needs to be controlled. These motor control applications can be applied to a wide array of devices, from household items such as fans, to heavy industrial equipment such as forklifts and robots. Our motor control application solutions mainly focused on the ICs used on VFDs. VFDs are a type of motor controller that controls the speed and torque of an electric motor by varying the frequency and voltage of its power supply. By using VFDs, motors are able to save energy, control performance, reduce noise levels of the motor, and improve the lifespan of machines.

During the Track Record Period, owing to (i) the increase in the sales demand of the VFD electronic products and photography and videography stabilisation in the PRC; and (ii) the benefits for the engagement as the authorised non-exclusive distributor of Power Integrations as detailed in "Business – Procurement and suppliers – We are the authorised non-exclusive distributors of certain suppliers" and "Business – Procurement and suppliers – Benefits of being an authorised distributor of IC manufacturer suppliers" in this prospectus, we experienced an increasing trend of revenue generated from the sale of motor control IC products which amounted to approximately US$7.2 million, US$6.9 million, US$15.6 million and US$16.2 million, respectively, representing approximately 15.9%, 18.9%, 29.0% and 24.1% of our total revenue, respectively.

According to the F&S Report, the usage of energy-saving motors is becoming increasingly prevalent. Our Directors consider that ICs used in VFDs in the motor control category, which control the speed and torque of motors, have large growth potential in the PRC market for motor control IC products. In addition, according to the F&S Report, only few keyless locks which are battery-free are available in the market and therefore, our Directors consider that the development of the NFC smart lock solution for battery-free keyless locks to cope with the problem of battery failure and to enable digital key sharing represents an immense business opportunity to us. We plan to leverage on our substantial experience in this category and continue to develop applications for motor control ICs, and to specialise in providing energy-saving solutions. For further details, please refer to "Business – Our business strategies – Expanding our operations in fast-growing and emerging market categories – Motor control" in this prospectus.

RF power

Our RF power products are used in cable television (which is a system of delivering television programming to subscribers by RF signals transmitted through cables), and broadband networks, such as fibre to the home (FTTH, where the fibre optic cable carries the RF signal to the domestic home) and fibre to the building (FTTB, where the fibre optic cable carries the RF signal to a building). Our customers in the RF power category are generally engaged in broadcasting and signal transmissions, and include operators of television and radio broadcasting, and airport transmissions.

In general, FTTH IC products are generally much cheaper than FTTB IC products because FTTH applications generally utilise monolithic microwave ICs ("**MMICs**") to serve as optical receivers and low output power amplifiers while FTTB, transmitters and RF energy applications generally integrate a set of MMICs as a RF amplifier module for high output power signal transmission.

During the Track Record Period, our revenue generated from the sale of the RF power IC products amounted to approximately US$20.2 million, US$11.7 million, US$7.7 million and US$7.4 million, respectively, accounting for approximately 44.3%, 32.2%, 14.3% and 11.0% of our total revenue, respectively. The decline of our revenue generated from the sale of the RF power IC products during the Track Record Period (with a negative CAGR of approximately 28.3%) was primarily attributable to the continuous reduction of the sales demand of ICs for the application solutions of FTTB for CATV and broadband networks, transmitters and RF energy (which are generally more expensive than FTTH ICs) mainly due to the transition from the applications of FTTB to FTTH in the PRC.

LED lighting

LED lighting systems utilise LEDs, or light emitting diodes, to provide energy efficient, aesthetic and long-life lighting solutions. LED lighting solutions are cost-effective and have a wide range of applications and can be used indoors, outdoors, and for special lighting effects, such as spot-lights or stage lighting. An LED lamp or bulb is typically comprised of several components, including the LED which acts as light source, the LED driver IC that regulates power to the LED, reflector cups that refract and reflect the light, and the lens that focuses the light beams. During the Track Record Period, we have invested much resources into developing applications for LED lighting systems, and our Directors consider our LED application design capabilities to be well developed and mature. One of our main design applications for LED lighting systems was to provide dimming features for LED lamps and bulbs.

There was a decreasing trend of our revenue and revenue contribution from the sale of the LED lighting IC products during FY2015 to FY2017. During FY2015, FY2016 and FY2017, our revenue generated from the sale of the LED lighting IC products amounted to approximately US$10.5 million, US$7.8 million and US$5.7 million, respectively, which accounted for approximately 23.1%, 21.4% and 10.6% of our total revenue, respectively. Our Directors believe that such revenue decline was primarily attributable to the fact that (i) our LED lighting application solutions mainly for LED driver ICs are relatively mature industry with less technology breakthroughs and hence lower growth potential; and (ii) our certain customers switched to purchase cheaper PRC branded LED lighting ICs from our PRC competitors mainly because our foreign branded LED lighting IC products are less price competitive against PRC branded LED lighting ICs.

Our revenue generated from the sale of the LED lighting IC products then rebounded to approximately US$6.8 million (representing approximately 10.0% of our total revenue) for FY2018, which was primarily attributable to (i) the substantial increase in our revenue generated from the sale of Supplier E LED lighting IC products mainly because (a) our LED lighting IC products become more price competitive against other PRC competitors mainly attributable to the fact that we changed to offer relatively cheaper Supplier E LED lighting ICs (following the acquisition of Manufacturer B (a Dutch based IC manufacturer) in LED lighting category by Supplier E (a China-based IC manufacturer) during FY2016) as compared to more expensive Manufacturer B LED lighting IC we offered previously, which was mainly due to the fact that PRC IC manufacturers' ICs are generally cheaper than foreign IC manufacturers' ICs; and (b) our Supplier E LED lighting application solutions become more widely accepted by our customers; and (ii) the strong growth of the sales of Supplier D LED lighting IC products mainly for the application solutions of SMD LEDs and COB LEDs because we were engaged as the authorised non-exclusive distributors of Supplier D in the second half of FY2017.

Sensors and automation

Our application solutions for sensor ICs are coupled together with automation solutions that assist the customer's product in automatically detecting and reacting to various circumstantial changes in the environment. We provide application solutions for our radar sensors to be used on (i) automobile vehicles to assist drivers with parking and provide auto-drive functions; (ii) unmanned aerial drones in maintaining stability of flight and avoiding obstacles; (iii) security systems that link with videos to detect, recognise and track moving objects; (iv) traffic monitoring systems to measure speed of moving vehicles and to monitor traffic congestion; and (v) smart lighting systems that have motion sensing. We also provide application solutions for pressure sensors to be used in smart phones and smart watches and watches for detecting altitude.

The sensors and automation category is relatively new for us among our five product categories. During the Track Record Period, the sensors and automation category was our smallest product category which only contributed the revenue of approximately US$2.0 million, US$2.2 million, US$3.9 million and US$2.4 million, respectively, representing approximately 4.2%, 6.1%, 7.3% and 3.5% of our total revenue, respectively.

Our Directors believe that there is a huge potential in the sensors and automation category in the foreseeable revolution of IoT. We plan to (i) capitalise on this exponentially growing sector by, including but not limited to (a) developing applications to be used on gas and air quality sensors which would be applied and incorporated in personal mobile devices and smart lighting systems in buildings; and (b) cooperating with Manufacturer A to develop a NFC smart lock solution for battery-free keyless locks; (ii) investing more resources and enhancing our R&D capabilities and expanding our design capabilities by purchasing testing equipment for calibrating the sensors; and (iii) devoting resources and expanding our capabilities in the sensors and automation category in order to fully harness the huge potential prospects that are to be brought about by IoT. For further details, please refer to "Business – Our business strategies – Expanding our operations in fast-growing and emerging market categories – Sensors and automation" in this prospectus.

Please refer to "Business – Our products and services" in this prospectus for further details of our IC products and "Business – Design and research and development" in this prospectus for further details of our major achievements accomplished during the Track Record Period and our major pipeline projects for each of our product categories.

For further details of the discussion and analysis of the fluctuation in our revenue during the Track Record Period, please refer to "Period to period comparison of results of operations" in this section.

The following table sets out a breakdown of the sales volume and the average unit price of our IC products for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	Sales volume	Average unit price	Sales volume	Average unit price	Sales volume	Average unit price	Sales volume	Average unit price
	Unit'000	*US$/unit*	*Unit'000*	*US$/unit*	*Unit'000*	*US$/unit*	*Unit'000*	*US$/unit*
Mobile devices and smart charging	34,214	0.17	64,845	0.12	168,589	0.12	194,567	0.18
Motor control	11,232	0.64	13,512	0.51	35,002	0.45	35,358	0.46
RF power	17,481	1.15	24,891	0.47	38,147	0.20	23,375	0.32
LED lighting	35,397	0.30	31,426	0.25	32,289	0.18	72,597	0.09
Sensors and automation	4,247	0.46	6,436	0.35	11,729	0.33	22,898	0.10
Total/Overall	102,571	0.44	141,110	0.26	285,756	0.19	348,795	0.19

During the Track Record Period, we maintained a continuous growth of the total sales volume of our IC products which amounted to approximately 102.6 million units, 141.1 million units, 285.8 million units and 348.8 million units, respectively, representing a CAGR of approximately 50.4%. Such growth of our sales volume was primarily contributed by (i) our continuous business development of the fast-growing and emerging market, including the mobile devices and smart charging, motor control, and sensors and automation; (ii) the increase in the sales demand of our FTTH IC products in the motor control category during FY2015 to FY2017 mainly due to the transition from the applications of FTTB to FTTH in the PRC; and (iii) the significant increase in the sales volume of our LED lighting IC products in FY2018 mainly because our Supplier E LED lighting IC products become relatively price competitive and more widely accepted by our customers and we became the authorised non-exclusive distributors of Supplier D in the second half of FY2017.

However, we recorded continuous drop of the overall average unit price of our IC products during the Track Record Period from approximately US$0.44 for FY2015 to approximately US$0.26 for FY2016 and further to approximately US$0.19 for FY2017 and FY2018, which generally followed the trend of (i) the overall decrease in the procurement costs of our ICs as evidenced by the drop of the average unit cost of our ICs from approximately US$0.40 for FY2015 to approximately US$0.23 for FY2016 and further to approximately US$0.17 for FY2017 and FY2018; and (ii) the decrease in the average price of imported electronic ICs (excluding memory ICs) in China as disclosed in "Industry overview – Overview of IC sourcing and sales industry in China – Prices of ICs" in this prospectus which was mainly due to the pricing strategy of some foreign IC manufacturers to capture market share and the increase in the IC fabless manufacturers established in the PRC which poses increasing competition in the IC market.

According to the F&S Report, the unit purchase costs of different models of ICs vary widely based on, among other things, their technical specifications, functions, IC branding, pricing strategy of the IC manufacturers, market supply and demand. Even within the same brand and the same product category, there is a huge price difference with ICs depending on, among others, their technical specifications and functions.

Given the fact that we source and offer a wide range of ICs in order to provide the relevant IC application solutions and value-added services to suit our customers' needs, the average unit prices of our IC products under each product category would heavily depend on the sales volume and unit purchase costs of our best-selling IC models/brands (which were primarily driven by our customers' demand) during the Track Record Period within the relevant product category.

Therefore, the decrease in the average unit price of our IC products in each of our product categories from FY2015 to FY2017 was mainly due to the increase in the sales volume of certain IC products with relatively lower average unit prices in each of product categories during the same period, including (i) Supplier A IC products in the mobile devices and smart charging category; (ii) a model of Manufacturer A IC product for the application solution of e-bike motor ("**Product A**") in the motor control category; (iii) FTTH IC products in the RF power category; (iv) a model of Manufacturer B LED lighting IC product for the application solution of LED driver ("**Product B**") from FY2015 to FY2016, and Supplier D and Supplier E IC products from FY2016 to FY2018 in the LED lighting category; and (v) two models of Manufacturer A radio frequency sensor IC products used in IoT modules ("**Products C & D**") in the sensors and automation category.

The rebound of the average unit price of our mobile devices and smart charging, and RF power IC products during FY2018 was mainly due to the increase in the sales volume of RDA IC products (which had a relatively higher average unit price in the mobile devices and smart charging category) and the decrease in the sales volume of FTTH IC products (which had a relatively lower average unit price in the RF power category), respectively.

The reasons of the fluctuation in our sales volume and average unit price of each product category during the Track Record Period are further analysed and discussed in details below.

Mobile devices and smart charging

Sales volume

During the Track Record Period, we recorded a sharp increase in the sales volume of our mobile devices and smart charging IC products (i.e. approximately 34.2 million units, 64.8 million units, 168.6 million units and 194.6 million units for the Track Record Period, respectively) with a CAGR of approximately 78.5%. Such sharp sales volume increase was primarily attributable to:

(i) the increase in the sales volume of Power Integrations, Supplier A and RDA mobile devices and smart charging IC products from approximately 21.3 million units in FY2015 to approximately 39.1 million units in FY2016 and further to approximately 93.7 million units and 133.2 million units in FY2017 and FY2018, respectively, which was mainly due to:

  (a) the beneficial effects to sell IC products under authorised non-exclusive distributorship of three IC manufacturers, namely Power Integrations and Supplier A from FY2016 and RDA from FY2017 as detailed in "Business – Procurement and suppliers – We are the authorised non-exclusive distributors of certain suppliers" and "Business – Procurement and suppliers – Benefits of being an authorised distributor of IC manufacturer suppliers" in this prospectus; and

  (b) the increase in the sales demand of Supplier A mobile devices and smart charging ICs from Edom, who procured our Supplier A IC products on behalf of a large-scale mobile phone manufacturing company based in the PRC because we were not a registered vendor with such company and were unable to sell our products to such company directly.

(ii) the increase in the sales demand of our mobile devices and smart charging IC products for the application solutions of vehicle antennae, mobile phone fast chargers, IoT communication modules, etc. from our new and existing major ultimate customers (mainly including Laird Wireless, Jiangsu Chen Yang Dongguan City YoHoo, Quectel and Customer F in view of the fast development of IoT and mobile devices in the PRC.

Average unit price

The decrease in the average unit price of our mobile devices and smart charging IC products from approximately US$0.17 for FY2015 to approximately US$0.12 for FY2016 and FY2017 was primarily attributable to the commencement of the sale of Supplier A IC products mainly for the application solution of audio codec that encodes and decodes audio in the mobile devices from FY2016 contributing to the huge increase in the sales volume from approximately 13.5 million units for FY2016 to approximately 26.9 million units for FY2017, which had a relatively lower average unit price of approximately US$0.08 for FY2016 and FY2017 mainly due to the fact that audio codec ICs are generally cheaper as compared to our other major types of mobile devices and smart charging IC products, such as smart charging ICs. As such, the average unit cost of our mobile devices and smart charging ICs also decreased from approximately US$0.14 for FY2015 to approximately US$0.11 for FY2016 and FY2017.

The increase in the average unit price of our mobile devices and smart charging IC products to approximately US$0.18 for FY2018 was primarily attributable to (i) the commencement of the sale of RDA IC products from FY2017 contributing to the sharp increase in the sales volume from approximately 17.2 million units for FY2017 to approximately 39.2 million units for FY2018, which had a relatively higher average unit price of approximately US$0.26 and US$0.35 for FY2017 and FY2018, respectively, mainly due to the fact that RDA IC products that we sold to Customer F and Quectel were mainly main chips used in IoT communication modules which are generally more expensive as compared to our other major types of mobile devices and smart charging IC products; and (ii) the stable sales volume of Supplier A IC products of approximately 26.9 million units and 28.0 million units for FY2017 and FY2018, respectively, with a lower average unit price of approximately US$0.08 for FY2017 and FY2018. As such, the average unit cost of our mobile devices and smart charging ICs also increased to approximately US$0.15 for FY2018.

Motor control

Sales volume

The increase in the sales volume of our motor control IC products from approximately 11.2 million units for FY2015 to approximately 13.5 million units for FY2016 and further to approximately 35.0 million units and 35.4 million units for FY2017 and FY2018, respectively, was primarily attributable to (i) the increase in the sales demand of motor control ICs for the application solutions of motor controls for electronic products, and photography and videography stabilisation from our major ultimate PRC customers, including Jiangsu Chen Yang, Dongguan City YoHoo and Guilin Zhishen; (ii) the beneficial effects to sell IC products under authorised non-exclusive distributorship of Power Integrations from FY2016 as detailed in "Business – Procurement and suppliers – We are the authorised non-exclusive distributors of certain suppliers" and "Business – Procurement and suppliers – Benefits of being an authorised distributor of IC manufacturer suppliers" in this prospectus contributing to the significant increase in the sales volume of our Power Integrations motor control IC products from approximately 0.7 million units and 0.5 million units for FY2015 and FY2016, respectively, to approximately 10.6 million units and 9.7 million units for FY2017 and FY2018, respectively; and (iii) the increase in the sales volume of Product A during FY2015 to FY2017 from approximately 52,000 units for FY2015 to approximately 1.1 million units for FY2016 and further to approximately 5.4 million units for FY2017 which were primarily sold to a PRC branch of a German multinational engineering and electronics company ultimately.

Average unit price

The decrease in the average unit price of our motor control IC products from approximately US$0.64 for FY2015 to approximately US$0.51 for FY2016 and further to approximately US$0.45 for FY2017 was primarily attributable to the increase in the sales volume of Product A from approximately 52,000 units for FY2015 to approximately 1.1 million units for FY2016 and further to approximately 5.4 million units for FY2017 as discussed above, which had a relatively lower average unit price of approximately US$0.09, US$0.08 and US$0.10 for FY2015, FY2016 and FY2017, respectively, mainly due to the fact that Product A has a simpler functional design targeting for the cost driven market. As such, the average unit cost of our motor control ICs also decreased from approximately US$0.63 for FY2015 to approximately US$0.50 and US$0.38 for FY2016 and FY2017, respectively.

The average unit price and the average unit cost of our motor control ICs remained stable at approximately US$0.46 and US$0.40 for FY2018, respectively.

RF power

Sales volume

The increase in the sales volume of our RF power IC products from approximately 17.5 million units for FY2015 to approximately 24.9 million units for FY2016 and further to approximately 38.1 million units for FY2017 was primarily attributable to the increase in the sales demand of FTTH IC products (which were mainly Manufacturer B ICs) from approximately 15.0 million units for FY2015 to approximately 20.2 million units for FY2016 and further to approximately 30.5 million units for FY2017 mainly due to the transition from the applications of FTTB to FTTH in the PRC.

The decrease in the sales volume of our RF power IC products to approximately 23.4 million units for FY2018 was primarily attributable to the decrease in the sales demand of FTTH IC products to approximately 15.4 million units for FY2018 mainly due to the fact that (i) we put more efforts and focus for the development of the fast-growing and emerging market categories, including the mobile devices and smart charging, motor control, and sensors and automation; and (ii) our Directors believe that our certain customers changed to purchase cheaper PRC branded FTTH ICs which led to the decrease in our sales of FTTH ICs in respect of the FTTH network construction/reconstruction projects in China during FY2018.

Average unit price

The decrease in the average unit price of our RF power IC products from approximately US$1.15 for FY2015 to approximately US$0.47 for FY2016 and further to approximately US$0.20 for FY2017 was primarily attributable to (i) the increase in the sales volume of FTTH IC products from approximately 15.0 million units for FY2015 to approximately 20.2 million units for FY2016 and further to approximately 30.5 million units for FY2017, which had a relatively lower average unit price of approximately US$0.06, US$0.07 and US$0.06 for FY2015, FY2016 and FY2017, respectively; and (ii) the decrease in the sales volume of FTTB IC products from approximately 0.9 million units for FY2015 to approximately 0.4 million units for FY2016 and further to approximately 0.2 million units for FY2017, which had a relatively higher average unit price of approximately US$9.94, US$9.96 and US$9.64 for FY2015, FY2016 and FY2017, respectively, mainly due to the fact that FTTH IC products are generally used for the application solutions for low output power transmission while FTTB IC products are generally used for the application solutions for very high output power transmission. As such, the average unit cost of our RF power ICs also decreased from approximately US$1.07 for FY2015 to approximately US$0.42 and US$0.18 for FY2016 and FY2017, respectively.

The increase in the average unit price of our RF power IC products to approximately US$0.32 for FY2018 was primarily attributable to the decrease in the sales volume of FTTH IC products to approximately 15.4 million units for FY2018, which had the average unit price of approximately US$0.08 for FY2018. As such, the average unit cost of our RF power ICs also increased to approximately US$0.26 for FY2018.

LED lighting

Sales volume

The decrease in the sales volume of our LED lighting IC products from approximately 35.4 million units for FY2015 to approximately 31.4 million units for FY2016 was primarily attributable to the decrease in the sales volume of our LED lighting IC products to Customer A from approximately 9.6 million units for FY2015 to approximately 2.6 million units for FY2016 which our Directors believe that Customer A switched to purchase cheaper LED lighting ICs from our PRC competitors.

The strong rebound of the sales volume of our LED lighting IC products to approximately 32.3 million units and 72.6 million units for FY2017 and FY2018, respectively, was primarily attributable to (i) the significant increase in the sales volume of Supplier E LED lighting IC products from approximately 16.2 million units for FY2017 to approximately 47.5 million units for FY2018 mainly because following the acquisition of Manufacturer B (a Dutch based IC manufacturer) in LED lighting category by Supplier E (a China-based IC manufacturer) during FY2016, our LED lighting IC products are more price competitive against other PRC competitors and our Supplier E LED lighting application solutions become more widely accepted by our customers; and (ii) the substantial increase in the sales volume of Supplier D LED lighting IC products mainly for the application solutions of SMD LEDs and COB LEDs from approximately 6,000 units for FY2017 to approximately 15.4 million units for FY2018 because we were engaged as the authorised non-exclusive distributors of Supplier D in the second half of FY2017.

Average unit price

The decrease in the average unit price of our LED lighting IC products from approximately US$0.30 for FY2015 to approximately US$0.25 for FY2016 was primarily attributable to (i) the increase in the sales volume of Product B from approximately 0.4 million units for FY2015 to approximately 10.3 million units for FY2016, which had a relatively lower average unit price of approximately US$0.20 and US$0.13 for FY2015 and FY2016, respectively, mainly due to the fact that Product B is designed to have better performance and at the same time at a competitive price as compared to other similar PRC branded ICs sold by our PRC competitors; and (ii) our overall price discount strategy of LED lighting ICs during FY2016 to compete with other PRC competitors. As such, the average unit cost of our LED lighting ICs also decreased from approximately US$0.26 for FY2015 to approximately US$0.22 for FY2016.

The further decrease in the average unit price of our LED lighting IC products to approximately US$0.18 and US$0.09 for FY2017 and FY2018, respectively, was primarily attributable to (i) the significant increase in the sales volume of Supplier E LED lighting IC products from approximately 16.2 million units for FY2017 to approximately 47.5 million units for FY2018, which had a relatively lower average unit price of approximately US$0.08 and US$0.07 for FY2017 and FY2018, respectively, mainly due to the fact that the LED lighting business of Manufacturer B (a Dutch based IC manufacturer) was acquired by Supplier E (a China-based IC manufacturer) in FY2016 and PRC IC manufacturers' ICs are generally cheaper than foreign IC manufacturers' ICs; and (ii) the significant increase in the sales volume of Supplier D LED lighting IC products from approximately 6,000 units for FY2017 to approximately 15.4 million units for FY2018, which had a relatively lower average unit price of US$0.06 mainly due to the fact that Supplier D IC products that we sold were mainly SMD LEDs which are generally cheaper as compared to our other major types of LED lighting IC products, such as LED drivers. As such, the average unit cost of our LED lighting ICs also decreased to approximately US$0.15 and US$0.08 for FY2017 and FY2018, respectively.

Sensors and automation

Sales volume

The increase in the sales volume of our sensors and automation IC products from approximately 4.2 million units for FY2015 to approximately 6.4 million units for FY2016 was primarily attributable to (i) the increase in the sales volume of two IC sensors and automation products for the application solution of lighting sensors from nil for FY2015 to approximately 2.3 million units for FY2016; and (ii) our sales and marketing efforts for the promotion of our sensors and automation IC products to both of our new and existing customers.

The further increase in the sales volume of our sensors and automation IC products to approximately 11.7 million units and 22.9 million units for FY2017 and FY2018, respectively, was primarily attributable to the increase in the sales volume of Products C & D from approximately 0.5 million units and 0.3 million units for FY2016, respectively, to approximately 3.9 million units and 0.9 million units for FY2017, respectively, and further to approximately 9.5 million units and 3.4 million units for FY2018, respectively, which was mainly as a result of (a) the fast development of IoT in the PRC; (b) our sales and marketing efforts for the promotion of our sensors and automation IC products to both of our new and existing customers; and (c) the increase in the sales volume of our mobile devices and smart charging, and motor control IC products mainly because these radio frequency sensor ICs were mainly used in conjunction with mobile devices and smart charging ICs in our customers' applications.

Average unit price

The decrease in the average unit price of our sensors and automation IC products from approximately US$0.46 for FY2015 to approximately US$0.35 and US$0.33 for FY2016 and FY2017, respectively, and further to approximately US$0.10 for FY2018 was primarily attributable to the increase in the sales volume of Products C & D from approximately 0.1 million units and 0.1 million units for FY2015, respectively, to approximately 0.5 million units and 0.3 million units for FY2016, respectively, and further to approximately 3.9 million units and 0.9 million units for FY2017, respectively, and approximately 9.5 million units and 3.4 million units for FY2018, respectively, which had relatively lower average unit prices of approximately US$0.09, US$0.09, US$0.06 and US$0.05, and US$0.10, US$0.08, US$0.07 and US$0.06 during the Track Record Period, respectively, mainly due to the fact that (i) the silicon-on-insulator (SOI) production technology used in the production of Products C & D is mature in the industry which caused lower production costs; and (ii) we were able to negotiate with the relevant suppliers and Manufacturer A during FY2017 to further lower our unit purchase prices of Products C & D in view of their overstock originally reserved for a global leading mobile phone manufacturing company based in South Korea. As such, the average unit cost of our sensors and automation ICs also decreased from approximately US$0.42 for FY2015 to approximately US$0.31 and US$0.30 for FY2016 and FY2017, respectively, and further to approximately US$0.09 for FY2018.

The following table sets out a breakdown of our revenue by geographical location (i.e. the location that our customers accepted our IC products) for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Hong Kong	45,563	100.0	36,372	100.0	25,923	48.2	37,372	55.5
The PRC	–	–	–	–	27,883	51.8	29,907	44.5
Total	45,563	100.0	36,372	100.0	53,806	100.0	67,279	100.0

During the Track Record Period, although a majority of our Group's customers were located in the PRC, our IC products were sold, delivered to and accepted by our customers both in Hong Kong and in the PRC according to their instructions or preferences. The HK Group Companies only sell and deliver IC products within Hong Kong (which was primarily denominated in US$) while the PRC Group Companies only sell and deliver IC products within the PRC (which was primarily denominated in RMB).

As a result, prior to the Acquisition of the PRC Group Companies, all of our revenue was derived in Hong Kong by the HK Group Companies during FY2015 and FY2016. After the completion of the Acquisition of the PRC Group Companies, we derived approximately 48.2% and 51.8% of our total revenue in FY2017 and approximately 55.5% and 44.5% of our total revenue in FY2018 from Hong Kong and the PRC, respectively.

Sensitivity analysis of average unit price

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of 2.0% and 6.0% in the average unit price of our IC products, with other variables remaining constant, on our profit before income tax for the periods indicated:

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
+2.0%	911	727	1,076	1,346
+6.0%	2,734	2,182	3,228	4,037
-2.0%	(911)	(727)	(1,076)	(1,346)
-6.0%	(2,734)	(2,182)	(3,228)	(4,037)

The hypothetical fluctuation rates for the average unit price of our IC products are set at 2.0% and 6.0%, which correspond to the CAGR of the price of average import price of imported electronic ICs in China (excluding memory ICs) of approximately (5.6)% and (1.8)% from 2014 to 2018, and from 2018 to 2023, respectively, as stated in "Industry overview – Overview of IC sourcing and sales industry in China – Prices of ICs" in this prospectus.

Cost of sales

The following table sets out a breakdown of our cost of sales by cost nature for the periods indicated:

	For the year ended 31 December							
	2015		**2016**		**2017**		**2018**	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Material costs								
– Mobile devices and smart charging	4,842	11.7	7,047	21.3	18,617	39.4	29,899	51.7
– Motor control	7,072	17.0	6,686	20.2	13,207	28.0	13,822	23.9
– RF power	18,665	45.0	10,346	31.2	6,620	14.0	5,994	10.4
– LED lighting	8,969	21.6	6,893	20.8	4,714	10.0	5,801	10.0
– Sensors and automation	1,761	4.2	1,978	5.9	3,466	7.3	1,850	3.1
Subtotal	41,309	99.5	32,950	99.4	46,624	98.7	57,366	99.1
Staff costs *(Note 1)*	257	0.6	200	0.6	378	0.8	428	0.7
Transportation and logistics costs *(Note 2)*	–	–	–	–	336	0.7	208	0.4
Provision for/(Reversal of) impairment loss on inventories, net	(45)	(0.1)	(12)	–	(105)	(0.2)	(128)	(0.2)
Total	41,521	100.0	33,138	100.0	47,233	100.0	57,874	100.0

Notes:

(1) Our staff costs primarily represented our R&D staff's salaries, bonuses, allowances and contributions to employees' provident fund. Please refer to "Business – Design and research and development" in this prospectus for further details of our R&D staff's works.

(2) Our transportation and logistics costs primarily represented the expenses incurred for the import and logistical services provided by our import agencies to transfer our inventories from our Hong Kong warehouse to our PRC warehouses. During FY2015 and FY2016, we did not incur any transportation and logistics costs because such costs were borne by the PRC Group Companies before the Acquisition of the PRC Group Companies. Please refer to "Business – Sales and marketing – Importing and logistical arrangements" in this prospectus for further details.

Our material costs represented our procurement costs of ICs, which formed the largest component of our cost of sales, representing approximately 99.5%, 99.4%, 98.7% and 99.1% of our total cost of sales during the Track Record Period, respectively. The fluctuations in our material costs by each of our product categories during the Track Record Period were generally in line with the fluctuations in our revenue by each of our product categories.

Our other costs, including (i) our staff costs; (ii) transportation and logistics costs; and (iii) our provision for/(reversal of) impairment loss on inventories, net, contributed the remaining portion of our cost of sales during the Track Record Period.

Sensitivity analysis of material costs

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of 2.0% and 6.0% in our material costs, with other variables remaining constant, on our profit before income tax for the periods indicated:

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
+2.0%	(826)	(659)	(932)	(1,147)
+6.0%	(2,479)	(1,977)	(2,797)	(3,442)
-2.0%	826	659	932	1,147
-6.0%	2,479	1,977	2,797	3,442

The hypothetical fluctuation rates for our material costs are set at 2.0% and 6.0%, which correspond to the CAGR of the price of average import price of imported electronic ICs in China (excluding memory ICs) of approximately (5.6)% and (1.8)% from 2014 to 2018, and from 2018 to 2023, respectively, as stated in "Industry overview – Overview of IC sourcing and sales industry in China – Prices of ICs" in this prospectus.

Breakeven analysis of cost of sales

For illustrative purpose, without taking into account our listing expenses, if our cost of sales increased by approximately 6.6%, 5.7%, 7.8% and 8.8% during the Track Record Period, respectively, with other variables remaining constant, we would reach breakeven for our profit before tax for the relevant year.

Gross profit and gross profit margin

Our gross profit represented our revenue less our cost of sales. Our gross profit margin represented our gross profit divided by our revenue, multiplied by 100%. The following table sets out a breakdown of our gross profit and gross profit margin by product category for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	Gross profit US$'000	*Gross profit margin %*	*Gross profit US$'000*	*Gross profit margin %*	*Gross profit US$'000*	*Gross profit margin %*	*Gross profit US$'000*	*Gross profit margin %*
Mobile devices and smart charging	757	13.3	673	8.7	2,119	10.1	4,648	13.5
Motor control	182	2.5	171	2.5	2,121	13.6	2,087	12.9
RF power	1,494	7.4	1,283	11.0	1,000	13.0	1,391	18.7
LED lighting	1,434	13.6	866	11.1	924	16.2	946	14.0
Sensors and automation	175	9.0	241	10.8	409	10.5	333	14.1
Total/Overall	4,042	8.9	3,234	8.9	6,573	12.2	9,405	14.0

Our gross profit decreased by approximately US$0.8 million (or approximately 20.0%) from approximately US$4.0 million for FY2015 to approximately US$3.2 million for FY2016 and then increased by approximately US$3.3 million (or approximately 103.2%) to approximately US$6.6 million for FY2017 and further increased by approximately US$2.8 million (or approximately 43.1%) to approximately US$9.4 million for FY2018, which primarily followed the fluctuations in our revenue during the Track Record Period. The fluctuations in the gross profit by each of our product categories during the Track Record Period also primarily followed the fluctuations in our revenue derived from each of our corresponding product categories during the Track Record Period.

The fluctuations in our overall gross profit margin and the gross profit margin of each of our product categories during the Track Record Period were primarily attributable to our pricing strategy towards our different IC products in accordance with a range of factors, including, among others, the procurement costs of the ICs, market conditions, market recognition of our customer, the purchase volume of our customer, technical requirements of the application solutions and resources involved.

We recorded a lower overall gross profit margin of approximately 8.9% for FY2015 and FY2016 as compared to that of approximately 12.2% and 14.0% for FY2017 and FY2018, respectively, which was primarily attributable to the fact that (i) during FY2015 and FY2016 (before the Acquisition of the PRC Group Companies), the PRC Group Companies were our largest customer (which accounted for approximately 55.3% and 48.4% of our total revenue for FY2015 and FY2016, respectively); and (ii) we generated a lower gross profit margin of approximately 8.3% and 7.8% for FY2015 and FY2016, respectively, for the sale of our IC products to the PRC Group Companies.

Owing to the fact that the HK Group Companies generally relied on the sales and marketing and after-sales services provided by the PRC Group Companies for the sale of motor control IC products to certain ultimate major customers (mainly including Zhuhai Enpower), the gross profit margin of our motor control IC products of approximately 2.5% for FY2015 and FY2016 was lower than the gross profit margin of our other IC products.

Sensitivity analysis of gross profit margin

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of 2.5% and 5.0% in our gross profit margin, with other variables remaining constant, on our profit before income tax for the periods indicated:

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
+2.5%	1,139	909	1,345	1,682
+5.0%	2,278	1,819	2,690	3,364
-2.5%	(1,139)	(909)	(1,345)	(1,682)
-5.0%	(2,278)	(1,819)	(2,690)	(3,364)

The hypothetical fluctuation for our gross profit margin are set at 2.5% and 5.0%, which correspond to the maximum fluctuation in our gross profit margin of approximately 5.0% during the Track Record Period (which equals to the difference between our gross profit margin of approximately 8.9% and 14.0% for FY2015 and FY2018, respectively).

Other income

The following table sets out a breakdown of our other income for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Bank interest income	–	–	1	6.7	2	0.4	5	5.6
Exchange gain, net *(Note 1)*	–	–	–	–	504	91.5	3	3.4
Imputed interest income on life insurance policy deposits	9	50.0	14	93.3	15	2.7	36	40.4
Others	9	50.0	–	–	30	5.4	45	50.6
Total	18	100.0	15	100.0	551	100.0	89	100.0

Note:

(1) Our exchange gain, net primarily represented our net exchange gains arising from (i) the settlement of RMB-denominated trade receivables; and (ii) the retranslation of our RMB-denominated trade receivables into US$ at the end of the reporting periods, under our subsidiaries with functional currency of US$.

Selling and distribution expenses

During the Track Record Period, our selling and distribution expenses accounted for approximately 0.2%, 0.3%, 2.0% and 2.3% of our total revenue, respectively. The following table sets out a breakdown of our selling and distribution expenses for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Staff costs (*Note 1*)	84	84.0	59	53.6	505	46.4	810	52.4
Travelling and accommodation expenses (*Note 2*)	16	16.0	51	46.4	266	24.4	259	16.8
Entertainment expenses	–	–	–	–	110	10.1	134	8.7
Postage and couriers	–	–	–	–	82	7.5	194	12.5
Sundries (*Note 3*)	–	–	–	–	126	11.6	149	9.6
Total	100	100.0	110	100.0	1,089	100.0	1,546	100.0

Notes:

(1) Our staff costs primarily represented our sales and marketing staff's salaries, bonuses, allowances and contributions to employees' provident fund.

(2) Our travelling and accommodation expenses primarily represented the travel, hotel and meal expenses incurred by our sales and marketing staff for their business trips and meetings.

(3) Our sundries primarily comprised our amortisation of intangible assets, inspection charges, samples charges and other taxes.

General and administrative expenses

During the Track Record Period, our general and administrative expenses accounted for approximately 2.1%, 3.0%, 3.5% and 2.8% of our total revenue, respectively. The following table sets out a breakdown of our general and administrative expenses for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Staff costs *(Note 1)*	539	57.1	466	42.1	963	50.7	1,001	52.7
Operating lease expenses *(Note 2)*	24	2.5	60	5.4	380	20.0	426	22.4
Bank charges	36	3.8	29	2.6	78	4.1	54	2.8
Depreciation	10	1.1	11	1.0	47	2.5	41	2.2
Insurance expenses	47	5.0	24	2.2	22	1.2	71	3.7
Exchange loss, net *(Note 3)*	176	18.6	345	31.1	–	–	–	–
Sundries *(Note 4)*	112	11.9	173	15.6	409	21.5	307	16.2
Total	944	100.0	1,108	100.0	1,899	100.0	1,900	100.0

Notes:

(1) Our staff costs primarily represented our administrative and management staff's salaries, allowances and contributions to employees' provident fund.

(2) Our operating lease expenses primarily represented the rental expenses incurred for our office and warehouse premises.

(3) Our exchange loss, net primarily represented our net exchange losses arising from (i) the settlement of RMB-denominated trade receivables; and (ii) the retranslation of our RMB-denominated trade receivables into US$ at the end of the reporting periods, under our subsidiaries with functional currency of US$.

(4) Our sundries primarily comprised our travelling and accommodation expenses, telecommunication expenses, auditor's remuneration and other professional fees, inspection charges, entertainment expenses, samples charges and other taxes.

Total staff costs

The following table sets out a breakdown of our total staff costs (which included in our cost of sales, selling and distribution expenses, and general and administrative expenses) for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Salaries and wages								
– Salaries and allowances	636	72.3	610	84.1	1,333	72.2	1,765	78.8
– Staff bonus	232	26.3	93	12.9	291	15.8	198	8.9
Subtotal	868	98.6	703	97.0	1,624	88.0	1,963	87.7
Pension scheme contributions								
– Defined contribution plan	12	1.4	22	3.0	222	12.0	276	12.3
Total	880	100.0	725	100.0	1,846	100.0	2,239	100.0

The decrease in our total staff costs from approximately US$0.9 million for FY2015 to approximately US$0.7 million for FY2016 was primarily attributable to (i) the reduction of our staff bonus from approximately US$0.2 million for FY2015 to approximately US$93,000 for FY2016 which was mainly due to better financial performance of our Group for FY2015; and (ii) a decrease in our salaries and allowances by approximately US$26,000 which was mainly due to the reduction of salaries paid to our Directors by approximately US$30,000 in view of the drop of our financial performance in FY2016.

The increase in our total staff costs to approximately US$1.8 million for FY2017 was primarily attributable to (i) the increase in our staff bonus to approximately US$0.3 million for FY2017 which was mainly due to better financial performance of our Group for FY2017; (ii) the increase in our salaries and allowances, and pension scheme contributions from approximately US$0.6 million and US$22,000 for FY2016, respectively, to approximately US$1.3 million and US$0.2 million for FY2017, respectively, mainly due to (a) the increase in our total headcount which only had 17 Hong Kong employees as at 31 December 2016 and increase to a total of 84 Hong Kong and PRC employees as at 31 December 2017 following the Acquisition of the PRC Group Companies; (b) the monthly salary increment during FY2017; and (c) the effect of full year salary payment to the staff in our Hong Kong finance and accounting team employed in the last quarter of FY2016.

The increase in our total staff costs to approximately US$2.2 million for FY2018 was primarily attributable to the increase in our salaries and allowances to approximately US$1.8 million for FY2018 mainly due to (a) the increase in our total headcount from 84 as at 31 December 2017 to 99 as at 31 December 2018; and (b) the monthly salary increment during FY2018, partially offset by the decrease in our staff bonus to approximately US$0.2 million for FY2018.

Provision for allowance for expected credit loss on trade receivables

During the Track Record Period, our provision for allowance for expected credit loss on trade receivables amounted to approximately US$0.2 million, nil, nil and approximately US$91,000, respectively, which represented our expected credit loss estimated by our Group in accordance with HKFRS 9. Please refer to "Discussion of selected balance sheet items – Trade and bills receivables" in this section for further details.

Listing expenses

Our listing expenses of approximately US$0.4 million, US$0.6 million and US$1.5 million for FY2016, FY2017 and FY2018, respectively, primarily represented the professional services fees incurred to professional parties by our Company in relation to the Listing. Please refer to "Listing expenses" in this section for further details of our listing expenses.

Finance costs

During the Track Record Period, our finance costs primarily represented our interest expenses incurred for short-term bank loans and the use of our trade financing facilities which accounted for approximately 0.2%, 0.4%, 0.8% and 1.3% of our total revenue, respectively. The following table sets out a breakdown of our finance costs for the periods indicated:

	For the year ended 31 December							
	2015		2016		2017		2018	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
Interest on bills payables	75	96.2	140	95.9	233	51.7	693	80.2
Interest on discounted bills	–	–	–	–	129	28.6	104	12.0
Interest on short-term bank loans	3	3.8	6	4.1	89	19.7	67	7.8
Total	78	100.0	146	100.0	451	100.0	864	100.0

Income tax expenses

During the Track Record Period, our income tax expenses comprised our provision for Hong Kong Profits Tax and EIT for the year. The following table sets out a breakdown of our income tax expenses and effective tax rate for the periods indicated:

	For the year ended 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current tax expenses				
– Hong Kong Profits Tax	455	324	533	811
– EIT	–	–	69	128
	455	324	602	939
(Over)/under-provision of tax expenses in prior year				
– Hong Kong Profits Tax	(7)	(2)	(1)	–
Total	448	322	601	939
Effective tax rate	16.3%	22.1%	19.2%	26.5%

We are subject to income tax calculated at the applicable tax rates in accordance with the relevant laws and regulations in each tax jurisdiction we operate or domicile.

Under the current laws and regulations of the Cayman Islands and the BVI, we are not subject to any income tax or capital gains tax in the Cayman Islands and the BVI. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands and the BVI.

Hong Kong Profits Tax was calculated at the rate of 16.5% based on the HK Group Companies' estimated assessable profits arising in Hong Kong during the Track Record Period. The two-tiered profits tax regime (i.e. the first HK$2.0 million of assessable profits will be taxed at 8.25%, and assessable profits above HK$2.0 million will be taxed at 16.5%) is applicable to our HK Group Companies for the assessment year commencing on or after 1 April 2018.

Under the EIT Law and the Implementation Rules, the tax rate applicable to the PRC Group Companies is 25%.

Transfer pricing arrangement

The HK Group Companies procured a majority of ICs for our Group from our suppliers. The HK Group Companies then sold ICs to the PRC Group Companies via our import agencies for the sale of IC products in the PRC by the PRC Group Companies.

Please refer to "Regulatory overview – PRC laws and regulations – PRC laws and regulations relating to taxation – Enterprise Income Tax ("**EIT**")" and "Regulatory overview – Hong Kong laws and regulations – Hong Kong laws and regulations relating to transfer pricing adjustments" in this prospectus for further details of transfer pricing-related laws and regulations in Hong Kong and the PRC.

We have engaged the Transfer Pricing Analyst to review our transfer pricing policies so as to evaluate specifically our Group's compliance with the relevant tax regulations and transfer pricing guidelines and the potential tax implications on our Group during the Track Record Period. The Transfer Pricing Analyst conducted a benchmarking analysis in accordance with Organisation for Economic Cooperation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations ("**OECD Transfer Pricing Guidelines**") to establish an arm's length range of operating profit margin (being profit before interest and tax divided by total revenue) in connection with the Intercompany Transactions by reference to the operating profit margin derived by comparable companies under similar circumstances.

As advised by our Transfer Pricing Analyst, when conducting a benchmarking analysis on the Intercompany Transactions between the PRC Group Companies and the HK Group Companies, it is necessary to choose one party as the "tested party". According to the OECD Transfer Pricing Guidelines, the tested party should be the one with less complex functions and does not own valuable intangibles. Based on the functional analysis conducted by our Transfer Pricing Analyst, the PRC Group Companies are not involved in the initial conceptualisation phase of the R&D work and do not carry out any supplier identification and selection functions. The PRC Group Companies have a simpler functional profile and hence, their profit margin is used to compare with the operating profit margin of the comparable companies.

The Transfer Pricing Analyst concluded that the overall operating profit margin of the PRC Group Companies lies within the arm's length range of operating profit margin and there is no indication that the Intercompany Transactions are in breach of the arm's length principle. This implies that the Intercompany Transactions complied with the arm's length principle and the HK Group Companies are also compensated for their functions undertaken and risks assumed under the Intercompany Transactions. Up to the Latest Practicable Date, our Directors were not aware of any inquiry, audit or investigation by the tax authorities in the PRC or Hong Kong with respect to the Intercompany Transactions.

Please refer to "Risk factors – Risks relating to our business – Our operations may be subject to transfer pricing adjustment" in this prospectus for our risks in relation to transfer pricing adjustment.

In addition, we have adopted the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations in Hong Kong and the PRC:

– our transactional transfer pricing arrangements are applied and monitored to ensure compliance with arm's length principle with reference to the appropriate transfer pricing data and the operations of each of the PRC Group Companies to maintain reasonable operating profit margin of each of the PRC Group Companies;

– intercompany balances and transactions are reconciled with our Group from time to time and at report periods to ensure that no significant difference exists;

– related party transaction reporting forms are prepared by the finance team in the PRC Group Companies and are reviewed and compared by our chief financial officer, who is a certified public accountant to identify any discrepancy before submitted to the PRC tax authority, and all the reporting forms are properly filed and maintained in the PRC Group Companies for inspection; and

– our financial controller will monitor the amount of related party transactions to determine whether contemporaneous documents are required to be prepared.

Save as discussed in "Business – Non-compliance" in this prospectus, our Directors confirm that as at the Latest Practicable Date, (i) we have made all required tax filings under the relevant tax laws and regulations in the relevant jurisdictions and have paid all outstanding tax liabilities due; and (ii) we are not subject to any other dispute or potential dispute with the tax authorities in the relevant jurisdictions.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2016 compared to FY2015

Revenue

Our revenue decreased by approximately US$9.2 million (or approximately 20.2%) from approximately US$45.6 million for FY2015 to approximately US$36.4 million for FY2016, which was primarily attributable to:

(i) the decrease in our revenue derived from the sale of the RF power IC products by approximately US$8.5 million from approximately US$20.2 million for FY2015 to approximately US$11.7 million for FY2016 mainly due to (a) the decrease in the revenue generated from FTTB ICs mainly for the application solutions of FTTB in CATV and broadband networks (which were mainly sold to the ultimate PRC customers, such as Hangzhou Prevail through the PRC Group Companies) from approximately US$8.7 million for FY2015 to approximately US$3.6 million for FY2016 mainly due to the transition from the applications of FTTB to FTTH in the PRC; and (b) the decrease in the revenue generated from our major customer, Transemic Technology from approximately US$3.3 million for FY2015 to approximately US$0.2 million for FY2016 who mainly purchased our transmitters and RF energy IC products for the application solution of TV and broadcasting transmitters in relation to the upgrade of TV broadcasting transmitters in the PRC.

(ii) the decrease in our revenue derived from the sale of the LED lighting IC products by approximately US$2.7 million from approximately US$10.5 million for FY2015 to approximately US$7.8 million for FY2016 mainly due to (a) the decrease in our revenue from the sale of LED lighting IC products to Customer A from approximately US$2.6 million for FY2015 to approximately US$0.6 million for FY2016 which our Directors believe that Customer A and our certain customers switched to purchase cheaper LED lighting ICs from our PRC competitors; and (b) the decrease in the average unit price of our LED lighting IC products from approximately US$0.30 for FY2015 to approximately US$0.25 for FY2016 mainly due to our customers' change to purchase Product B (which is relatively cheaper and designed with better performance and at the same time at a competitive price to compete with other similar PRC branded ICs) and our overall price discount strategy of LED lighting ICs during FY2016 to compete with other PRC competitors; and

(iii) the increase in our revenue derived from the sale of the mobile devices and smart charging IC products by approximately US$2.1 million from approximately US$5.7 million for FY2015 to approximately US$7.8 million for FY2016 mainly due to (a) the increase in our revenue generated from the sale of Power Integrations and Supplier A mobile devices and smart charging IC products from approximately US$4.6 million for FY2015 to approximately US$5.8 million for FY2016, which we benefited from selling IC products under authorised non-exclusive distributorship of Power Integrations and Supplier A from FY2016 and the increase in the sales demand from Edom, who procured our Supplier A IC products on behalf of a large-scale mobile phone manufacturing company based in the PRC; and (b) the commencement of the sales of the mobile devices and smart charging IC products mainly for the application solution of vehicle antennae to a new major customer, Laird Wireless who contributed the revenue of approximately US$1.3 million for FY2016 in view of our business development efforts in the mobile devices and smart charging segment.

Cost of sales

Our cost of sales decreased by approximately US$8.4 million (or approximately 20.2%) from approximately US$41.5 million for FY2015 to approximately US$33.1 million for FY2016, which was primarily attributable to the decrease in our material costs from approximately US$41.3 million for FY2015 to approximately US$33.0 million for FY2016 mainly in line with the decrease in our revenue.

Gross profit and gross profit margin

Our gross profit decreased by approximately US$0.8 million (or approximately 20.0%) from approximately US$4.0 million for FY2015 to approximately US$3.2 million for FY2016, which was primarily in line with the decrease in our revenue and cost of sales. The fluctuations in the gross profit by each of our product categories also primarily followed the fluctuations in our revenue derived from each of our corresponding product categories.

Our overall gross profit margin remained stable at approximately 8.9% for FY2015 and FY2016, which was primarily attributable to the offsetting effect of (i) the decrease in the gross profit margin of our LED lighting IC products from approximately 13.6% for FY2015 to approximately 11.1% for FY2016 mainly due to (a) our overall price discount strategy of LED lighting IC products during FY2016 to compete with other PRC competitors; and (b) the lower margin sales of Product B to Customer D due to the bulk purchase volume; (ii) the decrease in the gross profit margin of our mobile devices and smart charging IC products from approximately 13.3% for FY2015 to approximately 8.7% for FY2016 mainly due to (a) the increase in bulk purchases from our major customers with lower margins charged by us; and (b) the increase in the sales to Edom with a lower margin charged by us since we are not a registered vendor with a large-scale mobile phone manufacturing company based in the PRC and Edom procured our Supplier A IC products on behalf of such mobile phone manufacturing company; and (iii) the increase in the gross profit margin of our RF power IC products from approximately 7.4% for FY2015 to approximately 11.0% for FY2016 mainly due to the lower margin sales in respect of large purchase orders from Transemic Technology during FY2015.

General and administrative expenses

Our general and administrative expenses increased from approximately US$0.9 million for FY2015 to approximately US$1.1 million FY2016, which was primarily attributable to the increase in the exchange loss, net from approximately US$0.2 million for FY2015 to approximately US$0.3 million for FY2016 mainly due to less favourable effect of the settlement and retranslation of our relevant RMB-denominated trade receivables as a result of a greater extent of the appreciation of US$ against RMB for FY2016 as compared to FY2015.

Finance costs

Our finance costs increased from approximately US$78,000 for FY2015 to approximately US$0.1 million for FY2016, which was primarily attributable to the increased use of issued bills to our suppliers for the settlement of our trade payables.

Income tax expenses

Our income tax expenses decreased from approximately US$0.4 million for FY2015 to approximately US$0.3 million for FY2016, which was primarily in line with the decrease in our profit before income tax, leading to the decrease in our taxable profit.

Our effective income tax rate increased from approximately 16.3% for FY2015 to approximately 22.1% for FY2016, which was primarily attributable to the recognition of non-tax deductible listing expenses of approximately US$0.4 million for FY2016.

Profit for the year

Our profit for the year decreased from approximately US$2.3 million for FY2015 to approximately US$1.1 million for FY2016, which was primarily attributable to (i) the decrease in our gross profit by approximately US$0.8 million mainly due to the foregoing reasons as discussed above; and (ii) the recognition of our listing expenses of approximately US$0.4 million in FY2016.

FY2017 compared to FY2016

Revenue

Our revenue increased by approximately US$17.4 million (or approximately 47.9%) from approximately US$36.4 million for FY2016 to approximately US$53.8 million for FY2017, which was primarily attributable to:

(i) the increase in our revenue derived from the sale of the mobile devices and smart charging IC products by approximately US$13.1 million from approximately US$7.8 million for FY2016 to approximately US$20.9 million for FY2017 mainly due to (a) the increase in our revenue generated from the sale of Power Integrations, Supplier A and RDA mobile devices and smart charging IC products from approximately US$5.8 million for FY2016 to approximately US$15.2 million for FY2017, which we benefited from selling IC products under authorised non-exclusive distributorship of Power Integrations and Supplier A from FY2016 and RDA from FY2017 and the increase in the sales demand from Edom who procured our Supplier A IC products on behalf of a large-scale mobile phone manufacturing company based in the PRC; and (b) the increase in the sales demand of our mobile devices and smart charging IC products mainly for the application solutions of vehicle antennae, mobile phone fast chargers and IoT communication modules, etc. from our new and existing major customers (mainly including Laird Wireless, Dongguan City YoHoo and Quectel) in view of our business development efforts in the mobile devices and smart charging segment and the fast development of IoT and mobile devices in the PRC;

(ii) the increase in our revenue derived from the sale of the motor control IC products by approximately US$8.7 million from approximately US$6.9 million for FY2016 to approximately US$15.6 million for FY2017 mainly due to (a) the increase in our revenue generated from the sale of Power Integrations motor control IC products from approximately US$0.3 million for FY2016 to approximately US$4.5 million for FY2017, which we benefited from selling IC products under authorised non-exclusive distributorship of Power Integrations from FY2016; and (b) the increase in the sales demand of motor control IC products mainly for the application solutions of motor controls for electronic products, and photography and videography stabilisation to our two major customers, namely Jiangsu Chen Yang and Guilin Zhishen who contributed the revenue of approximately US$6.1 million for FY2017 mainly because of the customer satisfaction of our IC application solutions and the increasing popularity of the use of VFDs in the electronic products in the PRC;

(iii) the decrease in our revenue derived from the sale of the RF power IC products by approximately US$4.0 million from approximately US$11.7 million for FY2016 to approximately US$7.7 million for FY2017 mainly due to the decrease in the revenue generated from FTTB ICs mainly for the application solutions of FTTB in CATV and broadband networks from approximately US$3.6 million for FY2016 to approximately US$1.6 million for FY2017 mainly due to the transition from the applications of FTTB to FTTH in the PRC; and

(iv) the decrease in our revenue derived from the sale of the LED lighting IC products by approximately US$2.1 million from approximately US$7.8 million for FY2016 to approximately US$5.7 million for FY2017 mainly due to the fact that following the acquisition of the LED lighting business of Manufacturer B by Supplier E during FY2016, we began to sell lower priced Supplier E LED lighting ICs during FY2017 as opposed to higher priced Manufacturer B LED lighting ICs before FY2017 (which led to the decrease in the average unit price of our LED lighting IC products from approximately US$0.25 for FY2016 to approximately US$0.18 for FY2017) although we maintained stable sales volume of approximately 31.4 million units and 32.3 million units for FY2016 and FY2017, respectively.

Cost of sales

Our cost of sales increased by approximately US$14.1 million (or approximately 42.5%) from approximately US$33.1 million for FY2016 to approximately US$47.2 million for FY2017, which was primarily attributable to (i) the increase in our material costs from approximately US$33.0 million for FY2016 to approximately US$46.6 million for FY2017 mainly due to the increase in our revenue; and (ii) the increase in our transportation and logistics costs from nil for FY2016 to approximately US$0.3 million for FY2017 mainly due to the fact that following the Acquisition of the PRC Group Companies, we need to bear the costs of the importing and delivery of our IC products from the HK Group Companies to the PRC Group Companies.

Gross profit and gross profit margin

Our gross profit increased by approximately US$3.3 million (or approximately 103.2%) from approximately US$3.2 million for FY2016 to approximately US$6.6 million for FY2017, which was primarily due to the increase in our revenue. The fluctuations in the gross profit by each of our product categories also primarily followed the fluctuations in our revenue derived from each of our corresponding product categories.

Our overall gross profit margin increased from approximately 8.9% for FY2016 to approximately 12.2% for FY2017, which was primarily attributable to (i) a lower gross profit margin of approximately 7.8% for FY2016 for the sale of IC products to the PRC Group Companies (whereas the Intercompany Transactions are eliminated in the consolidation of our Group's financial performance for FY2017 upon the completion of the Acquisition of the PRC Group Companies) as discussed in "Discussion of selected profit or loss items – Gross profit and gross profit margin" in this section; and (ii) the increase in the gross profit margin of our LED lighting category IC products from approximately 11.1% for FY2016 to approximately 16.2% for FY2017 mainly due to (a) the lower margin sales of Product B to Customer D due to the bulk purchase volume during FY2016; and (b) the general increase in the mark-up of our LED lighting IC products to our customers during FY2017 because we considered that customers are less sensitive to higher margin charged to lower priced products following the acquisition of LED lighting business of Manufacturer B (i.e. a Dutch based IC manufacturer) by Supplier E (i.e. a China-based IC manufacturer) during FY2016.

Other income

Our other income increased from approximately US$15,000 for FY2016 to approximately US$0.6 million for FY2017, which was primarily attributable to the recognition of our exchange gain, net of approximately US$0.5 million for FY2017 mainly due to the favourable effect of the settlement and retranslation of our relevant RMB-denominated trade receivables as a result of the appreciation of RMB against US$ during FY2017.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately US$0.1 million for FY2016 to approximately US$1.1 million for FY2017, which was primarily attributable to (i) the increase in our staff costs from approximately US$59,000 for FY2016 to approximately US$0.5 million for FY2017 mainly due to the increment of the headcount of the sales and marketing team following the Acquisition of the PRC Group Companies; and (ii) the increase in our travelling and transportation expenses from approximately US$51,000 for FY2016 to approximately US$0.3 million for FY2017 in respect of our business development and the expansion of our sales and marketing team following the Acquisition of the PRC Group Companies.

General and administrative expenses

Our general and administrative expenses increased from approximately US$1.1 million for FY2016 to approximately US$1.9 million for FY2017, which was primarily attributable to (i) the increase in our staff costs from approximately US$0.5 million for FY2016 to approximately US$1.0 million for FY2017 mainly due to the increment of the headcount of administrative and management staff following the Acquisition of the PRC Group Companies and the increment of our Hong Kong administrative and management staff's monthly salary and bonuses; (ii) the increase in our operating lease charges from approximately US$60,000 for FY2016 to approximately US$0.4 million for FY2017 mainly due to the rental payments for three offices in Shenzhen, Shanghai and Chengdu following the Acquisition of the PRC Group Companies; and (iii) the increase in our other administrative expenses, including our bank charges, depreciation and travelling and transportation expenses mainly due to our business expansion and the Acquisition of the PRC Group Companies, partially offset by the change from our exchange loss, net of approximately US$0.3 million for FY2016 to our exchange gain, net of approximately US$0.5 million for FY2017 (which was included in our other income).

Finance costs

Our finance costs increased from approximately US$0.1 million for FY2016 to approximately US$0.5 million for FY2017, which was primarily attributable to the increased use of our trade financing facilities to cause the increase in our trade financing interest expenses.

Income tax expenses

Our income tax expenses increased from approximately US$0.3 million for FY2016 to approximately US$0.6 million for FY2017, which was primarily in line with the increase in our profit before income tax, leading to the increase in our taxable profit.

Our effective income tax rate decreased from approximately 22.1% for FY2016 to approximately 19.2% for FY2017, which was primarily attributable to the decrease in the proportion of our non-tax deductible listing expenses to our profit before income tax from approximately 29.6% for FY2016 to approximately 18.0% for FY2017 which reduced the impact on our listing expenses to lower our effective income tax rate.

Profit for the year

Our profit for the year increased from approximately US$1.1 million for FY2016 to approximately US$2.5 million for FY2017, which was primarily attributable to (i) the increase in our gross profit by approximately US$3.3 million; and (ii) the increase in our other income by approximately US$0.5 million, partially offset by (i) the increase in our selling and distribution expenses by approximately US$1.0 million; (ii) the increase in our general and administrative expenses by approximately US$0.8 million; and (iii) the increase in our finance costs by approximately US$0.3 million, all of which were mainly due to the foregoing reasons as discussed above.

FY2018 compared to FY2017

Revenue

Our revenue increased by approximately US$13.5 million (or approximately 25.0%) from approximately US$53.8 million for FY2017 to approximately US$67.3 million for FY2018, which was primarily attributable to:

(i) the increase in our revenue derived from the sale of the mobile devices and smart charging IC products by approximately US$13.7 million from approximately US$20.9 million for FY2017 to approximately US$34.6 million for FY2018 mainly due to (a) the increase in our revenue generated from the sale of Power Integrations, Supplier A and RDA mobile devices and smart charging IC products from approximately US$15.2 million for FY2017 to approximately US$29.0 million for FY2018, which we benefited from selling IC products under authorised non-exclusive distributorship of Power Integrations and Supplier A from FY2016 and RDA from FY2017; and (b) the increase in the sales demand of our mobile devices and smart charging IC products mainly for the application solutions of mobile phone fast chargers and IoT communication modules, etc. from our new and existing major customers (mainly including Jiangsu Chen Yang, Dongguan City YoHoo, Customer F and Quectel) in view of our business development efforts in the mobile devices and smart charging segment and the fast development of IoT and mobile devices in the PRC;

(ii) the increase in our revenue derived from the sale of the LED lighting IC products by approximately US$1.1 million from approximately US$5.7 million for FY2017 to approximately US$6.8 million for FY2018 mainly due to (a) the increase in our revenue generated from the sale of Supplier E LED lighting ICs (mainly sold to Customer G) from approximately US$1.3 million for FY2017 to approximately US$3.2 million for FY2018 since our Supplier E LED lighting IC products are considered to more price competitive and our Supplier E LED lighting application solutions become more widely accepted by our customers; and (b) the increase in our revenue generated from the sale of Supplier D LED lighting IC products from approximately US$7,000 for FY2017 to approximately US$0.9 million for FY2018 because we were engaged as the authorised non-exclusive distributors of Supplier D in the second half of FY2017; and

(iii) the decrease in our revenue derived from the sale of the sensors and automation IC products by approximately US$1.5 million from approximately US$3.9 million for FY2017 to approximately US$2.4 million for FY2018 mainly due to the decrease in the sales of radio frequency sensor IC products used in smart lamps to a manufacturer of smart household lighting products based in Shanghai, PRC from approximately US$1.4 million for FY2017 to approximately US$14,000 for FY2018.

Cost of sales

Our cost of sales increased by approximately US$10.6 million (or approximately 22.5%) from approximately US$47.2 million for FY2017 to approximately US$57.9 million for FY2018, which was primarily attributable to the increase in our material costs from approximately US$46.6 million for FY2017 to approximately US$57.4 million for FY2018 mainly due to the increase in our revenue.

Gross profit and gross profit margin

Our gross profit increased by approximately US$2.8 million (or approximately 43.1%) from approximately US$6.6 million for FY2017 to approximately US$9.4 million for FY2018, which was primarily due to the increase in our revenue. The fluctuations in the gross profit by each of our product categories also primarily followed the fluctuations in our revenue derived from each of our corresponding product categories.

Our overall gross profit margin increased from approximately 12.2% for FY2017 to approximately 14.0% for FY2018, which was primarily attributable to (i) the increase in the gross profit margin of our mobile devices and smart charging IC products from approximately 10.1% for FY2017 to approximately 13.5% for FY2018 mainly due to the significant increase in the sales of two models of Power Integrations IC products for the application solutions of mobile phone chargers in FY2018 which we charged higher margins to our major customers, including Jiangsu Chen Yang and Dongguan City YoHoo because we have participated in a higher level of design-in works for the application of these ICs in a new smart charger circuit system for android system mobile phones; (ii) the increase in the gross profit margin of our RF power IC products from approximately 13.0% for FY2017 to approximately 18.7% for FY2018 mainly because we increased the margin of Manufacturer B FTTB IC products charged to our customers in light of the scarcity of Manufacturer B FTTB ICs in the market as a result of the reduction of the manufacture of FTTB ICs by Manufacturer B in response to the global trend of switching from FTTB networks to FTTH networks in recent years; and (iii) the increase in the gross profit margin of our sensors and automation IC products from approximately 10.5% for FY2017 to approximately 14.1% for FY2018 mainly due to (a) a lower margin charged to the aforesaid manufacturer of smart household lighting products based in Shanghai, PRC mainly due to its bulk purchase volume in FY2017; and (b) the increase in the sales volume of Products C & D which had relatively higher margins since we were able to negotiate with the relevant suppliers and Manufacturer A in FY2017 to further lower our unit purchase prices in view of their overstock originally reserved for a global leading mobile phone manufacturing company based in South Korea, partially offset by the decrease in the gross profit margin of our LED lighting IC products from approximately 16.2% for FY2017 to approximately 14.0% for FY2018 mainly due to the significant increase in the sales of Supplier D LED lighting ICs mainly for application solutions of SMD LEDs and COB LEDs in FY2018 which we charged a lower margin to our customers mainly due to relatively simpler application designs and usages for these types of lamp beads ICs.

Other income

Our other income decreased from approximately US$0.6 million for FY2017 to approximately US$89,000 for FY2018, which was primarily attributable to the decrease in our exchange gain, net from approximately US$0.5 million for FY2017 to approximately US$3,000 for FY2018 mainly due to the more favourable effect of the settlement and retranslation of our relevant RMB-denominated trade receivables as a result of the greater extent of the appreciation of RMB against US$ during FY2017.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately US$1.1 million for FY2017 to approximately US$1.5 million for FY2018, which was primarily attributable to (i) the increase in our staff costs from approximately US$0.5 million for FY2017 to approximately US$0.8 million for FY2018 mainly due to the increment of our sales and marketing staff's headcount and monthly salary; and (ii) our business development to cause the increase in our entertainment expenses, and postage and couriers.

General and administrative expenses

Our general and administrative expenses remained stable at approximately US$1.9 million for FY2017 and FY2018.

Finance costs

Our finance costs increased from approximately US$0.5 million for FY2017 to approximately US$0.9 million for FY2018, which was primarily attributable to the increased use of our trade financing facilities to cause the increase in our trade financing interest expenses.

Income tax expenses

Our income tax expenses increased from approximately US$0.6 million for FY2017 to approximately US$0.9 million for FY2018, which was primarily in line with the increase in our profit before income tax, leading to the increase in our taxable profit.

Our effective income tax rate increased from approximately 19.2% for FY2017 to approximately 26.8% for FY2018, which was primarily attributable to the increase in our non-tax deductible listing expenses from approximately US$0.6 million for FY2017 to approximately US$1.5 million for FY2018.

Profit for the year

Our profit for the year increased from approximately US$2.5 million for FY2017 to approximately US$2.6 million for FY2018, which was primarily attributable to the increase in our gross profit by approximately US$2.8 million, partially offset by (i) the decrease in our other income by approximately US$0.5 million; (ii) the increase in our selling and distribution expenses by approximately US$0.5 million; (iii) the increase in our listing expenses by approximately US$1.0 million; and (iv) the increase in our finance costs by approximately US$0.4 million, all of which were mainly due to the foregoing reasons as discussed above.

MINIMUM PROFIT REQUIREMENT UNDER RULE 8.05(1) OF THE LISTING RULES

The following table demonstrates a summary of our adjusted profit for the year attributable to owners of our Company after excluding our listing expenses recognised in our profit or loss for the periods indicated:

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
Profit for the year attributable to owners of our Company	2,300	1,173	2,547	2,611
Add: Listing expenses	–	430	561	1,543
Adjusted profit for year attributable to owners of our Company				
– in US$'000	2,300	1,603	3,108	4,154
– equivalent to HK$'000	17,825	12,423	24,087	32,194

In preparation of the Listing, we incurred listing expenses of nil, approximately US$0.4 million, US$0.6 million and US$1.5 million during the Track Record Period, respectively. Since our listing expenses are one-off expenses outside the ordinary and usual course of our business, we have added back our listing expenses to our profit for the year attributable to owners of our Company for the purposes of satisfying the minimum profit requirements under Rule 8.05(1) of the Listing Rules.

As shown in the table above (after converting our adjusted profit for the year attributable to owners of our Company from US$ into HK$ by applying the conversion rate of US$1: HK$7.75), our Group is able to meet the minimum profit requirements under Rule 8.05(1) of the Listing Rules.

DISCUSSION OF SELECTED BALANCE SHEET ITEMS

Net current assets

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

	As at 31 December				As at 30 April
	2015	**2016**	**2017**	**2018**	**2019**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
					(Unaudited)
Current assets					
Inventories	4,323	5,345	6,429	6,547	7,299
Trade and bills receivables	10,337	9,759	19,537	19,007	20,633
Prepayments, deposits and other receivables	21	3,404	1,878	3,394	4,375
Amounts due from related parties	–	–	46	8	24
Pledged bank deposits	–	–	–	300	127
Cash and cash equivalents	2,175	1,842	1,629	2,874	3,262
	16,856	20,350	29,519	32,130	35,720
Current liabilities					
Trade and bills payables	7,237	9,859	12,490	16,887	18,732
Accruals, receipts in advance and other payables	188	387	1,102	1,398	1,410
Amounts due to related parties	1,557	1,682	1,439	–	–
Lease liabilities	–	–	–	–	430
Bank borrowings	249	211	4,310	1,310	2,861
Tax payable	290	19	193	434	393
	9,521	12,158	19,534	20,029	23,826
Net current assets	7,335	8,192	9,985	12,101	11,894

Our net current assets increased from approximately US$7.3 million as at 31 December 2015 to approximately US$8.2 million as at 31 December 2016 primarily attributable to our net profit of approximately US$1.1 million generated for FY2016.

Our net current assets then increased to approximately US$10.0 million as at 31 December 2017 primarily attributable to the increase in our trade and bills receivables by approximately US$9.8 million, partially offset by (i) the increase in our bank borrowings by approximately US$4.1 million; and (ii) the increase in our trade and bills payables by approximately US$2.6 million.

Our net current assets further increased to approximately US$12.1 million as at 31 December 2018 primarily attributable to our net profit of approximately US$2.6 million generated for FY2018 and mainly contributed by (i) the increase in our prepayments, deposits and other receivables by approximately US$1.5 million; (ii) the increase in our cash and cash equivalents by approximately US$1.2 million; and (iii) the decrease in our bank borrowings by approximately US$3.0 million, partially offset by the increase in our trade and bills payables by approximately US$4.4 million.

Our net current assets slightly decreased to approximately US$11.9 million as at 30 April 2019 primarily attributable to the initial adoption of HKFRS 16 from 1 January 2019 to recognise the current portion of lease liabilities of approximately US$0.4 million as at 30 April 2019 for the leases of our office and warehouse premises. For details of the adoption of HKFRS 16, please refer to note 4(b) of Part II of the Accountants' Report in Appendix I to this prospectus.

Please refer to the below for further details and analysis of our current assets and current liabilities.

Inventories

Our inventories comprised finished goods of ICs procured from our suppliers for on-selling to our customers along with our value-added services. The following tables set out a breakdown of our inventories by product category as at the dates indicated and our inventory turnover days for the periods indicated:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Mobile devices and smart charging	616	484	1,013	1,236
Motor control	789	2,345	2,748	3,027
RF power	2,085	1,336	1,095	742
LED lighting	770	988	1,382	231
Sensors and automation	63	192	191	1,311
Total	4,323	5,345	6,429	6,547

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	Days	*Days*	*Days*	*Days*
Inventory turnover days *(Note)*	34.7	53.4	45.5	40.9

Note: Our inventory turnover days equals to the average of the opening and closing balances of our inventories divided by our cost of sales and multiplied by 365 days for FY2015, FY2017 and FY2018, or 366 days for FY2016.

Our inventories increased from approximately US$4.3 million as at 31 December 2015 to approximately US$5.3 million as at 31 December 2016 primarily attributable to the increase in our inventories of motor control ICs from approximately US$0.8 million as at 31 December 2015 to approximately US$2.3 million as at 31 December 2016 mainly in respect of the increase in the sales demand in FY2017, partially offset by the decrease in our inventories of RF power ICs from approximately US$2.1 million as at 31 December 2015 to approximately US$1.3 million as at 31 December 2016 mainly because we maintained a higher level of inventories of RF power ICs as at 31 December 2015 to meet the significant sales orders to be delivered in January 2016.

Our inventories further increased to approximately US$6.4 million as at 31 December 2017 primarily in line with an increase in our cost of sales and mainly attributable to the increase in our inventories of mobile devices and smart charging ICs, motor control ICs and LED lighting ICs from approximately US$3.9 million as at 31 December 2016 to approximately US$5.1 million as at 31 December 2017 mainly in respect of the increase in the sales demand in 2018, partially offset by the decrease in our inventories of RF power ICs to approximately US$1.1 million as at 31 December 2017 mainly in line with the decreasing trend of the sale of our RF power IC products.

Our inventories then remained stable at approximately US$6.5 million as at 31 December 2018 primarily attributable to the offsetting effect of (i) the increase in our inventories of the mobile devices and smart charging, and motor control ICs from approximately US$3.8 million as at 31 December 2017 to approximately US$4.3 million as at 31 December 2018 to align with our business focus and capture the potential sales growth; and (ii) the decrease in our inventories of RF power ICs to approximately US$0.7 million as at 31 December 2018 mainly in line with the decreasing trend of the sale of our RF power IC products during the Track Record Period.

We generally maintain a minimum level of around two months of inventories of ICs as a buffer to meet imminent demand and to minimise risks of shortage or delay that may affect our business. Given (i) the additional financial burden in relation to the payment rebates for the purchase of ICs under the ship-and-debit arrangement; and (ii) the generally shorter lead time (i.e. the period between the time we place purchase orders to our suppliers and the time we receive the ICs from our suppliers) of our purchases from IC manufacturer suppliers as compared to that from IC distributor suppliers, we tend to place orders for those ICs which are subject to the ship-and-debit arrangement in such quantity with an aim to reduce the stock level purchased under the ship-and-debit arrangement. On the other hand, given the generally longer lead time of our purchases from IC distributor suppliers, which our Directors believe is primarily attributable to the extra time required for our IC distributor suppliers to place orders from their suppliers, we tend to maintain a higher stock level purchased through our IC distributor suppliers. Our ICs procured under the ship-and-debit arrangement are typically sold within a shorter period of time as compared to that of our other ICs. For FY2016, FY2017 and FY2018, we recorded inventory turnover days of approximately 20.8 days, 17.7 days and 19.2 days, respectively, for ICs under the ship-and-debit arrangement whereas the inventory turnover days of our other ICs (i.e. ICs not purchased under the ship-and-debit arrangement) were approximately 55.8 days, 60.1 days and 54.4 days, respectively.

Our inventory turnover days increased from approximately 34.7 days for FY2015 to approximately 53.4 days for FY2016 primarily attributable to the increase in our inventories mainly due to the increase in our inventories of ICs in the motor control category as discussed above despite the decrease in our cost of sales.

Owing to the increase in the sales and purchases of ICs under the ship-and-debt arrangement, our inventory turnover days decreased to approximately 45.5 days and 40.9 days for FY2017 and FY2018, respectively.

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

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within 30 days	1,926	729	1,171	1,663
31 to 90 days	688	1,881	2,013	1,224
91 to 180 days	702	879	961	965
Over 180 days	1,007	1,856	2,284	2,695
Total	4,323	5,345	6,429	6,547

As at 31 December 2018, we had inventories of approximately US$2.7 million aged over 180 days which was primarily because we stocked up inventories of Manufacturer B LED lighting and RF power ICs, and inventories of Manufacturer A motor control ICs in order to meet the needs of our certain customers who considered the ICs under these brands are with better quality.

For the Track Record Period, we recorded a net reversal of impairment loss on inventories of approximately US$45,000, US$12,000, US$0.1 million and US$0.1 million, respectively, in our profit or loss when our impaired inventories were sold subsequently and the relevant provision for impairment loss was reversed to the extent of impairment losses previously recognised. Please refer to "Business – Procurement and suppliers – Inventory control and management" in this prospectus for further details of our inventory control and management policies.

Up to the Latest Practicable Date, approximately US$3.1 million (or approximately 46.9%) of our inventories as at 31 December 2018 was subsequently sold.

Trade and bills receivables

The following tables set out a breakdown of our trade and bills receivables as at the dates indicated and our trade and bills receivables turnover days for the periods indicated:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade receivables *(Note 1)*	10,519	8,306	16,693	18,347
Less: allowance for expected credit loss on trade receivables	(182)	(182)	–	(91)
Trade receivables, net	10,337	8,124	16,693	18,256
Bills receivables *(Note 2)*	–	1,635	2,844	751
Total	10,337	9,759	19,537	19,007

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	Days	*Days*	*Days*	*Days*
Trade and bills receivables turnover days (*Note 3*)	76.9	101.1	99.4	104.6

Notes:

(1) Our trade receivables represented the outstanding balances to be received from our customers in respect of the sale of our products.

(2) Our bills receivables represented the outstanding bank acceptance bills received from our customers for the settlement of our trade receivables.

(3) Our trade and bills receivables turnover days equals to the average of the opening and closing balances of our trade and bills receivables divided by our revenue and multiplied by 365 days for FY2015, FY2017 and FY2018, or 366 days for FY2016.

Our trade and bills receivables decreased from approximately US$10.3 million as at 31 December 2015 to approximately US$9.8 million as at 31 December 2016 primarily attributable to the decrease in our net trade receivables from approximately US$10.3 million as at 31 December 2015 to approximately US$8.1 million as at 31 December 2016 mainly in line with the decrease in our revenue, partially offset by the increase in our bills receivables from nil as at 31 December 2015 to approximately US$1.6 million as at 31 December 2016 mainly due to the increase in bills received from our customers which were not yet due as at 31 December 2016.

Our trade and bills receivables increased to approximately US$19.5 million as at 31 December 2017 primarily attributable to (i) the increase in our net trade receivables to approximately US$16.7 million as at 31 December 2017 mainly due to the increase in the sale of our IC products during the last quarter of FY2017 (which led to the increase in our trade receivables aged within 90 days from approximately US$6.2 million as at 31 December 2016 to approximately US$13.0 million as at 31 December 2017); and (ii) the increase in our bills receivables to approximately US$2.8 million as at 31 December 2017 mainly due to the increase in the bills received from our customers which were not yet due as at 31 December 2017.

Our trade and bills receivables slightly decreased to approximately US$19.0 million as at 31 December 2018 primarily attributable to the decrease in our bills receivables to approximately US$0.8 million as at 31 December 2018 mainly due to the decrease in bills received from our customers which were not yet due as at 31 December 2018, largely offset by the increase in our net trade receivables to approximately US$18.3 million as at 31 December 2018 mainly in line with the increase in our revenue.

During the Track Record Period, we usually allowed credit periods of up to 120 days for our customers.

Our trade and bills receivables turnover days increased from approximately 76.9 days for FY2015 to approximately 101.1 days for FY2016 primarily attributable to the rate of decrease in our revenue by approximately 20.2% exceeding the rate of decrease in our trade and bills receivables by approximately 5.6% mainly due to the increase in our bills receivables as discussed above.

Our trade and bills receivables turnover days then remained stable at approximately 99.4 days and 104.5 days for FY2017 and FY2018, respectively.

During the Track Record Period, our trade receivables turnover days (excluding our bills receivables in the calculation) were approximately 76.9 days, 92.9 days, 84.2 days and 94.8 days, respectively, which were within our allowed credit periods.

During the Track Record Period, our trade receivables turnover days exceeded our trade payables turnover days by approximately 41.7 days, 32.6 days, 27.7 days and 49.1 days, respectively. We generally manage such possible cash shortfall exposure by (i) maintaining cash and bank balances as buffer; (ii) utilising our trade financing facilities for the repayments of our trade payables; and (iii) the implementation of appropriate credit control policies for prompt settlement from our customers.

In order to mitigate our credit risk in relation to the collectability of our trade receivables, we have implemented the following credit control policies:

(i) Preliminary know-your-client and credit limit setting procedures: (a) obtaining external available information of our potential customers, such as their technical capability and familiarity with the products, their operational size, their distribution and marketing channels, and their creditworthiness; and (b) depending on the situation, engaging search agents to perform appropriate searches to ascertain the potential customers' credibility.

(ii) Customer payment monitoring: (a) Continuous and regular monitoring of our customers' payments by the use of the ageing analysis of our trade receivables; and (b) follow-up actions of overdue trade receivables, including issuing payment reminders, actively liaising with customers, and, if necessary, taking legal actions.

(iii) Expected credit loss assessment of trade receivables: (a) Estimating expected credit loss of our trade receivables in accordance with HKFRS 9 to consider whether there is evidence for credit-impaired trade receivables; and (b) recognition of credit loss of our trade receivables in our profit or loss, if necessary.

Please refer to note 30 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of the credit risk of our trade and bills receivables.

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

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Neither past due nor impaired	6,907	4,780	9,709	10,862
One to 30 days past due	1,392	2,041	3,585	3,944
31 to 90 days past due	1,347	992	2,603	3,114
91 to 120 days past due	122	40	43	112
More than 120 days past due	569	271	753	224
Total	10,337	8,124	16,693	18,256

As at 31 December 2015, 2016, 2017 and 2018, all of our bills receivables were neither past due nor impaired.

As at 31 December 2015, 2016, 2017 and 2018, we had net trade receivables of approximately US$3.4 million, US$3.3 million, US$7.0 million and US$7.4 million, respectively (representing approximately 33.2%, 41.2%, 41.8% and 40.5% of our total net trade receivables, respectively) which were past due but not impaired. We considered that these past due but not impaired trade receivables were recoverable based on their subsequent settlement and the past credit history of the relevant customers. We did not hold any collateral over these past due but not impaired balances.

As at 31 December 2015 and 2016, we recorded allowance for expected credit loss on trade receivables of approximately US$0.2 million and US$0.2 million, respectively, on our consolidated statements of financial position in respect of long overdue trade receivables due from a customer. As a result, we considered the recoverability of trade receivables due from such customer was remote and recognised an allowance for expected credit loss on trade receivables of approximately US$0.2 million in our profit or loss for FY2015. Since (i) such customer did not settle overdue trade receivables until the Latest Practicable Date; and (ii) to be best of our Directors' knowledge, such customer was under liquidation, we wrote off the provision for allowance for expected credit loss on trade receivables and the corresponding trade receivables of approximately US$0.2 million during FY2017.

As at 31 December 2018, we recorded allowance for expected credit loss on trade receivables of approximately US$91,000 on our consolidated statements of financial position with reference to our history of default and ageing analysis of trade receivables. As a result, an allowance for expected credit loss on trade receivables of approximately US$91,000 was recognised in our profit or loss for FY2018.

Please refer to note 19 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of impairment review of expected credit loss and expected credit loss rate on our receivables.

Up to the Latest Practicable Date, approximately US$16.1 million (or approximately 88.1%) of our trade receivables as at 31 December 2018 and approximately US$0.6 million (or approximately 80.6%) of our bills receivables as at 31 December 2018 were subsequently settled.

Prepayments, deposits and other receivables

The following table sets out a breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Prepayments *(Note 1)*	12	9	111	1,085
Prepayments for listing expenses	–	569	67	601
Accrued purchase rebates *(Note 2)*	–	2,709	1,608	1,582
Rental and utilities deposits *(Note 3)*	9	78	81	97
Other receivables *(Note 4)*	–	39	11	29
Total	21	3,404	1,878	3,394

Notes:

(1) Our prepayments primarily represented (i) the amounts prepaid to our suppliers for the procurement of our inventories; (ii) our rental and utilities prepayments; and (iii) prepayments of our staff, assets and other insurance premium.

(2) Our accrued purchase rebates primarily represented the estimated outstanding amounts from Power Integrations, Supplier A and RDA for our purchase rebates under the ship-and-debit arrangement. Since the rebate margins under the ship-and-debit arrangement may vary depending on, among others, our suppliers, the types of ICs sold, the identities and the size of our customers and the sales volume of IC products, our management needs to exercise judgment to estimate the appropriate amount to accrue for the purchase rebates when the inventories were purchased by our Group. In addition, as at the end of each month, our unsold inventories and our cost of inventories under the ship-and-debit arrangement (which their rebates have not yet been confirmed by our suppliers) are required to be reassessed and adjusted for the estimated likely rebates in our financial statements. Please refer to "Business – Procurement and suppliers – Price protection policy/ship-and-debit arrangement" in this prospectus for further details.

(3) Our rental and utilities deposits primarily represented (i) our rental deposits placed to the landlords; and (ii) our water, electricity, telephone and other utility deposits, in respect of our leased premises.

(4) Our other receivables primarily represented (i) our VAT recoverable; (ii) our staff advances; and (iii) our other miscellaneous receivables.

Our prepayments, deposits and other receivables significantly increased from approximately US$21,000 as at 31 December 2015 to approximately US$3.4 million as at 31 December 2016 primarily attributable to the recognition of our estimated outstanding purchase rebates of approximately US$2.7 million as at 31 December 2016 mainly due to the commencement of the ship-and-debit arrangement with Power Integrations and Supplier A from FY2016.

Our prepayments, deposits and other receivables decreased to approximately US$1.9 million as at 31 December 2017 primarily attributable to the decrease in our accrued purchase rebates to approximately US$1.6 million as at 31 December 2017 mainly due to faster claiming processes of purchase rebates from Power Integrations and Supplier A.

Our prepayments, deposits and other receivables increased to approximately US$3.4 million as at 31 December 2018 primarily attributable to the increase in our prepayments from approximately US$0.1 million as at 31 December 2017 to approximately US$1.1 million as at 31 December 2018 mainly due to our trade deposits of approximately US$1.0 million as at 31 December 2018 to Edom for the procurement of LED lighting and RF power ICs under the brands of Supplier C and Manufacturer B; and (ii) the increase in our prepayments for listing expenses from approximately US$67,000 as at 31 December 2017 to approximately US$0.6 million as at 31 December 2018.

Amounts due from related parties

The following table sets out a breakdown of our amounts due from related parties as at the dates indicated:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Director:				
– Mr. Mai	–	–	44	–
Controlling Shareholders:				
– P.Grand	–	–	1	4
– Kingtech	–	–	1	4
	–	–	46	8

Our amounts due from related parties were non-trade in nature, unsecured, interest-free and repayable on demand which mainly represented fund transfers and expenses paid on behalf of our Group or vice versa.

Our Directors confirm that all outstanding amounts due from related parties as at 31 December 2018 will be settled before the Listing.

Trade and bills payables

The following tables set out a breakdown of our trade and bills payables as at the dates indicated and our trade and bills payables turnover days for the periods indicated:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade payables *(Note 1)*	4,234	6,676	7,934	6,569
Bills payables *(Note 2)*	3,003	3,183	4,556	10,318
Total	7,237	9,859	12,490	16,887

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	Days	*Days*	*Days*	*Days*
Trade and bills payables turnover days (*Note 3*)	55.1	94.4	86.4	92.6

Notes:

(1) Our trade payables represented the outstanding balances to be paid to our suppliers in respect of the procurement of our inventories.

(2) Our bills payables represented our issued bills to our suppliers for the settlement of our trade payables. Our bills payables were secured by (i) an assignment over our life insurance policies; (ii) our pledged bank deposits; and (iii) an unlimited personal guarantee provided by Mr. Lam. Our Directors confirm that the unlimited personal guarantees provided by Mr. Lam will be released upon the Listing.

(3) Our trade and bills payables turnover days equals to the average of the opening and closing balances of our trade and bills payables divided by our cost of sales and multiplied by 365 days for FY2015, FY2017 and FY2018, or 366 days for FY2016.

Our trade and bills payables increased from approximately US$7.2 million as at 31 December 2015 to approximately US$9.9 million as at 31 December 2016 primarily attributable to the increase in our trade payables from approximately US$4.2 million as at 31 December 2015 to approximately US$6.7 million as at 31 December 2016 mainly due to the commencement of the ship-and-debit arrangement from FY2016 which increased our initial purchase prices of ICs from Power Integrations and Supplier A.

Our trade and bills payables then increased to approximately US$12.5 million as at 31 December 2017 primarily attributable to (i) the increase in our trade payables to approximately US$7.9 million as at 31 December 2017 mainly in line with an increase in our cost of sales; and (ii) the increase in our bills payables to approximately US$4.6 million as at 31 December 2017 mainly due to the increase in our trade financing facilities during FY2017.

Our trade and bills payables further increased to approximately US$16.9 million as at 31 December 2018 primarily attributable to the increase in our bills payables to approximately US$10.3 million as at 31 December 2018 mainly due to the further increase in our trade financing facilities during FY2018 in response to the increase in our total purchases of ICs from our suppliers.

Our trade and bills payables turnover days increased from approximately 55.1 days for FY2015 to approximately 94.4 days for FY2016 primarily attributable to the increase in our trade and bills payables as discussed above despite the decrease in our cost of sales.

Our trade and bills payables turnover days decreased to approximately 86.4 days for FY2017 primarily attributable to the rate of increase in our cost of sales by approximately 42.5% exceeding the rate of increase in our trade and bills payables by approximately 26.7% mainly because we had a relatively large opening balance of trade and bills payables.

Our trade and bills payables turnover days increased to approximately 92.6 days for FY2018 primarily attributable to the increase in our bills payables mainly due to the increase in our trade financing facilities during FY2018.

During the Track Record Period, our trade payables turnover days were approximately 35.2 days, 60.2 days, 56.5 days and 45.7 days, respectively, which were generally within credit periods of up to 120 days granted by our suppliers.

The following table sets out an ageing analysis of our trade payables based on invoice date as at the dates indicated:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
One to 30 days	3,042	2,362	2,953	3,798
31 to 90 days	1,180	4,252	3,933	2,580
91 to 120 days	–	–	714	127
Over 120 days	12	62	334	64
Total	4,234	6,676	7,934	6,569

Our Directors confirm that there had been no material defaults in payment of our trade payables during the Track Record Period.

Up to the Latest Practicable Date, all of our trade and bills payables as at 31 December 2018 were subsequently settled.

Accruals, receipts in advance and other payables

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

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Accruals *(Note 1)*	80	165	514	444
Accrued listing expenses	–	–	275	867
Receipts in advance *(Note 2)*	108	74	246	54
Other payables *(Note 3)*	–	148	67	33
Total	188	387	1,102	1,398

Notes:

(1) Our accruals primarily represented accruals of (i) our staff salaries, bonuses and contributions to employees' provident fund; and (ii) our auditor's remuneration.

(2) Our receipts in advance represented the deposits received from our customers for the purchases of our products.

(3) Our other payables primarily represented (i) our VAT payables; and (ii) our payables for PRC local taxes and surcharges.

Our accruals, receipts in advance and other payables increased from approximately US$0.2 million and US$0.4 million as at 31 December 2015 and 2016, respectively, to approximately US$1.1 million as at 31 December 2017 primarily attributable to (i) an increase in our accruals from approximately US$80,000 and US$0.2 million as at 31 December 2015 and 2016, respectively, to approximately US$0.5 million as at 31 December 2017 mainly due to the increase in our staff bonus accruals; and (ii) the recognition of our accrued listing expenses of approximately US$0.3 million as at 31 December 2017.

Our accruals, receipts in advance and other payables increased to approximately US$1.4 million as at 31 December 2018 primarily attributable to the increase in our accrued listing expenses to approximately US$0.9 million as at 31 December 2018, partially offset by the decrease in our receipts in advance from approximately US$0.2 million as at 31 December 2017 to approximately US$54,000 as at 31 December 2018 mainly due to the utilisation of customer advances after the product delivery during FY2018.

Amounts due to related parties

The following table sets out a breakdown of our amounts due to related parties as at the dates indicated:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Directors:				
– Mr. Lam	1,557	1,451	1,439	–
– Mr. Qing	–	231	–	–
	1,557	1,682	1,439	–

Our amounts due to related parties were non-trade in nature, unsecured, interest-free and repayable on demand which mainly represented fund transfers and expenses paid on behalf of our Group or vice versa.

All amounts due to related parties as at 31 December 2017 were fully settled during FY2018.

Property, plant and equipment

As at 31 December 2015, 2016, 2017 and 2018, our property, plant and equipment of approximately US$38,000, US$98,000, US$0.1 million and US$0.1 million, respectively, included (i) leasehold improvement mainly for our office premises; (ii) furniture, fixture and equipment mainly used in our office and warehouse premises; and (iii) motor vehicles for our business use.

Our property, plant and equipment increased from approximately US$38,000 as at 31 December 2015 to approximately US$98,000 as at 31 December 2016 primarily attributable to (i) the additions of our property, plant and equipment of approximately US$35,000 mainly in relation to the renovation of our Hong Kong office premise and new furniture, fixture and equipment in our office and warehouse premises; and (ii) an increase in our property, plant and equipment of approximately US$36,000 resulting from the Acquisition of Shenzhen IH and the Acquisition of Shanghai IH, partially offset by our depreciation of approximately US$11,000 charged for FY2016.

Our property, plant and equipment then remained stable at approximately US$0.1 million as at 31 December 2017 and 2018 primarily attributable to the offsetting effect of (i) the additions of our property, plant and equipment of approximately US$50,000 mainly in relation to the renovation of our Shanghai office premise and new furniture, fixture and equipment in our office and warehouse premises for FY2017 and approximately US$41,000 for new furniture, fixture and equipment for FY2018; and (ii) our depreciation of approximately US$47,000 and US$41,000 charged for FY2017 and FY2018, respectively.

Intangible assets

Our intangible assets amounted to approximately US$33,000, US$0.2 million and US$0.2 million as at 31 December 2016, 2017 and 2018, respectively, which represented the customer relationship established between the PRC Group Companies and their customers arising from the Acquisition of the PRC Group Companies.

During FY2016 and FY2017, our Group acquired 100% equity interests of the PRC Group Companies and the valuation was performed by an independent professional valuer engaged by our Directors to arrive the fair value of the net assets acquired. We recorded intangible assets of approximately US$33,000 arising from the Acquisition of Shenzhen IH and the Acquisition of Shanghai IH during FY2016 and approximately US$0.3 million arising from the Acquisition of Chengdu Flyring during FY2017.

The valuer has taken into consideration that the PRC Group Companies has been recording recurring revenue from long-term customers, and that such stable customer relationship is expected to bring future economic benefit to our Group. For the measurement, the customer relationship is measured via multi-period excess earning method, which is a prevailing valuation method used in assessing intangible asset and is prescribed in International Valuation Standard 210 – Intangible Assets. In particular, the valuer has firstly adopted a set of financial projection of the PRC Group Companies, and has segregated and assigned the expected net profit of the PRC Group Companies to each contributory asset class. The residual profit is assigned to the customer relationship, whereas the summed present value of the residual profit assigned to the customer relationship represents the concluded fair value. Such treatment is in line with HKAS 38 *Intangible Assets*. For further details of our intangible assets, please refer to note 15 of Part II of the Accountants' Report in Appendix I to this prospectus.

Goodwill

Our goodwill of approximately US$0.3 million as at 31 December 2016, 2017 and 2018, respectively, was initially measured at cost, being the excess of the sum of the consideration transferred over the net of amounts of the identifiable assets acquired and the liabilities assumed arising from the Acquisition of Shenzhen IH.

For the purpose of impairment testing on goodwill, we allocated goodwill to the operating performance of Shenzhen IH.

The recoverable amount of Shenzhen IH is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by our management covering a five-year period. The pre-tax discount rates used of 12% for Shenzhen IH. We determined the budgeted gross margin based on past performance and its expectations for the market development. The cash flows beyond five years have been extrapolated using a steady 3% per annum growth rate.

We calculated that the value in use of Shenzhen IH is greater than its total carrying amount and the respective allocated goodwill and therefore has concluded that there is no impairment in respect of our goodwill during the Track Record Period.

Assumptions were used in the value in use calculation of Shenzhen IH for the Track Record Period. The following describes each key assumption for cash flow projections in respect of our impairment testing of goodwill:–

Business growth rate – The basis used to determine the value assigned to the budgeted sales during the five-year projection period is the sales growth rate achieved in the prior year immediately before the budget year.

Pre-tax discount rates – The pre-tax discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on Shenzhen IH are consistent with external information sources.

As at 31 December 2016, 2017 and 2018, the recoverable amounts of Shenzhen IH containing goodwill and the corresponding headroom (i.e. the excess of the recoverable amounts of Shenzhen IH over the carrying amount of goodwill) were as follows:

	As at 31 December		
	2016	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*
Recoverable amounts	9,584	11,286	14,975
Headroom	9,320	11,022	14,711

We performed sensitivity analysis based on the assumption that gross profit margin or growth rate or pre-tax discount rate has been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would decrease to the amounts as follows:

	As at 31 December		
	2016	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*
Business growth rate decreased by 1% point	7,874	8,805	11,535
Pre-tax discount rate per annum increased by 1% point	8,439	9,900	13,290

We have not identified any key assumptions where a reasonably possible change in such assumptions could cause the carrying amount of goodwill to exceed the recoverable amount.

No impairment of goodwill was recognised during the Track Record Period pursuant to the impairment review of goodwill by us. Please refer to note 16 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of our impairment review of goodwill.

Life insurance policy deposits

In June 2015, we entered into a life insurance policy with a Hong Kong insurance company to insure our Director, Mr. Lam. In January and April 2018, we further entered into two life insurance policies to insure Mr. Lam and our senior management, Ms. Cheng Yu Pik (鄭宇璧), head of operations of our Group, respectively. Under these three life insurance policies, our Group, being the beneficiary and policy holder, was required to pay upfront payments of approximately US$0.4 million, US$0.3 million and US$0.3 million at inception of each of the three life insurance policies and the total insured sum of these three life insurance policies amounted to approximately US$4.0 million. We can terminate the policies at any time and receive cash back based on the net nominal account value of life insurance policies at the date of withdrawal. Interest is earned at interest rates of at least those guaranteed by the insurer.

Our Directors expect that such life insurance policies will be terminated at the 38th policy year in 2053, 40th policy year in 2058 and 43rd policy year in 2061 and there will be specified surrender charges of approximately US$55,000, US$37,000 and US$23,000 in accordance with the terms of these three life insurance policies. The expected life of these three life insurance policies remained unchanged from the date of initial recognition and thus, the financial impact of the options to terminate these policies were not significant. The premium charges and prepaid premium will be amortised to our profit or loss through the expected life of life insurance policies (i.e. 38 years, 40 years and 43 years) while the deposits placed for these life insurance policies are carried at their amortised costs using the effective interest method.

Our life insurance policy deposits amounted to approximately US$0.4 million, US$0.4 million, US$0.4 million and US$0.9 million as at 31 December 2015, 2016, 2017 and 2018, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We financed our operations primarily through the following means, including (i) capital contribution from our Shareholders; (ii) net cash inflows from our operating activities; and (iii) proceeds from bank borrowings. Our working capital requirements mainly comprised payments for (i) our material costs; (ii) our staff costs; (iii) our other expenses incurred in the ordinary course of our business; (iv) our finance costs; and (v) our capital expenditures.

During the Track Record Period, we did not experience any liquidity shortage and were able to repay our bank borrowings when they became due. We managed our liquidity risks by maintaining adequate reserves, banking facilities, continuously monitoring our forecasted and actual cash flows and matching the maturity profiles of our assets and liabilities.

In the future, we may need additional cash resources as a result of (i) changing business conditions or other developments; and (ii) opportunities for investment, acquisition and collaborations of other similar actions. We expect that our working capital and other liquidity requirements will primarily be satisfied through a combination of (i) net cash inflows from our operating activities; (ii) banking facilities made available to us; and (iii) the proceeds from the Share Offer.

However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depends on our future operating performance and cash flows, which are in turn subject to the prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. If our existing cash resources are insufficient to meet our requirements, we may seek to obtain extra banking facilities, or sell or issue equity securities, which might result in dilution to our Shareholders.

Cash flows

The following table sets out a summary of our cash flows for the periods indicated:

	For the year ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Net cash generated from operating activities	2,296	136	1,686	7,432
Net cash used in investing activities	(376)	(410)	(855)	(823)
Net cash used in financing activities	(383)	(59)	(1,068)	(5,303)
Net increase/(decrease) in cash and cash equivalents	1,537	(333)	(237)	1,306
Cash and cash equivalents at beginning of the year	638	2,175	1,842	1,629
Effect of foreign exchange rate changes	–	–	24	(61)
Cash and cash equivalents at end of the year	2,175	1,842	1,629	2,874

Our net cash outflow of approximately US$0.3 million for FY2016 was primarily attributable to our cash outflow of approximately US$0.4 million in respect of the acquisition of Shenzhen IH and the acquisition of Shanghai IH. Our net cash outflow of approximately US$0.2 million for FY2017 was primarily attributable to our cash outflow of approximately US$0.8 million in respect of the Acquisition of Chengdu Flyring.

Operating cash flows

During the Track Record Period, we derived our cash from operating activities principally from the receipts from the sale of our products from our customers, while our cash used in operating activities was mainly related to the payments for the material costs, expenses relating to selling and administrative activities, and income tax.

Operating cash flows reflect our profit before income tax adjusted for: (i) non-cash items, mainly including depreciation, provision for/(reversal of) impairment loss on trade receivables and inventories; (ii) the effects of changes in our working capital, which mainly comprised our inventories, trade and bills receivables, prepayments, deposits and other receivables, trade and bills payables, and accruals, receipts in advance and other payables; and (iii) items not related to operating activities, principally including our interest income and interest expenses.

For FY2015, our net cash generated from operating activities amounted to approximately US$2.3 million, comprising net cash generated from operations of approximately US$2.3 million, subtracted by the refund of income tax of approximately US$26,000. Our net cash generated from operations comprised operating cash flows before working capital changes of approximately US$3.0 million and adjustments for changes in working capital, primarily including (i) an increase in inventories of approximately US$0.7 million; (ii) an increase in trade and bills receivables of approximately US$1.6 million; (iii) an increase in trade and bills payables of approximately US$1.9 million; and (iv) a decrease in accruals, receipts in advance and other payables of approximately US$0.3 million.

For FY2016, our net cash generated from operating activities amounted to approximately US$0.1 million, comprising net cash generated from operations of approximately US$0.8 million, subtracted by the payment of income tax of approximately US$0.6 million. Our net cash generated from operations comprised operating cash flows before working capital changes of approximately US$1.6 million and adjustments for changes in working capital, primarily including (i) an increase in inventories of approximately US$0.6 million; (ii) a decrease in trade and bills receivables of approximately US$6.1 million; (iii) an increase in prepayments, deposits and other receivables of approximately US$3.0 million; and (iv) a decrease in trade and bills payables of approximately US$3.4 million.

For FY2017, our net cash generated from operating activities amounted to approximately US$1.7 million, comprising net cash generated from operations of approximately US$2.1 million, subtracted by the payment of income tax of approximately US$0.4 million. Our net cash generated from operations comprised operating cash flows before working capital changes of approximately US$3.6 million and adjustments for changes in working capital, primarily including (i) a decrease in inventories of approximately US$0.2 million; (ii) an increase in trade and bills receivables of approximately US$5.0 million; (iii) a decrease in prepayments, deposits and other receivables of approximately US$2.3 million; (iv) an increase in trade and bills payables of approximately US$0.8 million; and (v) an increase in accruals, receipts in advance and other payables of approximately US$0.3 million.

For FY2018, our net cash generated from operating activities amounted to approximately US$7.4 million, comprising net cash generated from operations of approximately US$8.1 million, subtracted by the payment of income tax of approximately US$0.7 million. Our net cash generated from operations comprised operating cash flows before working capital changes of approximately US$4.5 million and adjustments for changes in working capital, primarily including (i) a decrease in trade and bills receivables of approximately US$0.4 million; (ii) an increase in prepayments, deposits and other receivables of approximately US$1.5 million; (iii) an increase in trade and bills payables of approximately US$4.4 million; and (iv) an increase in accruals, receipts in advance and other payables of approximately US$0.3 million.

Please refer to "Discussion of selected balance sheet items" in this section for further details and analysis of our working capital.

Investing cash flows

During the Track Record Period, our cash flows from investing activities mainly consisted of upfront payments for life insurance policies, purchases of our property, plant and equipment, increase in amounts due from related parties, cash outflows from the Acquisition of the PRC Group Companies, the placement of pledged bank deposits and the receipts of interests.

For FY2015, our net cash used in investing activities amounted to approximately US$0.4 million, which was primarily contributed by our upfront payment of approximately US$0.4 million at inception of a life insurance policy.

For FY2016, our net cash generated from investing activities amounted to approximately US$0.4 million, which was primarily contributed by the cash outflows of approximately US$0.4 million related to the Acquisition of Shenzhen IH and the Acquisition of Shanghai IH.

For FY2017, our net cash used in investing activities amounted to approximately US$0.9 million, which was primarily contributed by cash outflow of approximately US$0.8 million related to the Acquisition of Chengdu Flyring.

For FY2018, our net cash used in investing activities amounted to approximately US$0.8 million, which was primarily contributed by (i) our upfront payments of two life insurance policies of approximately US$0.5 million; and (ii) an increase in pledged bank deposits of approximately US$0.3 million.

Financing cash flows

During the Track Record Period, our cash from financing activities mainly consisted of proceeds from new bank borrowings and capital injection to our Company, while our cash used in financing activities mainly consisted of repayments of bank borrowings, interest payments and the decrease in amounts due to related parties.

For FY2015, our net cash used in financing activities amounted to approximately US$0.4 million, which was mainly contributed by a decrease in amounts due to related parties of approximately US$0.5 million, partially offset by proceeds from bank borrowings of approximately US$0.3 million.

For FY2016, our net cash used in financing activities amounted to approximately US$59,000, which was mainly contributed by (i) an increase in amounts due to related parties of approximately US$0.1 million; and (ii) interest payments of approximately US$0.1 million.

For FY2017, our net cash used in financing activities amounted to approximately US$1.1 million, which was mainly contributed by (i) a decrease in amounts due to related parties of approximately US$4.8 million; (ii) repayments of bank borrowings of approximately US$4.9 million; and (iii) interest payments of approximately US$0.5 million, partially offset by (i) proceeds from bank borrowings of approximately US$7.5 million; and (ii) capital injection of approximately US$1.5 million to our Company from our Controlling Shareholders.

For FY2018, our net cash used in financing activities amounted to approximately US$5.3 million, which was mainly contributed by (i) repayments of bank borrowings of approximately US$4.3 million; (ii) interest payments of approximately US$0.9 million; and (iii) an increase in amounts due to related parties of approximately US$1.4 million, partially offset by proceeds from bank borrowings of approximately US$1.3 million.

Sufficiency of working capital

Taking into account the financial resources available to us, including our available banking facilities, cash and cash equivalents on hand, cash flows generated from our operations and the estimated proceeds from the Share Offer, and in the absence of unforeseen circumstances, our Directors are of the opinion that we have available sufficient working capital for our present requirements and for at least 12 months from the date of this prospectus.

INDEBTEDNESS

Bank borrowings

The following table sets out a breakdown of our bank borrowings as at the dates indicated:

	As at 31 December				As at 30 April
	2015	**2016**	**2017**	**2018**	**2019**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
					(Unaudited)
Current					
Bank loans, secured	249	211	2,127	969	871
Discounted bills with recourse	–	–	2,183	341	1,990
Total	249	211	4,310	1,310	2,861

As at 31 December 2015, 2016, 2017 and 2018 and 30 April 2019, our bank loans of approximately US$0.2 million, US$0.2 million, US$2.1 million, US$1.0 million and US$0.9 million, respectively, carried the interest rate at 2.5%, 2.5%, 3.75%, 4.0% and 3.0% per annum, respectively, and were secured by (i) assignments over our life insurance policies; and (ii) unlimited personal guarantees provided by Mr. Lam.

As at 31 December 2017, our bank loans of approximately US$1.7 million carried the interest rate at 5.66% per annum and were secured by an unlimited personal guarantee and cash deposit provided by Mr. Lam. Such bank loans were fully repaid during FY2018 and the relevant unlimited personal guarantee and cash deposit provided by Mr. Lam were also released during FY2018.

As at 31 December 2017 and 2018 and 30 April 2019, our discounted bills with recourse carried the interest rates at 3.7% to 6.8% per annum and were secured by our bills receivables of approximately US$2.2 million, US$0.3 million and US$2.0 million, respectively.

Our Directors confirm that the personal guarantees provided by Mr. Lam will be released upon the Listing.

The following table sets out the maturity profile of our bank borrowings as at the dates indicated:

	As at 31 December				As at 30 April
	2015	**2016**	**2017**	**2018**	**2019**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
					(Unaudited)
Within one year	38	38	4,176	1,214	2,643
More than one year, but not exceeding two years	38	38	38	38	68
More than two years, but not exceeding five years	115	115	96	58	133
After five years	58	20	–	–	17
Total	249	211	4,310	1,310	2,861

Lease liabilities

As at 30 April 2019 (being the most recent practicable date for the purpose of this indebtedness statement), we had lease liabilities of approximately US$0.9 million which represented the outstanding lease liabilities in respect of the leases of our office and warehouses upon the adoption of HKFRS 16 from 1 January 2019.

The following table sets out the maturity profile of our lease liabilities as at the dates indicated:

	As at 31 December				As at 30 April
	2015	2016	2017	2018	2019
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* *(Unaudited)*
Within one year	–	–	–	–	430
More than one year, but not exceeding two years	–	–	–	–	516
Total	–	–	–	–	946

For the details of the adoption of HKFRS 16, please refer to note 4(b) of Part II of the Accountants' Report in Appendix I to this prospectus for further details.

Banking facilities

As at 30 April 2019 (being the most recent practicable date for the purpose of this indebtedness statement), the total banking facilities granted to our Group amounted to approximately US$12.8 million, of which approximately US$0.1 million of our banking facilities as at 30 April 2019 were not utilised, which were committed, unrestricted and could be drawn down at any time.

The following table sets out a breakdown of our total, utilised and unutilised banking facilities as at 30 April 2019 (being the most recent practicable date for the purpose of this indebtedness statement):

	As at 30 April 2019		
	Unutilised	Utilised	Total
	US$'000	*US$'000*	*US$'000*
Banking facilities granted for the purpose of:			
– Revolving trade financing	135	11,797*(Note)*	11,932
– Tax loan	–	420	420
– Life insurance	–	451	451
Total	135	12,668	12,803

Note: Our utilised revolving trade financing facilities primarily represented our bills payables.

Save as disclosed in "Indebtedness" in this section, as at 30 April 2019 (being the most recent practicable date for the purpose of this indebtedness statement), we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loans from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding.

Save as disclosed in "Indebtedness" in this section, our Directors further confirm that there had not been any material change in our indebtedness since 31 January 2019 (being the most recent practicable date for the purpose of this indebtedness statement) and up to the Latest Practicable Date.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (i) our banking facilities are subject to the standard banking conditions and covenants and there are no material covenants that impose a substantial limitation on our ability to obtain further banking facilities; (ii) we had no material default with regard to covenants and/or breaches of the covenants under our banking facilities; (iii) we had not received any notice from any bank indicating that it might withdraw or downsize our facilities; and (iv) we do not have any material external debt financing plans.

Debt securities

As at 31 January 2019 (being the most recent practicable date for the purpose of this indebtedness statement), we had no debt securities issued outstanding or authorised, or otherwise created but unissued.

Contingent liabilities

Save as disclosed in "Indebtedness" in this section, as at 31 December 2015, 2016, 2017 and 2018 and 31 January 2019, we did not have any significant contingent liabilities. We are currently not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial condition.

OFF-BALANCE SHEET TRANSACTIONS

We have not entered into any material off-balance sheet transactions or arrangements during the Track Record Period and up to the Latest Practicable Date.

CAPITAL EXPENDITURES

During the Track Record Period, we paid an aggregate amount of nil, approximately US$35,000, US$50,000 and US$41,000 for capital expenditures on purchases of our property, plant and equipment, respectively.

We intend to fund our capital expenditures through a combination of the net proceeds receivable by us from the Share Offer and the cash flows generated from our operating activities. Save as disclosed in "Future plans and use of proceeds" in this prospectus, we have no other material planned capital expenditure in 2019.

COMMITMENTS

Capital commitments

As at 31 December 2015, 2016, 2017 and 2018, we did not have any material capital commitments.

Operating lease commitments

Please refer to note 28 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of our operating lease commitments.

PROPERTY INTERESTS

Please refer to "Business – Properties" in this prospectus for the further details of our leased properties.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in this prospectus, our Directors are of the opinion that these related party transactions were conducted on normal commercial terms.

Please refer to note 27 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of our related party transactions.

LISTING EXPENSES

Our total estimated listing expenses, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately US$5.9 million (based on the mid-point of the indicative Offer Price range of HK$0.655 per Offer Share). Among the estimated aggregate amount of our estimated listing expenses, approximately US$1.7 million of which is expected to be accounted for as a deduction from equity upon the Listing. The remaining amount of approximately US$4.2 million is expected to be charged to our profit or loss, of which approximately US$0.4 million, US$0.6 million, US$1.5 million have been recognised in our profit or loss for FY2016, FY2017 and FY2018, respectively.

Our Directors are of the view that and potential investors should note that our financial result for the year ending 31 December 2019 is expected to be adversely affected by, among other things, our non-recurring estimated listing expenses. As such, our financial performance for the year ending 31 December 2019 may not be comparable to our financial performance during the Track Record Period. In addition, our Directors would like to emphasise that the amount of our listing expenses is a current estimate for reference only and the final amount to be recognised in our financial statements is subject to adjustment based on audit and the then changes in variables and assumptions.

KEY FINANCIAL RATIOS

The following table sets out our key financial ratios as at the dates/for the periods indicated:

	For the year ended/As at 31 December			
	2015	**2016**	**2017**	**2018**
Net profit margin before interest and tax	6.2%	4.4%	6.6%	6.6%
Net profit margin	5.1%	3.1%	4.7%	3.9%
Current ratio	1.8	1.7	1.5	1.6
Quick ratio	1.3	1.2	1.2	1.3
Gearing ratio	3.2%	2.4%	39.3%	9.7%
Debt-to-equity ratio	N/A	N/A	24.4%	N/A
Return on assets	13.4%	5.4%	8.3%	7.8%
Return on equity	29.9%	12.7%	23.0%	19.3%
Interest coverage ratio	36.3	11.0	7.9	5.1

Net profit margin before interest and tax, and net profit margin

Our net profit margin before interest and tax is calculated based on our profit netting off our finance costs and income tax expenses divided by our revenue, multiplied by 100%.

Our net profit margin is calculated by our profit divided by our revenue, multiplied by 100%.

Our net profit margin before interest and tax, and net profit margin decreased from approximately 6.2% and 5.1% for FY2015, respectively, to approximately 4.4% and 3.1% for FY2016, respectively, primarily attributable to (i) the recognition of our listing expenses of approximately US$0.4 million (which accounted for approximately 1.2% of our total revenue) for FY2016; and (ii) the increase in our exchange loss, net by approximately US$0.2 million.

Our net profit margin before interest and tax, and net profit margin increased to approximately 6.6% and 4.7% for FY2017, respectively, primarily attributable to (i) the increase in our gross profit margin from approximately 8.9% for FY2016 to approximately 12.2% for FY2017; and (ii) the change from an exchange loss, net of approximately US$0.3 million for FY2016 to an exchange gain, net of approximately US$0.5 million for FY2017.

Our net profit margin before interest and tax then remained stable at approximately 6.6% for FY2018 whereas our net profit margin decreased to approximately 3.9% for FY2018 primarily attributable to the increase in our finance costs from approximately US$0.5 million for FY2017 to approximately US$0.9 million for FY2018.

Had we excluded our listing expenses of approximately US$0.4 million, US$0.6 million and US$1.5 million for FY2016, FY2017 and FY2018, respectively, our net profit margin before interest and tax, and net profit margin would have been approximately 5.6% and 4.3% for FY2016, respectively, approximately 7.7% and 5.7% in FY2017, respectively, and approximately 8.9% and 6.2% in FY2018, respectively.

Current ratio and quick ratio

Our current ratio is calculated by our current assets divided by our current liabilities.

Our quick ratio is calculated by our current assets less inventories divided by our current liabilities.

Our current ratio and quick ratio decreased from approximately 1.8 and 1.3 as at 31 December 2015, respectively, to approximately 1.7 and 1.2 as at 31 December 2016, respectively, primarily attributable to the rate of increase in our current liabilities by approximately 27.7% exceeding the rate of increase in our current assets by approximately 20.7% which was mainly due to (i) the increase in our trade and bills payables from approximately US$7.2 million as at 31 December 2015 to approximately US$9.9 million as at 31 December 2016; and (ii) a relatively lower balance of our current liabilities as at 31 December 2015 as compared to that of our current assets as at 31 December 2015.

Our current ratio decreased to approximately 1.5 as at 31 December 2017 primarily attributable to the rate of increase in our current liabilities by approximately 60.7% exceeding the rate of increase in our current assets by approximately 45.1% which was mainly due to (i) the increase in our bank borrowings from approximately US$0.2 million as at 31 December 2016 to approximately US$4.3 million as at 31 December 2017; and (ii) a relatively lower balance of our current liabilities as at 31 December 2016 as compared to that of our current assets as at 31 December 2016. Our quick ratio then remained stable at approximately 1.2 as at 31 December 2017.

Our current ratio and quick ratio increased to approximately 1.6 and 1.3 as at 31 December 2018, respectively, primarily attributable to the rate of increase in our current assets of approximately 8.8% exceeding the rate of increase in our current liabilities of approximately 2.5% mainly due to (i) the increase in our prepayments, deposits and other receivables from approximately US$1.9 million as at 31 December 2017 to approximately US$3.4 million as at 31 December 2018; and (ii) the increase in our cash and cash equivalents from approximately US$1.6 million as at 31 December 2017 to approximately US$2.9 million as at 31 December 2018.

Gearing ratio and debt-to-equity ratio

Our gearing ratio is calculated by our total debts (i.e. our bank borrowings) divided by our total equity.

Our debt-to-equity ratio is calculated by our net debts (i.e. our total debts less our cash and cash equivalents) divided by our total equity.

Our gearing ratio decreased from approximately 3.2% as at 31 December 2015 to approximately 2.4% as at 31 December 2016 primarily attributable to the increase in our total equity from approximately US$7.7 million as at 31 December 2015 to approximately US$8.9 million as at 31 December 2016. No debt-to-equity ratio as at 31 December 2015 and 2016 is presented because our total debts were less than our cash and cash equivalents as at 31 December 2015 and 2016.

Our gearing ratio and debt-to-equity ratio increased to approximately 39.3% and 24.4% as at 31 December 2017, respectively, primarily attributable to the increase in our bank borrowings from approximately US$0.2 million as at 31 December 2016 to approximately US$4.3 million as at 31 December 2017.

Our gearing ratio decreased to approximately 9.7% as at 31 December 2018, primarily attributable to the decrease in our bank borrowings to approximately US$1.3 million as at 31 December 2018. No debt-to-equity ratio as at 31 December 2018 is presented because our total debts were less than our cash and cash equivalents as at 31 December 2018.

Return on assets

Our return on assets is calculated by our profit for the year divided by the closing balance of our total assets, multiplied by 100%.

Our return on assets decreased from approximately 13.4% for FY2015 to approximately 5.4% for FY2016 primarily attributable to the decrease in our net profit from approximately US$2.3 million for FY2015 to approximately US$1.1 million for FY2016 mainly due to (i) the decrease in our gross profit from approximately US$4.0 million for FY2015 to approximately US$3.2 million for FY2016; and (ii) the recognition of our listing expenses of approximately US$0.4 million for FY2016.

Our return on assets increased to approximately 8.3% for FY2017 primarily attributable to the increase in our net profit to approximately US$2.5 million for FY2017 mainly due to the increase in our gross profit to approximately US$6.6 million for FY2017.

Our return on assets decreased to approximately 7.8% for FY2018 primarily attributable to the increase in our listing expenses from approximately US$0.6 million for FY2017 to approximately US$1.5 million for FY2018.

Return on equity

Our return on equity is calculated by our profit for the year divided by the closing balance of our total equity, multiplied by 100%.

Our return on equity decreased from approximately 29.9% for FY2015 to approximately 12.7% for FY2016 primarily attributable to (i) the decrease in our net profit from approximately US$2.3 million for FY2015 to approximately US$1.1 million for FY2016; and (ii) the increase in our total equity, as discussed above.

Our return on equity increased to approximately 23.0% for FY2017 primarily attributable to the increase in our net profit to approximately US$2.5 million for FY2017 mainly due to the increase in our gross profit from approximately US$3.2 million for FY2016 to approximately US$6.6 million for FY2017.

Our return on equity decreased to approximately 19.3% for FY2018 primarily attributable to the rate of increase in our total equity of approximately 23.2% exceeding the rate of increase in our net profit of approximately 3.5% mainly due to the significant increase in our listing expenses from approximately US$0.6 million for FY2017 to approximately US$1.5 million for FY2018.

Interest coverage ratio

Our interest coverage ratio is calculated by our profit before finance costs and income tax expenses divided by our finance costs.

Our interest coverage ratio decreased from approximately 36.3 for FY2015 to approximately 11.0 for FY2016 primarily attributable to the decrease in our profit before interest and tax mainly due to (i) the decrease in our gross profit from approximately US$4.0 million for FY2015 to approximately US$3.2 million for FY2016; and (ii) the recognition of our listing expenses of approximately US$0.4 million for FY2016.

Our interest coverage ratio further decreased to approximately 7.9 and 5.1 for FY2017 and FY2018, respectively, primarily attributable to the increase in our finance costs from approximately US$0.1 million for FY2016 to approximately US$0.5 million and US$0.9 million for FY2017 and FY2018, respectively, mainly due to the increased use of our trade financing facilities.

Had we excluded our listing expenses of approximately US$0.4 million, US$0.6 million and US$1.5 million for FY2016, FY2017 and FY2018, respectively, our interest coverage ratio would have been approximately 13.9, 9.2 and 6.9 for FY2016, FY2017 and FY2018, respectively.

FINANCIAL INFORMATION OF THE PRC GROUP COMPANIES

Since all of the PRC Group Companies were owned by Mr. Qing and Mrs. Qing and managed as a group to conduct business, and the dates of the Acquisition of Shenzhen IH and the Acquisition of Shanghai IH are 14 December 2016 and 26 December 2016 which are all near 31 December 2016, we just sum up item by item in each of the audited pre-acquisition financial information of Shenzhen IH, Shanghai IH and Chengdu Flyring (which was contained in Part IV to Part VI of the Accountants' Report, respectively, in Appendix I to this prospectus) for (i) FY2015; and (ii) from 1 January 2016 to the earlier date of each of the dates of the Acquisition of the PRC Group Companies and 31 December 2016 ("**PE2016**") as the aggregate financial information of the PRC Group Companies to facilitate investors to assess the PRC Group Companies' performance as a whole and for our purpose of the discussion and analysis only.

Our Directors would like to emphasise that because such aggregate financial information of the PRC Group Companies was not prepared in accordance with HKFRSs and was not audited by our reporting accountants, it may not give a true picture of the financial results and the financial position of the PRC Group Companies for FY2015 and PE2016.

For further details of the business operations of the PRC Group Companies and the impact of the Acquisition of the PRC Group Companies on our Group, please refer to "Material acquisitions during the Track Record Period" in this section and "Business – Acquisition of the PRC Group Companies" in this prospectus.

Discussion of selected profit or loss items of the PRC Group Companies

The following table includes the aggregate amount of items of the PRC Group Companies for FY2015 and PE2016, which has been extracted and summed up from, and should be read in conjunction with the statements of profit or loss of each of the PRC Group Companies contained in the audited pre-acquisition financial information of Shenzhen IH, Shanghai IH and Chengdu Flyring in Part IV to Part VI of the Accountants' Report, respectively, in Appendix I to this prospectus:

	FY2015	**PE2016**
	US$'000	*US$'000*
Revenue	29,374	21,368
Cost of sales	(27,509)	(20,105)
Gross profit	1,865	1,263
Other income	5	7
Selling and distribution expenses	(639)	(588)
General and administrative expenses	(653)	(564)
Finance costs	(123)	(26)
Profit before income tax	455	92
Income tax expense	(137)	(58)
Profit for the year/period	318	34

Revenue

The following tables set out the breakdowns of the revenue, the sales volume and the average unit price of the PRC Group Companies by product category for the periods indicated:

	FY2015		**PE2016**	
	US$'000	*%*	*US$'000*	*%*
Mobile devices and smart charging	5,163	17.6	4,106	19.2
Motor control	6,903	23.5	6,860	32.1
RF power	9,200	31.3	5,695	26.7
LED lighting	6,531	22.2	3,137	14.7
Sensors and automation	1,577	5.4	1,570	7.3
Total	29,374	100.0	21,368	100.0

	FY2015		**PE2016**	
	Sales volume	**Average unit price**	**Sales volume**	**Average unit price**
	Unit'000	*US$/unit*	*Unit'000*	*US$/unit*
Mobile devices and smart charging	25,270	0.20	20,506	0.20
Motor control	9,428	0.73	12,091	0.57
RF power	27,253	0.34	44,881	0.13
LED lighting	22,167	0.29	14,177	0.22
Sensors and automation	4,012	0.39	2,183	0.72
Total/Overall	88,130	0.33	93,838	0.23

The PRC Group Companies' revenue decreased from approximately US$29.4 million for FY2015 to approximately US$21.4 million for PE2016, which was primarily driven by (i) the decrease in the revenue derived from the sale of the RF power IC products by approximately US$3.5 million; (ii) the decrease in the revenue derived from the sale of the LED lighting IC products by approximately US$3.4 million; and (iii) the decrease in the revenue derived from the sale of the mobile devices and smart charging IC products by approximately US$1.1 million.

The reasons of the fluctuation in the revenue, sales volume and average unit price of each product category are discussed below.

Mobile devices and smart charging

The PRC Group Companies' revenue derived from the sale of the mobile devices and smart charging IC products decreased from approximately US$5.2 million for FY2015 to approximately US$4.1 million for PE2016, which was primarily attributable to the decrease in the sales and sales volume to a major customer, Jiangsu Chen Yang, from approximately US$4.6 million and 22.3 million units for FY2015, respectively, to approximately US$2.9 million and 13.0 million units for PE2016, respectively, mainly due to the replacement of a model of a model of Taiwanese brand IC (which is a synchronous ballast metal-oxide-semiconductors (MOS) IC incorporated in the mobile phone chargers) supplied by the PRC Group Companies by other cheaper PRC branded ICs with similar functions supplied by other PRC competitors.

The PRC Group Companies' average unit price of the mobile devices and smart charging IC products remained stable at approximately US$0.20 for FY2015 and PE2016.

Motor control

The PRC Group Companies' revenue derived from the sale of the motor control IC products remained stable at approximately US$6.9 million for FY2015 and PE2016.

The increase in the PRC Group Companies' sales volume of the motor control IC products from approximately 9.4 million units for FY2015 to approximately 12.1 million units for FY2016 was primarily attributable to the increase in the sales volume of two models of Manufacturer A IC products, namely (i) Product A (mainly sold to a PRC branch of a German multinational engineering and electronics company) from approximately 28,000 units for FY2015 to approximately 1.2 million units for PE2016, which had a lower average unit price of approximately US$0.19 and US$0.17 for FY2015 and PE2016, respectively; and (ii) one model of Manufacturer A IC product for application solutions of low power supply module of a motor controller (mainly sold to Jiangsu Chen Yang) from approximately 3,000 units for FY2015 to approximately 1.9 million units for PE2016, which had a lower average unit price of approximately US$0.10 for FY2015 and PE2016.

Owing to the increase in the sales volume of the aforesaid two models of Manufacturer A IC products which had relatively lower average unit prices as compared to other major motor control ICs mainly due to the simpler functional designs for low power range motors, the PRC Group Companies' average unit price of the motor control IC products decreased from approximately US$0.73 for FY2015 to approximately US$0.57 for PE2016.

RF power

The PRC Group Companies' revenue derived from the sale of the RF power IC products decreased from approximately US$9.2 million for FY2015 to approximately US$5.7 million for PE2016, which was primarily attributable to the decrease in the revenue generated from FTTB ICs mainly for the application solutions of FTTB in CATV and broadband networks (which were mainly sold to Hangzhou Prevail) from approximately US$6.2 million for FY2015 to approximately US$2.5 million for PE2016 mainly due to the transition from the applications of FTTB to FTTH in the PRC.

The increase in the PRC Group Companies' sales volume of the RF power IC products from approximately 27.3 million units for FY2015 to approximately 44.9 million units for PE2016 was primarily attributable to the increase in the sales demand of a model of Dutch branded RF diode product used in lighting products (mainly sold to Customer G) from approximately 19.3 million units for FY2015 to approximately 31.3 million units for PE2016 (with a relatively lower average unit price of approximately US$0.01 for FY2015 and PE2016).

Owing to the increase in the sales volume of the aforesaid IC product which had a relatively lower average unit price mainly due to the fact that RF diodes are electronic components which have simpler technology and functional designs as compared to other RF power ICs generally, the PRC Group Companies' average unit price of the RF power IC products decreased from approximately US$0.34 for FY2015 to approximately US$0.13 for PE2016.

LED lighting

The PRC Group Companies' revenue derived from the sale of the LED lighting IC products decreased from approximately US$6.5 million for FY2015 to approximately US$3.1 million for PE2016, which was primarily attributable to (i) the decrease in the sales demand of LED lighting IC products from approximately 22.2 million units for FY2015 to approximately 14.2 million units for PE2016 mainly due to the fact that certain customers of the PRC Group Companies switched to purchase cheaper LED lighting ICs from other PRC competitors, such as the decrease in the PRC Group Companies' revenue from the sale of LED lighting IC products to Customer H from approximately US$1.7 million for FY2015 to approximately US$0.8 million for PE2016; and (ii) the decrease in the PRC Group Companies' average unit price of the LED lighting IC products from approximately US$0.29 for FY2015 to approximately US$0.22 for PE2016 mainly due to the fact that the PRC Group Companies' customers changed to purchase cheaper LED lighting IC products for PE2016 and the PRC Group Companies implemented the price discount strategy of the LED lighting IC products during PE2016 to compete with other PRC competitors.

Sensors and automation

The PRC Group Companies' revenue derived from the sale of the sensors and automation IC products remained stable at approximately US$1.6 million for FY2015 and PE2016.

The decrease in the PRC Group Companies' sales volume of the sensors and automation IC products from approximately 4.0 million units for FY2015 to approximately 2.2 million units for PE2016 was primarily attributable to the decrease in the sales volume of two models of transistor products for application solutions of tuning inductors used in lighting products from approximately 0.5 million units and 0.7 million units for FY2015, respectively to nil for PE2016 (with a relatively lower average unit price of approximately US$0.01 and US$0.03 for FY2015, respectively).

The increase in the PRC Group Companies' average unit price of the sensors and automation IC products from approximately US$0.39 for FY2015 to approximately US$0.72 for PE2016 was primarily attributable to (i) the increase in the sales volume of an integrated automation IC module product for application solution of TV transmitters which were sold to Customer J from approximately 360 units for FY2015 to approximately 4,000 units for PE2016 with a relatively higher average unit price of approximately US$226.8 and US$212.3 for FY2015 and PE2016, respectively, mainly due to the fact that such product is an integrated IC module after processing and synthesis instead of an individual IC component; and (ii) the decrease in the sales volume of the aforesaid two models of ICs from approximately 1.2 million units for FY2015 to nil for PE2016 which had relatively lower unit prices because transistor products are electronic components which have simpler technology and functional designs as compared to other sensors and automation ICs generally.

Cost of sales

The following table sets out a breakdown of the cost of sales of the PRC Group Companies by cost nature for the periods indicated:

	FY2015		**PE2016**	
	US$'000	*%*	*US$'000*	*%*
Material costs				
– Mobile devices and smart charging	4,993	18.2	3,949	19.6
– Motor control	6,032	21.9	6,199	30.8
– RF power	8,219	29.9	5,197	25.8
– LED lighting	5,958	21.7	3,008	15.1
– Sensors and automation	1,353	4.8	1,465	7.3
Subtotal	26,555	96.5	19,818	98.6
Direct labour costs	167	0.6	148	0.7
Transportation and logistics costs	710	2.6	144	0.7
Provision for/(Reversal of) impairment loss on inventories, net	77	0.3	(5)	–
Total	27,509	100.0	20,105	100.0

The PRC Group Companies' material costs represented procurement costs of ICs, which formed the largest component of the PRC Group Companies' cost of sales, representing approximately 96.5% and 98.6% of the PRC Group Companies' total cost of sales during FY2015 and PE2016, respectively. The fluctuations in the PRC Group Companies' material costs by each of the PRC Group Companies' product categories during FY2015 and PE2016 were generally in line with the fluctuations in the PRC Group Companies' revenue by each of the product categories.

The PRC Group Companies' other costs, including (i) transportation and logistics costs; and (ii) our provision for/(reversal of) impairment loss on inventories, net, contributed the remaining portion of the PRC Group Companies' cost of sales during FY2015 and PE2016.

The decrease in the PRC Group Companies' cost of sales from approximately US$27.5 million for FY2015 to approximately US$20.1 million for PE2016 was primarily attributable to (i) the decrease in the PRC Group Companies' material costs from approximately US$26.6 million for FY2015 to approximately US$19.8 million for PE2016, which were mainly in line with the decrease in the PRC Group Companies' revenue; and (ii) the decrease in the PRC Group Companies' transportation and logistics costs from approximately US$0.7 million for FY2015 to approximately US$0.1 million for PE2016, which were mainly in line with the decrease in the PRC Group Companies' purchases from the HK Group Companies as well as better cost control by delivering the IC products from Hong Kong to certain customers of the PRC Group Companies in the PRC directly instead of sending all IC products to the PRC Group Companies' warehouses from the HK Group Companies first.

Gross profit and gross profit margin

The following table sets out a breakdown of the gross profit and gross profit margin of the PRC Group Companies by product category for the periods indicated:

	FY2015		**PE2016**	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	US$'000	*%*	*US$'000*	*%*
Mobile devices and smart charging	65	1.3	75	1.8
Motor control	650	9.4	620	9.0
RF power	680	7.4	401	7.0
LED lighting	358	5.5	72	2.3
Sensors and automation	112	7.1	95	6.1
Total/Overall	1,865	6.3	1,263	5.9

The PRC Group Companies' gross profit represented the PRC Group Companies' revenue less the PRC Group Companies' cost of sales. The PRC Group Companies' gross profit margin represented the PRC Group Companies' gross profit divided by the PRC Group Companies' revenue, multiplied by 100%.

The decrease in the PRC Group Companies' gross profit from approximately US$1.9 million for FY2015 to approximately US$1.3 million for PE2016 was primarily in line with the decrease in the PRC Group Companies' revenue. The fluctuations in the PRC Group Companies' gross profit by each of the product categories during FY2015 and PE2016 also primarily followed the fluctuations in the PRC Group Companies' revenue derived from each of the corresponding product categories during FY2015 and PE2016.

The decrease in the PRC Group Companies' overall gross profit margin from approximately 6.3% for FY2015 to approximately 5.9% for PE2016 was primarily attributable to the decrease in the PRC Group Companies' gross profit margin of LED lighting IC products from approximately 5.5% for FY2015 to approximately 2.3% for PE2016 mainly because the PRC Group Companies implemented the price discount strategy of the LED lighting IC products during PE2016 to compete with other PRC competitors.

The PRC Group Companies recorded a lower gross profit margin of mobile devices and smart charging IC products of approximately 1.3% and 1.8% for FY2015 and PE2016, respectively, mainly because the PRC Group Companies significantly relied on the sales and marketing, R&D and after-sales services provided by the HK Group Companies for the sale of mobile devices and smart charging IC products to the PRC Group Companies' largest customer, Jiangsu Chen Yang, whereas the PRC Group Companies recorded a higher gross profit margin of motor control IC products of approximately 9.4% and 9.0% for FY2015 and PE2016, respectively, mainly because the PRC Group Companies generally provided a greater extent of the sales and marketing and after-sales services for the sale of motor control IC products to certain ultimate customers (mainly including Zhuhai Enpower).

Other income

During FY2015 and PE2016, the PRC Group Companies' other income amounted to approximately US$5,000 and US$7,000, respectively, which primarily represented the bank interest income and other sundry income of the PRC Group Companies.

Selling and distribution expenses

The following table sets out a breakdown of the selling and distribution expenses of the PRC Group Companies for the periods indicated:

	FY2015		**PE2016**	
	US$'000	*%*	*US$'000*	*%*
Staff costs *(Note 1)*	298	46.6	250	42.5
Travelling and accommodation expenses	160	25.0	167	28.4
Entertainment expenses	62	9.7	77	13.1
Postage and couriers	76	11.9	58	9.9
Sundries	43	6.8	36	6.1
Total	639	100.0	588	100.0

Note:

(1) The PRC Group Companies' staff costs primarily represented the salaries, bonuses, allowances and contributions to employees' provident fund of the PRC Group Companies' sales and marketing staff.

The decrease in the PRC Group Companies' selling and distribution expenses from approximately US$639,000 for FY2015 to approximately US$588,000 for PE2016 was primarily attributable to the decrease in the PRC Group Companies' staff costs from approximately US$298,000 for FY2015 to approximately US$250,000 for PE2016 mainly due to the reduction of sales and marketing staff bonuses.

General and administrative expenses

The following table sets out a breakdown of the general and administrative expenses of the PRC Group Companies for the periods indicated:

	FY2015		**PE2016**	
	US$'000	*%*	*US$'000*	*%*
Staff costs *(Note 1)*	218	33.4	182	32.3
Operating lease expenses *(Note 2)*	251	38.4	244	43.3
Depreciation	15	2.3	11	2.0
Telecommunication expenses	21	3.2	22	3.9
Sundries	148	22.7	105	18.5
Total	653	100.0	564	100.0

Notes:

(1) The PRC Group Companies' staff costs primarily represented the salaries, bonuses, allowances and contributions to employees' provident fund of the PRC Group Companies' administrative and management staff.

(2) The PRC Group Companies' operating lease expenses primarily represented the rental expenses incurred for Shenzhen, Shanghai and Chengdu office premises.

The decrease in the PRC Group Companies' general and administrative expenses from approximately US$0.7 million for FY2015 to approximately US$0.6 million for PE2016 was primarily attributable to the decrease in the PRC Group Companies' staff costs from approximately US$218,000 for FY2015 to approximately US$182,000 for PE2016 mainly due to the reduction of administrative and management staff bonuses.

Total staff costs

The following table sets out a breakdown of the total staff costs of the PRC Group Companies (which are included in the PRC Group Companies' cost of sales, selling and distribution expenses, and general and administrative expenses of the PRC Group Companies) for the periods indicated:

	FY2015		PE2016	
	US$'000	*%*	*US$'000*	*%*
Salaries and wages				
– Salaries and allowances	509	74.5	449	77.4
– Staff bonus	65	9.5	5	0.9
Subtotal	574	84.0	454	78.3
Pension scheme contributions				
– Defined contribution plan	109	16.0	126	21.7
Total	683	100.0	580	100.0

The decrease in the PRC Group Companies' total staff costs from approximately US$0.7 million for FY2015 to approximately US$0.6 million for PE2016 was primarily attributable to (i) the decrease in the PRC Group Companies' total staff bonus by approximately US$60,000 mainly due to better financial performance of the PRC Group Companies for FY2015; and (ii) the decrease in the PRC Group Companies' total salaries and allowances by approximately US$57,000 mainly due to the effect of the decrease of average exchange rate of RMB against US$ by approximately 6.8% from FY2015 to PE2016 and the reduction of allowances paid to the PRC Group Companies' staff by approximately US$23,000 mainly in relation to the drop of the PRC Group Companies' financial performance in PE2016.

Finance costs

During FY2015 and PE2016, the PRC Group Companies' finance costs amounted to approximately US$0.1 million and US$26,000, respectively, which represented the interest expenses incurred for the discounted bills issued by the PRC Group Companies.

Income tax expense

Under the EIT Law and the Implementation Rules, the tax rate applicable to the PRC Group Companies is 25%. During FY2015 and PE2016, the PRC Group Companies' income tax expense amounted to approximately US$0.1 million and US$58,000, respectively, which represented the EIT of the PRC Group Companies.

The decrease in the PRC Group Companies' income tax expense from approximately US$0.1 million for FY2015 to approximately US$58,000 for PE2016 was primarily attributable to the decrease in the profit before income tax of Chengdu Flyring from approximately US$0.4 million for FY2015 to approximately US$0.2 million for PE2016, leading to the decrease in Chengdu Flyring's taxable profit.

Profit for the year/period

The decrease in the profit for the year/period from approximately US$0.3 million for FY2015 to approximately US$34,000 for PE2016 was primarily attributable to the decrease in the PRC Group Companies' gross profit by approximately US$0.6 million, partially offset by (i) the decrease in the PRC Group Companies' total staff costs by approximately US$0.1 million; (ii) the decrease in the PRC Group Companies' finance costs by approximately US$97,000; and (iii) the decrease in the PRC Group Companies' income tax expense by approximately US$79,000, all of which were mainly due to the foregoing reasons as discussed in "Discussion of selected profit or loss items of the PRC Group Companies" in this section.

Discussion of selected balance sheet items of the PRC Group Companies

Net current assets

The following table includes the aggregate amount of items of current assets and current liabilities of the PRC Group Companies as at (i) 31 December 2015; and (ii) the earlier date of 31 December 2016 and the dates of the Acquisition of the PRC Group Companies ("**AD2016**"), which has been extracted and summed up from, and should be read in conjunction with the statements of financial position of each of the PRC Group Companies contained in the audited pre-acquisition financial information of Shenzhen IH, Shanghai IH and Chengdu Flyring in Part IV to Part VI of the Accountants' Report, respectively, in Appendix I to this prospectus:

	As at	
	31 December 2015	**AD2016**
	US$'000	*US$'000*
Current assets		
Inventories	2,733	985
Trade and bills receivables	12,401	10,125
Prepayments, deposits and other receivables	203	162
Amounts due from related parties	367	846
Cash and cash equivalents	737	459
	16,441	12,577
Current liabilities		
Trade payables	10,173	7,566
Accruals, receipts in advance and other payables	245	436
Amounts due to related parties	227	144
Bank borrowings	1,752	718
Tax payable	113	31
	12,510	8,895
Net current assets	3,931	3,682

The PRC Group Companies' net current assets decreased from approximately US$3.9 million as at 31 December 2015 to approximately US$3.7 million as at AD2016, which was primarily attributable to the interim dividend of approximately US$1.3 million declared by Chengdu Flyring.

Please refer to the below for further details and analysis of the current assets and current liabilities of the PRC Group Companies.

Inventories

The following table sets out a breakdown of the inventories of the PRC Group Companies by product category as at the dates indicated and the inventory turnover days of the PRC Group Companies for the periods indicated:

	As at 31 December 2015	As at AD2016
	US$'000	*US$'000*
Mobile devices and smart charging	256	40
Motor control	346	379
RF power	1,365	428
LED lighting	462	80
Sensors and automation	304	58
Total	2,733	985

	FY2015	**PE2016**
	Days	*Days*
Inventory turnover days *(Note)*	37.3	33.7

Note: The PRC Group Companies' inventory turnover days equals to the average of the opening and closing balances of the PRC Group Companies' inventories divided by the PRC Group Companies' cost of sales and multiplied by 365 days.

The PRC Group Companies' inventories comprised finished goods of ICs (along with the value-added services) for on-selling to the customers within the PRC.

The PRC Group Companies' inventories decreased from approximately US$2.7 million as at 31 December 2015 to approximately US$1.0 million as at AD2016, which was primarily in line with the decrease in the PRC Group Companies' cost of sales and mainly attributable to (i) the decrease in the inventories of the RF power ICs by approximately US$0.9 million mainly due to the decreasing trend of the sales demand of RF power IC products; and (ii) the decrease in the inventories of other types of ICs by approximately US$0.8 million mainly due to the fact that the inventories were not yet delivered to the PRC Group Companies by the HK Group Companies as at AD2016.

The PRC Group Companies' inventory turnover days remained stable at approximately 37.3 days and 33.7 days for FY2015 and PE2016, respectively.

The following table sets out a breakdown an ageing analysis of the inventories of the PRC Group Companies as at the dates indicated:

	As at 31 December 2015	AD2016
	US$'000	*US$'000*
Within 30 days	1,505	314
31 to 90 days	370	250
91 to 180 days	189	44
Over 180 days	669	377
Total	2,733	985

For FY2015, the PRC Group Companies recorded a net impairment loss on inventories of approximately US$77,000 in the PRC Group Companies' profit or loss due to the falling of net realisable value of the inventories below their corresponding costs, as a result of, among other things, being obsolete. For PE2016, we recorded a net reversal of impairment loss on inventories of approximately US$5,000 in the PRC Group Companies' profit or loss when the impaired inventories were sold subsequently and the relevant provision for impairment loss was reversed to the extent of impairment losses previously recognised.

Trade and bills receivables

The following table sets out a breakdown of the trade and bills receivables of the PRC Group Companies as at the dates indicated and the trade and bills receivables turnover days of the PRC Group Companies for the periods indicated:

	As at 31 December 2015	AD2016
	US$'000	*US$'000*
Trade receivables *(Note 1)*	8,491	5,607
Less: provision for impairment	(1)	(1)
Trade receivables, net	8,490	5,606
Bills receivables *(Note 2)*	3,911	4,519
Total	12,401	10,125

	FY2015	PE2016
	Days	*Days*
Trade and bills receivables turnover days *(Note 3)*	137.9	192.4

Notes:

(1) The PRC Group Companies' trade receivables represented the outstanding balances to be received from their customers in respect of the sale of the IC products.

(2) The PRC Group Companies' bills receivables represented the outstanding bank acceptance bills received from the PRC Group Companies' customers for the settlement of trade receivables.

(3) The PRC Group Companies' trade and bills receivables turnover days equals to the average of the opening and closing balances of the PRC Group Companies' trade and bills receivables divided by the PRC Group Companies' revenue and multiplied by 365 days.

The PRC Group Companies' trade and bills receivables decreased from approximately US$12.4 million as at 31 December 2015 to approximately US$10.1 million as at AD2016, which was primarily attributable to the decrease in the PRC Group Companies' net trade receivables by approximately US$2.9 million mainly in line with the decrease in the PRC Group Companies' revenue, partially offset by the increase in the PRC Group Companies' bills receivables by approximately US$0.6 million mainly due to the increase in bills received from the PRC Group Companies' customers which were not yet due.

The PRC Group Companies' trade and bills receivables turnover days increased from approximately 137.9 days for FY2015 to approximately 192.4 days for PE2016, which was primarily attributable to the rate of decrease in the PRC Group Companies' revenue by approximately 27.3% exceeding the rate of decrease in the PRC Group Companies' trade and bills receivables by approximately 18.4% mainly due to the increase in the PRC Group Companies' bills receivables as discussed above. Excluding the PRC Group Companies' bills receivables in the turnover days' calculation, the PRC Group Companies' trade receivables turnover days remained relatively stable at approximately 111.3 days and 120.4 days for FY2015 and PE2016, respectively.

The following table sets out an ageing analysis of the net trade receivables of the PRC Group Companies as at the dates indicated:

	As at 31 December 2015	AD2016
	US$'000	*US$'000*
Neither past due nor impaired	6,430	3,017
One to 30 days past due	1,333	1,195
31 to 90 days past due	464	915
91 to 120 days past due	140	58
More than 120 days past due	123	421
Total	8,490	5,606

As at 31 December 2015 and AD2016, all of the PRC Group Companies' bills receivables were neither past due nor impaired.

As at 31 December 2015 and AD2016, the PRC Group Companies had net trade receivables of approximately US$2.1 million and US$2.6 million, respectively (representing approximately 24.3% and 46.2% of the PRC Group Companies' total net trade receivables, respectively) which were past due but not impaired. These past due but not impaired trade receivables were recoverable based on their subsequent settlement and the past credit history of the relevant customers. The PRC Group Companies did not hold any collateral over these past due but not impaired balances.

Prepayments, deposits and other receivables

The following table sets out a breakdown of the prepayments, deposits and other receivables of the PRC Group Companies as at the dates indicated:

	As at 31 December 2015	**As at AD2016**
	US$'000	*US$'000*
Prepayments *(Note 1)*	31	65
Rental and utilities deposits *(Note 2)*	21	45
Other receivables *(Note 3)*	151	52
Total	203	162

Notes:

(1) The PRC Group Companies' prepayments primarily represented the amounts prepaid to the PRC Group Companies' suppliers for the procurement of inventories.

(2) The PRC Group Companies' rental and utilities deposits primarily represented rental deposits placed to the landlords in respect of the PRC Group Companies office premises.

(3) The PRC Group Companies' other receivables primarily represented (i) VAT recoverable; and (ii) other miscellaneous receivables.

The PRC Group Companies' prepayments, deposits and other receivables decreased from approximately US$203,000 as at 31 December 2015 to approximately US$162,000 as at AD2016, which was primarily attributable to the decrease in the PRC Group Companies' other receivables by approximately US$99,000 mainly due to the decrease in VAT recoverable which had been used to offset with output VAT after FY2015.

Trade payables

The following table sets out an ageing analysis of the trade payables of the PRC Group Companies as at the dates indicated and the trade payables turnover days of the PRC Group Companies for the periods indicated:

	As at 31 December 2015	AD2016
	US$'000	*US$'000*
One to 30 days	4,265	2,360
31 to 90 days	2,461	2,016
91 to 120 days	750	992
Over 120 days	2,697	2,198
Total	10,173	7,566

	FY2015	**PE2016**
	Days	*Days*
Trade payables turnover days *(Note 1)*	125.5	161.0

Note:

(1) The PRC Group Companies' trade payables turnover days equals to the average of the opening and closing balances of the PRC Group Companies' trade payables divided by the PRC Group Companies' cost of sales and multiplied by 365 days.

The PRC Group Companies' trade payables represented the outstanding balances to be paid to their suppliers in respect of the procurement of the inventories.

The PRC Group Companies' trade payables decreased from approximately US$10.2 million as at 31 December 2015 to approximately US$7.6 million as at AD2016, which was primarily in line with the decrease in the PRC Group Companies' cost of sales.

The PRC Group Companies' trade payables turnover days increased from approximately 125.5 days for FY2015 to approximately 161.0 days for PE2016, which was primarily attributable to a relatively lower opening balance of trade payables for FY2015.

Accruals, receipts in advance and other payables

The following table sets out a breakdown of the accruals, receipts in advance and other payables of the PRC Group Companies as at the dates indicated:

	As at 31 December 2015	AD2016
	US$'000	*US$'000*
Accruals *(Note 1)*	20	5
Receipts in advance *(Note 2)*	127	399
Other payables *(Note 3)*	98	32
Total	245	436

Notes:

(1) The PRC Group Companies' prepayments primarily represented the accruals of the PRC Group Companies' staff salaries, bonuses and contributions to employees' provident fund.

(2) The PRC Group Companies' receipts in advance primarily represented the deposits received from customers for the purchases of IC products.

(3) The PRC Group Companies' other payables primarily represented (i) VAT payables; and (ii) payables for PRC local taxes and surcharges.

The PRC Group Companies' accruals, receipts in advance and other payables increased from approximately US$0.2 million as at 31 December 2015 to approximately US$0.4 million as at AD2016, which was primarily attributable to the increase in the PRC Group Companies' receipts in advance by approximately US$0.3 million mainly due to the advances from Jiangsu Chen Yang for the procurement of the mobile devices and smart charging, and the motor control ICs.

Amounts due from/(to) related parties

The PRC Group Companies' amounts due from/(to) related parties (primarily including Mrs. Qing, Mr. Feng Dequan (馮德全) and Ms. Feng Ying (馮瑛)) were non-trade in nature, unsecured, interest-free and repayable on demand which mainly represented fund transfers and expenses paid on behalf of the PRC Group Companies or vice versa.

Bank borrowings

As at 31 December 2015 and AD2016, the PRC Group Companies' bank borrowings amounted to approximately US$1.8 million and US$0.7 million, respectively, which represented the PRC Group Companies' discounted bills with recourse that were (i) repayable with one year; (ii) carried the interest rates at 3.1% to 5.3% per annum; and (iii) secured by the PRC Group Companies' bills receivables of approximately US$1.8 million and US$0.7 million, respectively.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to the unaudited pro forma financial information in Appendix II to this prospectus for the details of our unaudited pro forma adjusted consolidated net tangible assets.

MARKET RISKS

During the Track Record Period, we are principally subject to the interest rate risk, foreign currency risk, credit risk and liquidity risk. Please refer to note 30 of Part II of the Accountants' Report in Appendix I to this prospectus for further details of our risks.

DIVIDENDS AND DISTRIBUTABLE RESERVE

We declared dividend of nil, nil, US$3.5 million and nil to the then shareholders during the Track Record Period, respectively. The aforesaid dividend of US$3.5 million, being interim dividend, was declared by our Company to Mr. Lam and Mrs. Qing and settled through our amounts due from/(to) related parties. No dividend has been proposed and declared by our Group after the Track Record Period and until the Latest Practicable Date. Our Company currently does not have any predetermined dividend payout ratio. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid in the future. We cannot assure that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future.

The amount of our dividends, if paid, would depend on our results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Our Shareholders will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our Directors' discretion. Dividends may be paid only out of our distributable reserve as permitted under the relevant laws.

Our Company was incorporated in the Cayman Islands and is an investment holding Company. In accordance with the Articles of our Company, dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law. Save for our Company's share premium of approximately US$1.5 million which may be declared as dividend, as at 31 December 2018, our Company had no other distributable reserve available for distribution because our Company did not have any retained profits. In the event that our Company receives dividends declared by its subsidiaries, our Company will be able to declare and distribute dividends out of the retained profits.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Save as disclosed otherwise in this prospectus, our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since 31 December 2018 and up to the date of this prospectus, there has been no material adverse change in (i) our business operations and business environment in which we are operating; and (ii) our financial or trading position or prospects. Our Directors also confirm that there have been no events since 31 December 2018 which would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.

BUSINESS OBJECTIVES AND BUSINESS STRATEGIES

We plan to expand our operations through (i) seeking and establishing further authorised distributorship relationships with our current and new suppliers; (ii) further developing our cutting edge product categories, such as mobile devices and smart charging, motor control and sensors and automation; and (iii) enhancing our design and R&D capabilities; and (iv) expanding our workforce and recruiting more professional staff in view of the immense business opportunities such as the massive expansion of NB IoT in the PRC. In particular, in November 2018, we entered into an agreement with a new customer which is a subsidiary of a leading mobile operator in the PRC for the provision of 26.0 million units of ICs manufactured by RDA, which will be used in IoT related products, to such customer for a period of two years with a maximum contractual amount of approximately RMB137.0 million (equivalent to US$20.3 million). Please refer to "Business – Our business strategies" in this prospectus for further details of our business objectives and strategies. Owing to the fact that (i) we are generally required to settle our trade payables (both in respect of our purchases of ICs under and not under the ship-and-debit arrangement) to our suppliers before the receipts of our trade receivables from our customers; and (ii) we are required to settle the purchase rebate payments to our suppliers in respect of our purchases of ICs under the ship-and-debit arrangement which would be only rebated in form of credit notes (after the sale of those ICs purchased under the ship-and-debit arrangement) to offset subsequent purchases from the same suppliers, we face cash flow mismatch in our business operations, both under the ship-and-debit arrangement and not under the ship-and-debit arrangement. For FY2018, our cash flow mismatch for purchases under the ship-and-debit arrangement was approximately US$4.9 million and our cash flow mismatch for purchases not under the ship-and-debit arrangement was approximately US$9.8 million. As a result of our business expansion as a whole, our Directors expect that our total cash flow mismatch (i.e. revolving purchase payments) arising from purchases under the ship-and-debit arrangement and not under the ship-and-debit arrangement will significantly increase.

USE OF PROCEEDS

Assuming an Offer Price of HK$0.655 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, we estimate that the net proceeds receivable by us from the Share Offer (after deducting underwriting fees and commission and estimated expenses in connection with the Share Offer) will be approximately HK$80.0 million. We intend to apply such net proceeds in the following manner:

(i) approximately HK$67.5 million, representing approximately 84.3% of the net proceeds from the Share Offer, will be used for the purposes of financing the growing revolving purchase payment for our increasing purchases of ICs under the ship-and-debit arrangement of new and existing authorised distributorship relationships with IC manufacturer suppliers as a result of our intended business expansion. The funds used for financing such payment under the ship-and-debit arrangement are utilised on a revolving basis for our ongoing purchases of ICs, and the amount of which was determined by our Directors based on the following:

- the historical purchase volume, monetary amount, types of ICs purchased by us under our existing ship-and-debit arrangement as an authorised non-exclusive distributor with three of our IC manufacturer suppliers, namely Power Integrations, Supplier A and RDA;

- the historical purchase volume and monetary amount of both Manufacturer B's and Supplier C's RF power ICs we purchased from Edom. During the Track Record Period, our purchases of Manufacturer B's RF power ICs from Edom amounted to approximately US$10.1 million, US$3.9 million, US$2.7 million and US$2.1 million, respectively, accounting for approximately 24.1%, 11.7%, 5.8% and 3.7% of our total purchases, respectively, and our purchases of Supplier C's RF power ICs from Edom amounted to approximately US$9.1 million, US$5.2 million, US$2.8 million and US$2.6 million for the Track Record Period, respectively, accounting for approximately 21.6%, 15.6%, 6.0% and 4.6% of our total purchases, respectively. We will commence purchasing RF power ICs (which we used to purchase from Edom during the Track Record Period) under the ship-and-debit arrangement with Supplier C who has appointed us as its authorised non-exclusive distributor since 2016[*(Note 1)*] for which, we expect to incur approximately US$2.8 million and US$3.1 million as gross purchase costs of Supplier C's ICs for the years ending 31 December 2019 and 2020, with approximately US$0.5 million to be paid out of the net proceeds from the Share Offer as the revolving purchase payment;

- a new authorised distributorship agreement that we expect to enter into with Manufacturer A, whose ICs we have hitherto been purchasing through its authorised distributor. During the Track Record Period, purchases of Manufacturer A's ICs from its authorised distributors amounted to approximately US$8.1 million, US$10.5 million, US$14.9 million and US$17.3 million, respectively, accounting for approximately 19.4%, 31.4%, 32.4% and 30.3% of our total purchases respectively. We were invited by Manufacturer A to be its authorised distributor in 2017 given our technical capability, the quality of our services, our reputation and goodwill within the industry. Based on our recent discussion with Manufacturer A, we expect to enter into the authorised distributorship agreement with Manufacturer A in 2019 after Listing[*(Note 2)*];

- the types of ICs we expect to purchase from the above suppliers will mainly be used in the product categories of: (i) mobile devices and smart charging; (ii) motor control; and (iii) sensors and automation. It is also our strategy to focus on the aforesaid three product categories;

- our Group's cash flow mismatch taking into account (i) our inventory turnover days under the ship-and-debit arrangement and not under the ship-and-debit arrangement; (ii) our trade receivables turnover days; (iii) our trade payables turnover days; and (iv) our rebates turnover days (i.e. the turnaround time of us obtaining rebates from our IC manufacturer suppliers under the ship-and-debit arrangement after we purchase the ICs from our IC manufacturer suppliers) the details of which are set out in "Business – Procurement and suppliers – Cash flow mismatch" in this prospectus; and

- our Directors' forecast of our increased volume, types and varieties of ICs to be purchased from the above suppliers under the ship-and-debit arrangement (both new and existing) taking into account our expansion plan through the implementation of our business strategies. Our Directors expect that our purchase volume of ICs purchased and to be purchased under the ship-and-debit arrangement for the year ending 31 December 2019 will increase by around 70% as compared to that of FY2018.

Note 1: We entered into a distributorship agreement with Supplier C in 2016, but as at the Latest Practicable Date, we had not yet commenced trading directly with it. During the Track Record Period, we purchased both Manufacturer B's RF power ICs and Supplier C's ICs from Edom. To the best of our Directors' knowledge, the RF power business of Manufacturer B was acquired by Supplier C in 2016. We expect to commence purchasing RF power ICs from Supplier C in 2019 after Listing.

Note 2: We were invited by Manufacturer A to be its authorised distributor since 2017. However, as our Group's internal financial resources back in 2017 were not sufficient to support the additional financial burden arising from the purchases under the ship-and-debit arrangement should we commence the authorised distributorship with Manufacturer A, it has been our Directors' intention to start the authorised distributorship with Manufacturer A once our Group has better financial liquidity after Listing.

Our Directors consider that our current level of cash and cash equivalents and banking facilities are not sufficient to support our expansion plan having considered and given the fact that:

- our cash and cash equivalents of approximately US$2.9 million and US$3.3 million as at 31 December 2018 and 30 April 2019, respectively, were at a relatively low level and only represented approximately 5.0% and 5.7% of our total net purchases for FY2018, respectively, which were insufficient to finance our purchases of ICs;

- based on our financial information for FY2018, our monthly operating expenses (other than our purchase costs) and finance costs amounted to approximately US$0.4 million per month. It is essential for us to maintain a reasonable level of cash balance buffer of six months to support our current operation scale;

- we had only limited unutilised banking facilities available for further expansion in view of the increase in our revolving purchase payments. As at 31 December 2018 and 30 April 2019, we had total banking facilities of approximately US$12.0 million and US$12.8 million, respectively, and only approximately US$0.2 million and US$0.1 million (or approximately 1.5% and 1.1%) of our banking facilities were not utilised, respectively; and

- taking into account (i) our inventory turnover days under the ship-and-debit arrangement and not the ship-and-debit arrangement; (ii) our trade receivables turnover days; (iii) our trade payables turnover days; (iv) our rebates turnover days; (v) our total purchases under the ship-and-debit arrangement and not under the ship-and-debit arrangement for FY2018, our revolving purchase payments (i.e. our total cash flow mismatch) amounted to approximately US$14.7 million in FY2018 and our total cash and cash equivalents and total banking facilities of approximately US$14.9 million as at 31 December 2018 were only sufficient for the revolving purchase payments for our purchases of ICs in FY2018.

In addition, our Directors confirm that it is unlikely for us to obtain additional banking facilities because (i) we do not have any property or other material assets to be offered as collateral for securities; (ii) personal guarantees and cash deposits provided by Mr. Lam were already used for securing existing banking facilities; and (iii) in fact, up to the Latest Practicable Date, our Directors had enquired the banks that we have business relationship with and all such banks rejected to increase our banking facility limits without additional pledged assets. Further, we have already reached a very high level of financial leverage during the Track Record Period. As at 31 December 2015, 2016, 2017 and 2018/during the Track Record Period, (i) our adjusted gearing ratio (calculated by our bank borrowings and bills payables divided by our total equity) was approximately 42.1%, 37.9%, 80.8% and 86.1%, respectively; (ii) our adjusted debt-to-equity ratio (calculated by our bank borrowings and bills payables less cash and cash equivalents divided by our total equity) was approximately 13.9%, 17.3%, 66.0% and 64.8%, respectively; and (iii) our interest coverage ratio was approximately 36.3, 11.0, 7.9 and 5.1, respectively. Following the deterioration of our financial ratios and leverage, our Directors consider it to be a red flag of liquidity risk and inherent risks of higher interest rate and finance costs to further rely on debt financing.

In view of the above, our Directors consider that the net proceeds from the Share Offer can provide us with the necessary additional financial resources to finance our purchase payments on a revolving basis going forward for our ongoing purchases of ICs under the ship-and-debit arrangement without exposing us to a higher gearing ratio which would subject us to the aforesaid risks. Without the additional funding from the net proceeds from the Share Offer, we will be financially constrained to meet the burdensome revolving purchase payments that may have to be incurred under the ship-and-debit arrangement.

(ii) approximately HK$2.9 million, representing approximately 3.6% of the net proceeds from the Share Offer, will be used for purchasing over 30 units of testing and R&D equipment to enhance our design and R&D capabilities for our various product categories in our Shenzhen and Shanghai facilities.

As we are currently undertaking certain major pipeline projects as disclosed in "Business – Design and research and development" in this prospectus and expect to have more pipeline projects in the near future in view of the expanding customer base of our Group and the growing business opportunities faced by our Group with additional authorised distributorship relationships with IC manufacturer suppliers, we will need more R&D equipment to facilitate the increasing amount of R&D activities. In particular, it is our plan to put stronger emphasis on developing R&D in product categories such as (i) mobile devices and smart charging (especially in developing wireless smart charging applications and applications in 4G, 5G and NB IoT connection solutions); (ii) RF power (especially in developing RF heating solutions and RF amplifying modules); and (iii) sensors and automation (especially in developing applications for gas and air quality sensors), which demand our Group to equip ourselves with, among others, additional oscilloscopes, analytical and electronic testing equipment for R&D of circuit boards incorporating key ICs and require our Group to allocate a relatively larger portion of the net proceeds from the Share Offer to acquire such types of R&D equipment. Further, to cope with our future expansion, our Directors expect that the testing and R&D equipment we plan to purchase will be more technologically advanced and of more functions as compared to the R&D equipment we owned as at the Latest Practicable Date.

Details of the testing and R&D equipment we plan to purchase are set forth below:

Type of R&D equipment	**Number of units to be acquired**	**Expected useful life**	**Approximate net proceeds allocated**
		(Years)	*HK$'000*
Equipment for system testing	8	5	496
General R&D equipment	5	5	212
Generators	4	5	163
Oscilloscopes, analytical and electronic testing equipment for R&D of circuit boards incorporating key ICs	12	5	1,828
Sensors	4	5	201

As at the Latest Practicable Date, we had 69 units of R&D equipment in operations, which have a useful life of five years and a weighted average remaining useful life of approximately 0.8 year. The carrying amount of our R&D equipment amounted to approximately US$28,000 as at 31 December 2018 and most of our R&D equipment in operations as at the Latest Practicable Date has been fully depreciated over the useful lives of the equipment as at the end of the Track Record Period. Our Directors consider that it is imminent for us to upgrade our R&D equipment and enhance our R&D and design capabilities in view of our future expansion.

The total amount of the R&D equipment we plan to purchase will be fully funded by the net proceeds from the Share Offer.

(iii) approximately HK$7.8 million, representing approximately 9.8% of the net proceeds from the Share Offer, will be used for recruiting and retaining 32 high calibre R&D and engineering staff, customer service staff, administrative and support staff, and internal audit staff, so as to support future growth of our Group.

We set forth below the number of staff to be hired, office(s) they will be assigned to, their expected roles and area of expertise, their approximate expected annual salary and the approximate net proceeds allocated to the new hires as follows:

Position	Number of addition	Office(s) assigned to	Expected role	Expected qualifications/ experience	Approximate annual salary per staff	Approximate net proceeds allocated
					HK$'000	*HK$' million*
Application engineers	8	Hong Kong office: 1 Shanghai office: 3 Shenzhen office: 4	Carrying out R&D related works and providing detailed technical know-how in developing and providing IC application solutions	Minimum college level academic qualifications in engineering	203.6	2.4
Sales engineers	7	Shanghai office: 3 Shenzhen office: 4	Assisting in identifying the needs of our customers and the most appropriate IC solutions for our customers' products	Minimum college level academic qualifications in engineering	84.2	0.9
Customer service officers	9	Hong Kong office: 4 Shanghai office: 2 Shenzhen office: 3	Servicing our customers in the Eastern, Southern and Fujian regions of the PRC from our Shenzhen, Shanghai and Hong Kong offices	Minimum high school diploma level academic qualifications	121.7	1.7

Position	Number of addition	Office(s) assigned to	Expected role	Expected qualifications/ experience	Approximate annual salary per staff	Approximate net proceeds allocated
					HK$'000	*HK$' million*
Administrative and support	6	Hong Kong office: 5 Shenzhen office: 1	Carrying out administrative and logistics work to support the expansion and growth of our Group's operations	Minimum high school diploma level academic qualifications	163.8	1.4
Internal audit	2	Hong Kong office: 2	Conducting our Group's internal audit	Minimum bachelor's degree in accounting with three years of work experience	454.0	1.4

After completion of the Acquisition of the PRC Group Companies, our revenue increased by approximately 25.0% from approximately US$53.8 million in FY2017 to approximately US$67.3 million in FY2018. Accordingly, the number of our full-time employees increased by approximately 17.9% from 84 as at 31 December 2017 to 99 as at 31 December 2018, and our staff costs increased by approximately 21.3% from approximately US$1.8 million in FY2017 to approximately US$2.2 million in FY2018. In view of our expanding customer base and the growing business opportunities with additional authorised distributorship relationships with IC manufacturer suppliers, we expect that our revenue will continue to grow in the near future. In order to cope with our expansion by undertaking more sizeable projects (such as the agreement we entered into in November 2018 with a subsidiary of a leading mobile operator in the PRC for a contract amount of approximately RMB137.0 million (equivalent to approximately US$20.3 million)) on top of our current scale of operations, we plan to increase the number of staff to 127 as at 31 December 2019 and 137 as at 31 December 2020, representing a CAGR of approximately 17.6%, and we expect that our staff costs will also increase proportionately, which is largely consistent with our expected growth in our revenue. Our Directors consider that such scale of manpower expansion is vital towards the future growth of our revenue, profit and market share and is commercially justifiable.

The total amount of staff costs for the new hires will be fully funded by the net proceeds from the Share Offer.

(iv) approximately HK$1.8 million, representing approximately 2.3% of our net proceeds from the Share Offer, will be used for our general corporate purposes and working capital.

Assuming that the Over-allotment Option is not exercised at all, if the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds from the Share Offer will increase or decrease by approximately HK$4.5 million, respectively.

Assuming that: (i) the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares to be received by us, after deducting underwriting fees and estimated expenses payable by us, will be approximately (i) HK$20.4 million, assuming the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK$0.68 per Offer Share; (ii) HK$19.7 million, assuming the Offer Price is fixed at the mid-point of the indicative Offer Price range, being HK$0.655 per Offer Share; and (iii) HK$18.9 million, assuming the Offer Price is fixed at the low-end of the indicative Offer Price range, being HK$0.63 per Offer Share.

Irrespective of (i) whether the Offer Price is determined at the highest or lowest point of the indicative Offer Price range; and (ii) whether the Over-allotment Option is exercised, any increase in the net proceeds will be used for the purposes of financing the revolving purchase payment for our purchases of ICs under the ship-and-debit arrangement of both new and existing distributorship relationships with our IC manufacturer suppliers, and any decrease in the net proceeds will be deducted from the amount to be used for the same while the net proceeds for all other intended applications remain unchanged. To the extent our net proceeds are either more or less than expected, we will continue to use the net proceeds in the same manner as disclosed above.

If there is any material change to the use of proceeds as disclosed above after the Listing, we will make the appropriate announcement(s) in due course.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes or if we are unable to implement any part of our future plans as intended, our Directors intend to place such net proceeds as short-term interest-bearing deposits with authorised financial institutions in Hong Kong or the PRC.

IMPLEMENTATION PLAN

In relation to the intended application of the net proceeds described in (i), (ii), (iii), (iv) and (v) above in "Use of proceeds" in this section, the following table sets out the intended amount, nature and timing of our implementation plan:

	From the Listing Date to 31 December 2019	For the year ending 31 December 2020	For the three months ending 31 March 2021	Total	Percentage of net proceeds
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*%*
(i) Financing the revolving purchase payment for our purchases of ICs imposed under the ship-and-debit arrangement *(Note)*	**67,453**	**–**	**–**	**67,453**	**84.3%**
(ii) Enhancing our design and R&D capabilities through purchasing testing and R&D equipment for our Shenzhen and Shanghai laboratories	**2,883**	**–**	**–**	**2,883**	**3.6%**
(iii) Recruiting and maintaining high calibre talent	**1,418**	**5,558**	**862**	**7,838**	**9.8%**
– Hiring eight application engineers to carry out R&D related work	451	1,716	270		
– Hiring seven sales engineers to identify the most appropriate solutions for the customers' product needs	140	628	98		
– Hiring nine customer service officers to service our customers from our Shenzhen, Shanghai and Hong Kong offices	323	1,179	181		
– Hiring six administrative and support staff to support the expansion of and growth of our Group's operations	218	1,058	163		
– Hiring two internal audit staff to conduct our Group's internal audit	286	977	150		
(iv) Working capital	**522**	**1,044**	**260**	**1,826**	**2.3%**
Total	**72,276**	**6,602**	**1,122**	**80,000**	**100.0%**

Note: Under the ship-and-debit arrangement, we obtain the agreed rebates from our suppliers after the relevant IC products are sold to our customers. As such, the amount used for paying the revolving purchase payment under the ship-and-debit arrangement for our ongoing purchases of ICs will be utilised going forward on a revolving basis.

REASONS AND BENEFITS FOR THE LISTING

Our Directors consider that the Listing will provide the following benefits to our Group:

(a) we plan to expand our operations through (i) seeking and establishing further authorised distributorship relationships with our current and new suppliers; (ii) further developing our cutting edge product categories, such as mobile devices and smart charging, motor control and sensors and automation; and (iii) enhancing our design and R&D capabilities; and (iv) expanding our workforce and recruiting more professional staff in view of the immense business opportunities such as the massive expansion of NB IoT in the PRC. In particular, in November 2018, we entered into an agreement with a new customer which is a subsidiary of a leading mobile operator in the PRC for the provision of 26.0 million ICs manufactured by RDA, which will be used in IoT related products, to such customer for a period of two years with a maximum contractual amount of approximately RMB137.0 million (equivalent to US$20.3 million). Our intended expansion will require us to maintain a sufficient level of financial resources. If we do not have sufficient working capital, we may have to fund our operating costs by obtaining bank borrowings at unfavourable terms, which may result in significant finance costs. Our Directors believe that the net proceeds from the Share Offer will provide us with financial resources to execute our expansion plans and to capture new business opportunities;

(b) the Listing will broaden our Group's shareholder base, strengthen our capital base and provide a sustainable fund raising platform for us to raise further capital by issuing equity or debt securities in the future;

(c) the proceeds from the Share Offer will facilitate the implementation of our business strategies and strengthen our cash flow position which in turn will enable us to enhance our operational capacity and empower us to undertake projects of a larger scale in the future;

(d) the Listing will help to elevate the profile of our Group, increase our recognition and raise our visibility within the semiconductor market and technology hardware industry in general, which would help to generate more business opportunities, as well as provide our suppliers and customers with greater security when engaging in business with us, as a listed company is subject to stringent regulatory compliance, announcements, financial disclosure and corporate governance;

(e) the Listing will enhance our market reputation and brand awareness and could enhance our image with our customers and suppliers and attract potential customers and suppliers who are more willing to establish business relationships with listed companies. Our Directors believe that the listing status will assist us in securing new projects;

(f) the listing status will help us raise staff morale and confidence in our Group, which would improve our ability to attract, recruit, retain and motivate experienced and qualified staff; and

(g) the Listing will enable us to offer equity-based incentive programmes involving publicly tradable shares (such as a share option scheme) to our staff that provide a more direct correlation between their performance and our business results, and better position our staff to increase the intrinsic value of our Shares, which is closely aligned with the objective of creating value for our Shareholders.

PUBLIC OFFER UNDERWRITERS

Alliance Capital Partners Limited
China Tonghai Securities Limited
Ruibang Securities Limited
First Securities (HK) Limited

PLACING UNDERWRITERS

Alliance Capital Partners Limited
China Tonghai Securities Limited
Ruibang Securities Limited
First Securities (HK) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer, our Company is offering the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares to be offered as mentioned herein (including the additional Shares to be issued pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Public Offer Underwriting Agreement having been duly executed and delivered and having become unconditional in accordance with its terms, the Public Offer Underwriters have agreed, severally, to subscribe or procure subscribers for, their respective applicable proportions of the Public Offer Shares which are being offered but are not taken up under the Public Offer on the terms and subject to the conditions in this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional upon and subject to, among other things, the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its own terms or otherwise, prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) with immediate effect by notice, if at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any new law, statute, ordinance, rule, guidelines, regulation, opinion, notice, circular, order, judgement, decree or ruling ("**Laws**") or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority of or affecting the Cayman Islands, the BVI, Hong Kong, the PRC or any other relevant jurisdiction relevant to any member of our Group (collectively, the "**Relevant Jurisdictions**" and individually, a "**Relevant Jurisdiction**");

(ii) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any or representing any change or development involving a prospective change in, local, national or international financial, political, military, industrial, legal, economic, currency exchange rates, exchange control, currency market, fiscal or regulatory or market matters or conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any Relevant Jurisdiction;

(iii) the imposition or declaration of any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the New York Stock Exchange, the Nasdaq National Market, the Stock Exchange, the SGX-ST, Tokyo Stock Exchange, the London Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement, payment or clearance services or procedures in or affecting any Relevant Jurisdiction;

(iv) any change or development or event occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations or currency exchange rates in any Relevant Jurisdiction;

(v) any change or development or event occurs involving a prospective change in the financial or operational condition or in the earnings, business affairs, business prospects or trading position of any member of our Group, or customer confidence, including but not limited to any action, suit, proceeding, litigation or claim of any third party being threatened or instigated against any member of our Group, or any investigation of any member of our Group or an order for suspension of business by any government department or authority;

(vi) any change or prospective change, or a materialisation of, any of the risks set out in "Risk factors" in this prospectus;

(vii) any moratorium on or disruption in banking activities or foreign exchange trading or settlement or clearance services in or affecting any Relevant Jurisdiction;

(viii) any outbreak or escalation of hostilities (whether or not war is or has been declared) or act of terrorism or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving directly or indirectly any Relevant Jurisdiction, or the declaration by any Relevant Jurisdiction of a national emergency or war;

(ix) any event of force majeure or beyond the control of the Public Offer Underwriters, including without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, earthquake, tsunami, volcanic eruption, ice-storm, explosion, outbreak of disease or epidemic, acts of government, labour dispute, strike or lock-out involving directly or indirectly any Relevant Jurisdiction;

(x) any imposition of any economic sanctions, in whatever form, directly or indirectly, by any Relevant Jurisdiction, or on any Relevant Jurisdiction, or against any member of our Group;

(xi) an executive Director being charged or indicted or retained with an indictable offence or prohibited by operation of law or otherwise disqualified from directorship or taking part in the management of a company, or the commencement by any governmental authority of any investigation or other action against any executive Director in his or her capacity as such or an announcement by any governmental authority that it intends to take any such actions;

(xii) the chairman or chief executive officer of our Company vacating his office in circumstances where the operations of our Group will be materially and may, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), be adversely affected;

(xiii) any non-compliance of this prospectus (or any other documents used in connection with the Share Offer) or any aspect of the Share Offer with the Listing Rules, the Articles of Association, the Companies (WUMP) Ordinance, the Listing Rules, the SFO or any other applicable Laws by any of our Company, our Controlling Shareholders, or our executive Directors;

(xiv) the commencement by any judicial, political, governmental or regulatory body or organisation of any investigation, claim, proceeding or other action, or announcing an intention to investigate or take such action, against any executive Director, any Controlling Shareholder or any member of our Group;

(xv) any litigation, or claim, or investigation, or action, being announced, threatened, or instigated against any member of our Group, any Controlling Shareholder or any executive Director; or

(xvi) any contravention by any member of our Group of the Companies Ordinance, the Companies (WUMP) Ordinance, the Listing Rules or applicable Laws,

which, in each case or in the aggregate, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

(A) is or may be or is likely to be materially adverse effect on, or prejudicially affect, the business or financial or operational condition or prospects of our Company or our Group, or to any present or prospective shareholder of our Company in his/her/its capacity as such;

(B) has or might have or is likely to have a material adverse effect on the success of the Public Offer, the Placing or the Share Offer or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or

(C) makes or will or is likely to make it inadvisable, inexpedient, impracticable or not commercially viable to proceed with or to market the Public Offer, the Placing or the Share Offer, or a material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer, the Placing or the Share Offer to be performed or implemented in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Joint Bookrunners:

(i) any breach of any of the warranties, representations, obligations or undertakings given by or imposed upon our Company, our Controlling Shareholders and our executive Directors in the Public Offer Underwriting Agreement and the Placing Underwriting Agreement or any matter or event showing any of such warranties, representations, obligations or undertakings to be untrue, inaccurate or misleading or having been breached in any respect when given or repeated;

(ii) any breach on the part of our Company, any of our Controlling Shareholders or any of our executive Directors of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement;

(iii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom;

(iv) that any statement contained in this prospectus, the Application Forms, the formal notice, other offering documents or any announcements (including any supplement or amendment thereto) considered by the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in their sole and absolute opinion to be material in the context of the Share Offer was, when it was issued, or has become untrue, incorrect in any respect ormisleading, or that any estimates, forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms, the formal notice, other offering documents or any announcements (including any supplement or amendment thereto) considered by the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in their sole and absolute opinion to be material in the context of the Share Offer is not, in all respects, fair and honest and based on reasonable assumptions;

(v) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of any member of our Group or any of our Controlling Shareholders or our executive Directors pursuant to the indemnities referred to in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement;

(vi) any valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole;

(vii) that an order is made or a petition is presented for the winding-up or liquidation of our Company or any member of our Group or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group;

(viii) that approval by the Listing Committee of the listing of, and permission to deal in, our Shares (including any additional Shares that may be issued pursuant to the exercise of Over-allotment Option) to be issued or sold under the Share Offer is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) revoked or withheld;

(ix) that our Company withdraws any of the offering documents issued in connection with the Share Offer (and/or any other documents used in connection with the contemplated subscription of the Offer Shares), collectively, the ("**Offer Documents**") or the Share Offer;

(x) that any person (other than the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents;

(xi) other than with the approval of the Sole Sponsor and the Joint Bookrunners, the issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated subscription of our Shares) pursuant to the Companies (WUMP) Ordinance, the Listing Rules, the SFO or any other applicable laws, or any requirement or request of the Stock Exchange and/or the SFC; or

(xii) any prohibition on our Company by any governmental authority for whatever reasons from offering, allotting, issuing or selling our Shares (including any additional Shares that may be issued pursuant to the exercise of Over-allotment Option) pursuant to the terms of the Share Offer,

then the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) may, and upon giving notice in writing to our Company, terminate the Public Offer Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that except pursuant to: (i) the Share Offer (including the Over-allotment Option); (ii) the Share Option Scheme; (iii) any capitalisation issue, capital reduction or consolidation or sub-division of Shares; and (iv) the circumstances permitted pursuant to Rule 10.08 of the Listing Rules, we will not, within six months from the Listing Date, issue any further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement to such issue (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has jointly and severally undertaken to the Stock Exchange that save as disclosed in this prospectus and except pursuant to: (i) the Share Offer (including the Over-allotment Option); and (ii) the Share Option Scheme, he/she/it will not and shall procure that the relevant registered holder(s) of our Shares, any associates or companies controlled by him/her/it, any nominees or trustees holding our Shares in trust for him/her/it (as the case may be), will not without the prior written consent of the Stock Exchange or unless otherwise in compliance with the applicable requirements of the Listing Rules:

(a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the "**First Lock-up Period**"), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company (except pursuant to any security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of which he/she/it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules); or

(b) in the period of a further six months commencing on the date on which the First Lock-up Period expires ("**Second Lock-up Period**"), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities mentioned in paragraph (a) above, if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a Controlling Shareholder.

In addition, pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that during the First Lock-up Period and Second Lock-up Period, he/she/it shall:

(a) when he/she/it pledges or charges any securities of our Company beneficially owned by him/her/it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), immediately inform our Company in writing of such pledge or charge together with the number of securities so pledged or charged; and

(b) when he/she/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform our Company in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by our Company

Pursuant to the Public Offer Underwriting Agreement, our Company has undertaken to, among others, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters that, except pursuant to the Capitalisation Issue, the Share Offer (including the Over-allotment Option) or grant of options or issue of our Shares upon exercise of such options pursuant to the Share Option Scheme, we will not at any time during the period commencing on the date of the Public Offer Underwriting Agreement and ending on the date which is six months from the Listing Date (the "**First Six-month Period**"), without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital, debt capital or other securities, or any shares or other securities of such other member of our Group, or any interest therein;

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of our share capital or other securities, or any of the share capital or other securities of any other member of our Group, or any interest therein, or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution;

(c) enter into any of the above transactions specified in (a) or (b) above with the same economic effect; or

(d) agree or contract to, or publicly announce any intention to enter into any of the above transactions specified in (a), (b) or (c) above,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise.

Undertakings by our Controlling Shareholders

Pursuant to the Public Offer Underwriting Agreement, each of our Controlling Shareholders has undertaken to the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and our Company that, except pursuant to the Capitalisation Issue, the Share Offer (including the Over-allotment Option) or grant of options or issue of our Shares upon exercise of such options pursuant to the Share Option Scheme, he/she/it will not, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) at any time during the First Six-month Period, he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its close associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not:

(i) offer, accept subscription for, pledge, mortgage, charge (other than any pledge, mortgage or change of the issued share capital of our Company in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, lend, assign, contract to sell, any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale assign or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, cause our Company to repurchase, any of our Shares, share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, or any warrants or other rights to purchase, any such Shares, share or debt capital or other securities or any interest therein whether now owned or hereinafter acquired, owned directly by our Controlling Shareholders (including holding as a custodian) or with respect to which our Controlling Shareholders have beneficial ownership (collectively the "**Lock-up Securities**"), or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distributions;

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of any such Lock-up Securities or any interest therein, or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distributions;

(iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

(iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i) or (ii) or (iii) above,

whether any such transaction described above is to be settled by delivery of the Lock-up Securities, in cash or otherwise;

(b) at any time in the six month period commencing from the expiry of the First Six-month Period ("**Second Six-month Period**"), he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its close associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not, enter into any of the foregoing transactions in paragraphs (a)(i) or (a)(ii) or (a)(iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any Controlling Shareholder will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company;

(c) until the expiry of the Second Six-month Period, in the event that he/she/it or the relevant registered holder(s) or his/her/its close associates or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, he/she/it will take all reasonable steps to ensure that he/she/it or the relevant registered holder(s) or his/her/its close associates or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it will not create a disorderly or false market in the securities of our Company;

(d) from the date of the Public Offer Underwriting Agreement up to and including the expiry of the Second Six-month Period, each of our Controlling Shareholders will:

(i) when he/she/it pledges or charges any Shares, share capital or other securities of our Company including but not limited to rights as to voting, dividend or distribution in the securities of our Company, in respect of which he/she/it is the beneficial owner, immediately inform the Sole Sponsor, the Joint Bookrunners and our Company and, if required under the Listing Rules, the Stock Exchange in writing of such pledge or charge and the number of Shares or other securities of our Company, and the nature of interest, so pledged or charged; and

(ii) if and when he/she/it receives any indication, either verbal or written, from any pledgee or chargee of Shares or other securities of our Company that such Shares or other securities of our Company or interests in or rights attaching to the securities of our Company, will be sold, transferred or disposed of, immediately inform the Sole Sponsor, the Joint Bookrunners and our Company and, if required under the Listing Rules, the Stock Exchange of any such indication.

Indemnity

Our Company, our Controlling Shareholders and our executive Directors have agreed to indemnify the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach of the Public Offer Underwriting Agreement by us, our Controlling Shareholders or our executive Directors.

The Placing

In connection with the Placing, it is expected that our Company, our executive Directors and our Controlling Shareholders, will enter into the Placing Underwriting Agreement with, among others, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters.

Under the Placing Underwriting Agreement, subject to the conditions set out therein, the Placing Underwriters are expected to severally agree to purchase or procure purchasers for the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

We expect to grant to the Placing Underwriters the Over-allotment Option exercisable by the Stabilising Manager (for itself and on behalf of the Placing Underwriters) at any time from the date of the Placing Underwriting Agreement until the 30th day after the last date for lodging of applications under the Public Offer, to require us to allot and issue up to an aggregate of 30,000,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the Placing to solely cover over-allocations, if any, in the Placing.

Our Company, our Controlling Shareholders and our executive Directors will agree to indemnify the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Placing Underwriting Agreement and any breach of the Placing Underwriting Agreement by us, our Controlling Shareholders or our executive Directors.

Underwriting commission and expenses

The Public Offer Underwriters will receive an underwriting commission of 10% on the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer, out of which they will pay any sub-underwriting commission. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) (but not the Public Offer Underwriters).

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to amount to approximately HK$51.2 million in total (based on the Offer Price of HK$0.655, being the mid-point of the indicative Offer Price range between HK$0.63 and HK$0.68, and assuming the Over-allotment Option is not exercised) and will be payable by us.

Sole Sponsor's and Underwriters' interests in our Company

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Underwriters will receive an underwriting commission of 10% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commissions and expenses are set out under "Underwriting commissions and expenses" in this section.

Save as disclosed above, none of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters are legally or beneficially interested in any shares of our subsidiaries or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Share Offer.

Independence of the Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

THE SHARE OFFER

This prospectus is published in connection with the Public Offer which forms part of the Share Offer. Alliance Capital is the Sole Sponsor for the listing of the Shares on the Stock Exchange. Alliance Capital and Tonghai Securities are the Joint Bookrunners and the Joint Lead Managers of the Share Offer.

The Share Offer initially comprises:

(a) the Public Offer of 20,000,000 Offer Shares (subject to reallocation on the basis set out in "Public Offer – Reallocation" in this section below) in Hong Kong as described in "Public Offer" in this section below; and

(b) the Placing of 180,000,000 Offer Shares (subject to reallocation on the basis set out in "Public Offer – Reallocation" in this section below and the Over-allotment Option as set out in "Over-allotment Option" in this section below) outside the United States in reliance on Regulation S.

Investors may either: (a) apply for Offer Shares under the Public Offer; or (b) apply for or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both.

Reasonable steps will be taken to identify and reject: (a) applications in the Public Offer from investors who have applied for Offer Shares under the Placing; and (b) applications or indications of interest in the Placing from investors who have applied for Public Offer Shares under the Public Offer.

The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The Placing will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States, in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The number of Offer Shares to be offered under the Public Offer and Placing may be subject to reallocation and, in the case of the Placing only, the Over-allotment Option as set out in "Over-allotment Option" in this section below.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares pursuant to the Share Offer will be conditional on, among other things:

(a) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Share Offer and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange;

(b) the Offer Price having been fixed on or around the Price Determination Date;

(c) the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and

(d) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners (for themselves and on behalf of the Underwriters)) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event no later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Wednesday, 10 July 2019 and in any event not later than Wednesday, 10 July 2019.

If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company by Wednesday, 10 July 2019, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Public Offer on the next business day following such lapse on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.conteltechnology.com**. In the event of such lapse, all application monies will be returned, without interest, on the terms set out in "How to apply for Public Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time).

Share certificates for the Offer Shares are expected to be issued on Monday, 15 July 2019 but will only become valid certificates of title at 8:00 a.m. on Tuesday, 16 July 2019 provided that: (a) the Share Offer has become unconditional in all respects; and (b) the right of termination as described in "Underwriting – Underwriting arrangements and expenses – Public Offer – Grounds for termination" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of shares certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

PUBLIC OFFER

The Public Offer is fully underwritten by the Public Offer Underwriters on a several basis under the terms of the Public Offer Underwriting Agreement and is subject to our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), agreeing on the Offer Price. The Public Offer and the Placing are subject to the conditions set out in "Conditions of the Share Offer" in this section. The Public Offer Underwriting Agreement and the Placing Underwriting Agreement shall be conditional upon each other.

Number of Offer Shares initially offered

Our Company is initially offering 20,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Share Offer (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to any reallocation of Offer Shares between the Public Offer and the Placing, the number of Public Offer Shares will represent 2.5% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue. Completion of the Public Offer is subject to the conditions set out in "Conditions of the Share Offer" in this section above. The Public Offer is open to members of the public in Hong Kong as well as to professional, institutional and individual investors.

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Assuming that the Over-allotment Option is not exercised, the total number of Shares available under the Public Offer will represent approximately 2.5% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, and is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B.

The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of HK$5 million (excluding the brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application (without regard to the Offer Price as finally determined). Applicants can only apply for Public Offer Shares from either pool A or pool B but not from both pools and can only receive Public Offer Shares from either pool A or pool B. Multiple or suspected multiple applications within either pool or between pools and any application for more than 10,000,000 Public Offer Shares are liable to be rejected.

Reallocation and clawback

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

(a) Where the Placing Shares are fully subscribed or oversubscribed and:

  (i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate;

(ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, then up to 20,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 40,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer;

(iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then 40,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 60,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer;

(iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 60,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 80,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer; and

(v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then 80,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 100,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer.

(b) Where the Placing Shares are undersubscribed:

(i) if the Public Offer Shares are undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and

(ii) if the Public Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Public Offer, then up to 20,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 40,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer.

In accordance with the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, in the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (i) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (ii) the Placing Shares are undersubscribed and the Public Offer Shares are oversubscribed under paragraph (b)(ii) above, the maximum total number of Offer Shares that may be reallocated to the Public Offer following such reallocation shall be not more than double of the initial allocation to the Public Offer (i.e. 40,000,000 Offer Shares); and the final Offer Price shall be fixed at the low end of the indicated Offer Price range as stated in this prospectus (i.e. HK$0.63 per Offer Share).

In the event of a reallocation of Offer Shares from the Placing to the Public Offer in circumstances under paragraph (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

Applications

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum price of HK$0.68 per Offer Share in addition to any brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share, amounting to a total of HK$3,434.26 for one board lot of 5,000 Shares. If the Offer Price, as finally determined in the manner described in "Price determination of the Share Offer" in this section below, is less than the maximum price of HK$0.68 per Share, appropriate refund payments (including the brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to "How to apply for Public Offer Shares" in this prospectus for further details.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Public Offer.

PLACING

The Placing is expected to be fully underwritten by the Placing Underwriters on a several basis. Our Company expects to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date.

Number of Offer Shares offered

The number of Offer Shares to be initially offered under the Placing will be 180,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to any reallocation of Offer Shares between the Placing and the Public Offer, the number of Placing Shares will represent 22.5% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue.

The Placing is subject to the same conditions set out in "Conditions of the Share Offer" in this section above.

Allocation

The Placing will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing Shares will be allocated in accordance with the book-building process described in "Price determination of the Share Offer" in this section below, and is based on several factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Offer Shares on the Stock Exchange. Such allocation is intended to achieve a distribution of the Shares that would allow for the establishment of a solid professional and institutional shareholder base which will be beneficial to our Company and our Shareholders as a whole.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

OVER-ALLOTMENT OPTION

In connection with the Share Offer, our Company is expected to grant an Over-allotment Option to the Placing Underwriters exercisable at the sole discretion of the Stabilising Manager (for itself and on behalf of the Placing Underwriters).

Pursuant to the Over-allotment Option, the Stabilising Manager (for itself and on behalf of the Placing Underwriters) has the right, exercisable at anytime from the date of the Placing Underwriting Agreement until 30 days from the date of the last day of lodging application under the Public Offer, to require our Company to allot and issue up to 30,000,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Share

Offer, at the same price per Offer Share under the Placing to cover over-allocation in the Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Share Offer. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of our Company's enlarged issued share capital immediately following the completion of the Share Offer and the Capitalisation Issue and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the requirements of the Listing Rules.

In order to facilitate the settlement of over-allocations under the Placing, the Stabilising Manager (or any person acting for it) may, at its option, cover such over-allocations by acquiring Shares from other sources, including the exercise of the Over-allotment Option.

PRICE DETERMINATION OF THE SHARE OFFER

The Offer Price will be fixed on the Price Determination Date, which is expected to be on or around Wednesday, 10 July 2019, and in any event not later than Wednesday, 10 July 2019, by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company.

The Offer Price will not be more than HK$0.68 per Offer Share and is expected to be not less than HK$0.63 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Public Offer must pay, on application, the maximum Offer Price of HK$0.68 per Offer Share plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, amounting to a total of HK$3,434.26 for one board lot of 5,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the expected Price Determination Date may be, but is not expected to be, lower than the bottom end of the indicative Offer Price range stated in this prospectus.

The Joint Bookrunners will solicit from prospective investors indications of interest in acquiring the Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to the Price Determination Date.

The final Offer Price, the indications of interest in the Share Offer, the results of applications and the basis of allotment of Shares available under the Public Offer, are expected to be announced on Monday, 15 July 2019 on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.conteltechnology.com**.

PRICE PAYABLE ON APPLICATION

Applicants for Public Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK$0.68 for each Public Offer Share (plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee). If the Offer Price is less than HK$0.68, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applicants.

If, for any reason our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Wednesday, 10 July 2019, the Share Offer will not proceed and will lapse.

REDUCTION OF THE NUMBER OF OFFER SHARES AND/OR THE INDICATIVE OFFER PRICE RANGE

The Joint Bookrunners (for themselves and on behalf of the Underwriters), may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer.

In such a case, we will, as soon as practicable and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer following the decision to make such reduction, publish notices of the reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.conteltechnology.com**. Upon the issuance of such notices, the number of Offer Shares offered in the Share Offer and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.

Such notices will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notices so published, the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) with our Company, will under no circumstances be fixed outside the Offer Price range as stated in this prospectus. Applicants under the Public Offer should note that applications cannot be withdrawn once they are submitted, unless the number of Offer Shares and/or the Offer Price is/are reduced.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at its discretion, reallocate the number of Offer Shares offered under the Public Offer and the Placing, provided that the number of Offer Shares available under the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Public Offer and the Offer Shares to be offered in the Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners.

STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent any decline in the market price of the securities below the Offer Price. Such transactions may be carried out in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws, rules and regulations, including those of Hong Kong (such as the Securities and Futures (Price Stabilizing) Rules under the SFO, as amended, supplemented or otherwise modified from time to time). In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is carried out is not permitted to exceed the Offer Price.

We have appointed Alliance Capital as the Stabilising Manager for the purposes of the Share Offer in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO, as amended, supplemented or otherwise modified from time to time. In connection with the Share Offer, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or carry out transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and expected to end on the 30th day from the last day for lodging of applications under the Public Offer.

Any market purchases of the Shares may be carried out on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising action, which if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time. Any such stabilising activity must cease on the 30th day after the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 30,000,000 Shares in aggregate, which represents 15% of the Shares initially available under the Share Offer.

The types of stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO include:

(a) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares;

(b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares;

(c) subscribing, or agreeing to subscribe, for the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;

(d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares;

(e) selling, or agreeing to sell, the Shares in order to liquidate any position established as a result of those purchases; and

(f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

The Stabilising Manager, its affiliates or any person acting for it, may take all or any of the above stabilising actions in Hong Kong during the stabilisation period. Specifically, prospective applicants for and investors in the Offer Shares should note that:

(a) the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;

(b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;

(c) stabilising action cannot be used to support the price of the Shares for longer than the stabilising period, which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day from the last date for lodging applications under the Public Offer. After this date, no further stabilising action may be taken and therefore the demand for the Shares as well as the price of the Shares may fall;

(d) there is no assurance that the price of the Shares will stay at or above the Offer Price either during or after the stabilising period by taking any stabilising action; and

(e) stabilising bids may be made or transactions carried out in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions carried out at a price below the price paid by applicants or investors for the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

OVER-ALLOCATION

In connection with the Share Offer, the Stabilising Manager may over-allocate up to and not more than an aggregate of 30,000,000 additional Shares and cover such over-allocations by, among other methods, exercising the Over-allotment Option, which will be exercisable by the Stabilising Manager (for itself and on behalf of the Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of and permission to deal in:

(a) the Shares in issue and to be issued pursuant to the Share Offer (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and

(b) the Shares to be issued upon the exercise of options that may be granted under the Share Option Scheme.

No part of the share capital of our Company is listed on or dealt in any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

DEALINGS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. (Hong Kong time) on Tuesday, 16 July 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. (Hong Kong time) on Tuesday, 16 July 2019.

The Shares will be traded in board lots of 5,000 Shares each and the stock code of the Shares will be 1912.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- (unless permitted by applicable PRC laws and regulations to subscribe for the Public Offer Shares) are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

How to apply for Public Offer Shares

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **HK eIPO White Form** service at **www.hkeipo.hk**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 29 June 2019 until 12:00 noon Tuesday, 9 July 2019 from:

(a) any of the following addresses of the Public Offer Underwriters:

Alliance Capital Partners Limited	Room 1502-03A, 15/F Wing On House, 71 Des Voeux Road Central, Hong Kong
China Tonghai Securities Limited	18/F, China Building, 29 Queen's Road Central, Hong Kong
Ruibang Securities Limited	9/F, Sang Woo Building, 227-228 Gloucester Road, Wanchai, Hong Kong
First Securities (HK) Limited	Room 1708-1710, 17/F, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong

(b) any of the branches of the following receiving bank:

District	Branch name	Branch address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Central District Branch	189 Des Voeux Road Central
Kowloon	Mongkok Branch	B/F CMB Wing Lung Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
New Territories	Tsuen Wan Branch	251 Sha Tsui Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 29 June 2019 until 12:00 noon on Tuesday, 9 July 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "CMB Wing Lung (Nominees) Limited – Contel Technology Company Limited Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Saturday, 29 June 2019 – 9:00 a.m. to 1:00 p.m.
- Tuesday, 2 July 2019 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 3 July 2019 – 9:00 a.m. to 5:00 p.m.
- Thursday, 4 July 2019 – 9:00 a.m. to 5:00 p.m.
- Friday, 5 July 2019 – 9:00 a.m. to 5:00 p.m.
- Saturday, 6 July 2019 – 9:00 a.m. to 1:00 p.m.
- Monday, 8 July 2019 – 9:00 a.m. to 5:00 p.m.
- Tuesday, 9 July 2019 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 9 July 2019, the last application day or such later time as described in "10. Effect of bad weather on the opening of the applications lists" in this section below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully, otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(a) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(b) agree to comply with the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles of Association;

(c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(e) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(f) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

(h) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(k) agree that your application will be governed by the laws of Hong Kong;

(l) represent, warrant and undertake that: (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(m) warrant that the information you have provided is true and accurate;

(n) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;

(p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(q) understand that our Company, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in "2. Who can apply" in this section above, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for submitting applications under the HK eIPO White Form service

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Saturday, 29 June 2019 until 11:30 a.m. on Tuesday, 9 July 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 9 July 2019 or such later time under "10. Effect of bad weather on the opening of the applications lists" in this section below.

No multiple applications

If you apply by means of the **HK eIPO White Form**, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instructions** under the **HK eIPO White Form** more than once and obtaining payment application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System at **https://ip.ccass.com** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square 8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(b) HKSCC Nominees will do the following things on your behalf:

(i) agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

(ii) agree to accept the Public Offer Shares applied for or any lesser number allocated;

(iii) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

(iv) (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

(v) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

(vi) confirm that you understand that our Company, our Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

(vii) authorise our Company to place HKSCC Nominee's name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

(viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

(ix) confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

(x) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

(xi) agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;

(xii) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

(xiii) agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

(xiv) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

(xv) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Public Offer Shares;

(xvi) agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles of Association; and

(xvii) agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions[1]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Saturday, 29 June 2019 – 9:00 a.m. to 1:00 p.m.
- Tuesday, 2 July 2019 – 8:00 a.m. to 8:30 p.m.
- Wednesday, 3 July 2019 – 8:00 a.m. to 8:30 p.m.
- Thursday, 4 July 2019 – 8:00 a.m. to 8:30 p.m.
- Friday, 5 July 2019 – 8:00 a.m. to 8:30 p.m.
- Monday, 8 July 2019 – 8:00 a.m. to 8:30 p.m.
- Tuesday, 9 July 2019 – 8:00 a.m. to 12:00 noon

(1) These times are subject to change as HKSCC and/or CCASS Investor Participants may determine, from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Saturday, 29 June 2019 until 12:00 noon on Tuesday, 9 July 2019 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 9 July 2019, the last application day or such later time as described in "10. Effect of bad weather on the opening of the application lists" in this section below.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

Personal data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 9 July 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees", you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 5,000 Public Offer Shares. Each application or **electronic application instructions** in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details of the Offer Price, please refer to "Structure of the Share Offer – Price determination of the Share Offer" in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or

- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 9 July 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 9 July 2019 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in "Expected timetable" in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Monday, 15 July 2019 on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.conteltechnology.com**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.conteltechnology.com** no later than 9:00 a.m. on Monday, 15 July 2019;

- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, 15 July 2019 to 12:00 midnight on Friday, 19 July 2019;

- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 15 July to Thursday, 18 July 2019;

- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 15 July 2019 to Wednesday, 17 July 2019 at all the receiving bank designated branches and sub-branches of the receiving bank.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Please refer to "Structure of the Share Offer" in this prospectus for further details.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required please confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- you apply for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$0.68 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer set out in "Structure of the Share Offer – Conditions of the Share Offer" in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, 15 July 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, 15 July 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 16 July 2019 provided that the Share Offer has become unconditional and the right of termination described in "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

If you apply using a WHITE Application Form

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Hong Kong Branch Share Registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 15 July 2019, or such other date as notified by us on the Stock Exchange's website at **www.hkexnews.hk** and the Company's website at **www.conteltechnology.com**.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, 15 July 2019 by ordinary post and at your own risk.

If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, 15 July 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participants stock account as stated in your Application Form on Monday, 15 July 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

  For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph "11. Publication of results" in this section above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 15 July 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 15 July 2019, or such other date as notified by our Company on the Stock Exchange's website at **www.hkexnews.hk** and the Company's website at **www.conteltechnology.com** as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 15 July 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

If you apply via electronic application instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 15 July 2019 or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "11. Publication of results" in this section above on Monday, 15 July 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 15 July 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 15 July 2019. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 15 July 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent reporting accountants, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong.

MOORE STEPHENS

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會計師事務所有限公司

The Directors
Contel Technology Company Limited

Alliance Capital Partners Limited

Dear Sirs,

Introduction

We report on the historical financial information of Contel Technology Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-86, which comprises the consolidated statements of financial position as at 31 December 2015, 2016, 2017 and 2018 of the Group, the statements of financial position as at 31 December 2016, 2017 and 2018 of the Company and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the four years ended 31 December 2018 (the "Track Record Period") of the Group and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-86 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 June 2019 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in note 2.2 and note 3 respectively to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in note 2.2 and note 3 respectively to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2016, 2017 and 2018 and the Group's financial position as at 31 December 2015, 2016, 2017 and 2018 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in note 2.2 and note 3 respectively to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividend

We refer to note 33 to the Historical Financial Information which contains information about the dividend declared or paid by the Company and its subsidiaries in respect of the Track Record Period.

Yours faithfully,

Moore Stephens CPA Limited
Certified Public Accountants

Hung, Wan Fong Joanne
Practising Certificate Number: P05419
Hong Kong, 29 June 2019

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Moore Stephens CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in United States dollars ("US$") and all values are rounded to the nearest thousand except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2015	2016	2017	2018
		Years ended 31 December			
		US$'000	US$'000	US$'000	US$'000
Revenue	8	45,563	36,372	53,806	67,279
Cost of sales		(41,521)	(33,138)	(47,233)	(57,874)
Gross profit		4,042	3,234	6,573	9,405
Other income	8	18	15	551	89
Selling and distribution expenses		(100)	(110)	(1,089)	(1,546)
General and administrative expenses		(944)	(1,108)	(1,899)	(1,900)
Provision for allowance for expected credit loss on trade receivables		(182)	–	–	(91)
Listing expenses		–	(430)	(561)	(1,543)
Finance costs	9	(78)	(146)	(451)	(864)
Profit before income tax	10	2,756	1,455	3,124	3,550
Income tax expense	12	(448)	(322)	(601)	(939)
Profit for the year		2,308	1,133	2,523	2,611
Profit attributable to:					
Owners of the Company		2,300	1,173	2,547	2,611
Non-controlling interests	31	8	(40)	(24)	–
		2,308	1,133	2,523	2,611
Other comprehensive income					
Item that may be reclassified to profit or loss in subsequent periods:					
Exchange differences arising on translating foreign operations		–	–	27	(65)
Other comprehensive income for the year attributable to the owners of the Company		–	–	27	(65)
Total comprehensive income for the year		2,308	1,133	2,550	2,546
Total comprehensive income attributable to:					
Owners of the Company		2,300	1,173	2,574	2,546
Non-controlling interests		8	(40)	(24)	–
		2,308	1,133	2,550	2,546

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			
		2015	**2016**	**2017**	**2018**
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	*14*	38	98	117	113
Intangible assets	*15*	–	33	233	161
Goodwill	*16*	–	264	264	264
Life insurance policy deposits	*17*	355	360	367	873
		393	755	981	1,411
Current assets					
Inventories	*18*	4,323	5,345	6,429	6,547
Trade and bills receivables	*19*	10,337	9,759	19,537	19,007
Prepayments, deposits and other receivables	*20*	21	3,404	1,878	3,394
Amounts due from related parties	*27(b)*	–	–	46	8
Pledged bank deposits	*21*	–	–	–	300
Cash and cash equivalents	*21*	2,175	1,842	1,629	2,874
		16,856	20,350	29,519	32,130
Current liabilities					
Trade and bills payables	*22*	7,237	9,859	12,490	16,887
Accruals, receipts in advance and other payables	*23*	188	387	1,102	1,398
Amounts due to related parties	*27(b)*	1,557	1,682	1,439	–
Bank borrowings	*24*	249	211	4,310	1,310
Tax payable		290	19	193	434
		9,521	12,158	19,534	20,029
Net current assets		7,335	8,192	9,985	12,101
Net assets		7,728	8,947	10,966	13,512
EQUITY					
Share capital	*25*	–	–	–#	–#
Reserves	*26*	7,435	8,702	10,966	13,512
Equity attributable to owners of the Company		7,435	8,702	10,966	13,512
Non-controlling interests	*31*	293	245	–	–
Total equity		7,728	8,947	10,966	13,512

Item with value below US$1,000

STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2016 US$'000	2017 US$'000	2018 US$'000
ASSETS AND LIABILITIES				
Non-current asset				
Interest in a subsidiary		–#	–#	–#
Current asset				
Amounts due from subsidiaries	*27(c)*	–	4,995	4,995
Current liabilities				
Amounts due to shareholders	*27(c)*	–	3,500	3,500
Amounts due to subsidiaries	*27(c)*	–#	–#	16
		–#	3,500	3,516
Net current assets		–	1,495	1,479
Net assets		–#	1,495	1,479
EQUITY				
Share capital	*25*	–#	–#	–#
Reserves		–	1,495	1,479
Total equity		–#	1,495	1,479

Items with value below US$1,000

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Company								
	Share capital	Other reserve	Merger reserve	Statutory surplus reserve	Translation reserve	Retained profits	Total	Non-controlling interest	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Note 25)	*(Note 26)*	*(Note 26)*	*(Note 26)*				*(Note 31)*	
At 1 January 2015	–	–#	–	–	–	5,135	5,135	285	5,420
Profit and total comprehensive income for the year	–	–	–	–	–	2,300	2,300	8	2,308
At 31 December 2015 and 1 January 2016	–	–#	–	–	–	7,435	7,435	293	7,728
Profit/(loss) and total comprehensive income for the year	–	–	–	–	–	1,173	1,173	(40)	1,133
Acquisition of Shanghai IH *(note 34(b))*	–	86	–	–	–	–	86	–	86
Arising from Reorganisation *(note 2.1(e))*	–	7,021	(7,021)	–	–	–	–	–	–
At 31 December 2016	–	7,107	(7,021)	–	–	8,608	8,694	253	8,947

Items with value below US$1,000

	Equity attributable to owners of the Company								
	Share capital	Other reserve	Merger reserve	Statutory surplus reserve	Translation reserve	Retained profits	Total	Non-controlling interest	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Note 25)	*(Note 26)*	*(Note 26)*	*(Note 26)*				*(Note 31)*	
At 1 January 2017	–	7,107	(7,021)	–	–	8,608	8,694	253	8,947
Profit/(loss) for the year	–	–	–	–	–	2,547	2,547	(24)	2,523
Foreign currency translation differences for foreign operations	–	–	–	–	27	–	27	–	27
Total comprehensive income for the year	–	–	–	–	27	2,547	2,574	(24)	2,550
Issue of share capital *(note 23(i))*	–#	–	–	–	–	–	–	–	–
Acquisition of interests of a subsidiary from non-controlling interests	–	–	–	–	–	229	229	(229)	–
Acquisition of Chengdu Flyring *(note 34(c))*	–	1,474	–	436	–	(436)	1,474	–	1,474
Capital injection from shareholders	–	1,495	–	–	–	–	1,495	–	1,495
Dividends *(note 33)*	–	–	–	–	–	(3,500)	(3,500)	–	(3,500)
At 31 December 2017	–#	10,076	(7,021)	436	27	7,448	10,966	–	10,966

Items with value below US$1,000

	Equity attributable to owners of the Company								
	Share capital	Other reserve	Merger reserve	Statutory surplus reserve	Translation reserve	Retained profits	Total	Non-controlling interest	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Note 25)	*(Note 26)*	*(Note 26)*	*(Note 26)*				*(Note 31)*	
At 1 January 2018	–#	10,076	(7,021)	436	27	7,448	10,966	–	10,966
Profit for the year	–	–	–	–	–	2,611	2,611	–	2,611
Foreign currency translation differences for foreign operations	–	–	–	–	(65)	–	(65)	–	(65)
Total comprehensive income for the year	–	–	–	–	(65)	2,611	2,546	–	2,546
Appropriation to statutory surplus reserve	–	–	–	13	–	(13)	–	–	–
At 31 December 2018	–#	10,076	(7,021)	449	(38)	10,046	13,512	–	13,512

Item with value below US$1,000

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	2015 US$'000	2016 US$'000	2017 US$'000	2018 US$'000
		Years ended 31 December			
Cash flows from operating activities					
Profit before income tax		2,756	1,455	3,124	3,550
Adjustments for:					
Amortisation of life insurance policy deposits		26	9	8	51
Amortisation of intangible assets		–	–	67	72
Bank interest income	*8*	–	(1)	(2)	(5)
Depreciation of property, plant and equipment	*14*	10	11	47	41
Imputed interest income on life insurance policy deposits	*8*	(9)	(14)	(15)	(36)
Interest expenses	*9*	78	146	451	864
Allowance for expected credit loss on trade receivables	*19*	182	–	–	91
Impairment loss reversal thereof on inventories to net realisable value, net	*18*	(45)	(12)	(105)	(128)
Operating cash flows before working capital changes		2,998	1,594	3,575	4,500
(Increase)/decrease in inventories		(699)	(584)	196	10
(Increase)/decrease in trade and bills receivables		(1,648)	6,117	(5,013)	439
Decrease/(increase) in prepayments, deposits and other receivables		20	(3,013)	2,264	(1,512)
Increase/(decrease) in trade and bills payables		1,937	(3,352)	809	4,397
(Decrease)/increase in accruals, receipts in advance and other payables		(338)	(2)	279	296
Net cash generated from operations		2,270	760	2,110	8,130
Income tax refunded/(paid)		26	(624)	(424)	(698)
Net cash generated from operating activities		2,296	136	1,686	7,432
Cash flows from investing activities					
Acquisition of Shenzhen IH	*34(a)*	–	(245)	–	–
Acquisition of Shanghai IH	*34(b)*	–	(131)	–	–
Acquisition of Chengdu Flyring	*34(c)*	–	–	(761)	–
Purchases of property, plant and equipment	*14*	–	(35)	(50)	(41)
Payment of life insurance policy deposits	*17*	(376)	–	–	(525)
(Increase)/decrease in amounts due from related parties		–	–	(46)	38
Increase in pledged bank deposits		–	–	–	(300)
Interest received	*8*	–	1	2	5
Net cash used in investing activities		(376)	(410)	(855)	(823)
Cash flows from financing activities					
Capital injection to the Company by the controlling shareholders		–	–	1,495	–
(Decrease)/increase in amounts due to related parties		(520)	125	(4,753)	(1,439)
Proceeds from borrowings		268	–	7,523	1,310
Repayment of borrowings		(53)	(38)	(4,882)	(4,310)
Interest paid	*9*	(78)	(146)	(451)	(864)
Net cash used in financing activities		(383)	(59)	(1,068)	(5,303)
Net increase/(decrease) in cash and cash equivalents		1,537	(333)	(237)	1,306
Cash and cash equivalents at beginning of the year		638	2,175	1,842	1,629
Effect of foreign exchange rate changes		–	–	24	(61)
Cash and cash equivalents at end of the year	*21*	2,175	1,842	1,629	2,874

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 August 2016. The registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is Unit No. A, 13th Floor, Block 1, Leader Industrial Centre, Nos.188-202 Texaco Road, Tsuen Wan, New Territories, Hong Kong.

The Company is an investment holding company while its principal subsidiaries are mainly engaged in the provision of customised reference designs which are bundled together with the sale of integrated circuits ("ICs") and other electronic components as a package to customers in both Hong Kong and the People's Republic of China (the "PRC").

The Company and its subsidiaries now comprising the Group underwent the reorganisation ("Reorganisation") as set out in note 2.1 to this Historical Financial Information. Apart from the Reorganisation, the Company has not commenced any business or operation since its operation.

During the Track Record Period and as at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out as follows:

Company name	Place and date of incorporation/ establishment	Particulars of issued and fully paid-up share capital/registered capital	Attributable equity interest as at date of this report	Principal activities and place of operation
Contel (BVI) Limited ("Contel (BVI)") *(note a)*	the British Virgin Islands (the "BVI"), 19 September 2016	1 ordinary share of United States dollars ("US$") 1	100%	Investment holding in Hong Kong
Flyring Electronics Limited ("Flyring Electronics") *(note b)*	Hong Kong, 11 January 2011	1 ordinary share of HK$1 each	100%	Sale of ICs in Hong Kong and the PRC
IH Technology Limited ("IH Technology") *(notes b & d)*	Hong Kong, 23 August 2006	11 ordinary shares of HK$1 each	100%	Sale of ICs in Hong Kong and the PRC
深圳市英浩控制技術有限公司 (Shenzhen IH Technology Co., Ltd.) ("Shenzhen IH") *(note c)*	the PRC, 11 May 2005	Registered capital of Renminbi ("RMB") 2,000,000	100%	Sale of ICs in the PRC
上海英浩微電子技術有限公司 (Shanghai IH Microelectronics Technology Co., Ltd.) ("Shanghai IH") (*note c*)	the PRC, 26 August 2009	Registered capital of RMB2,000,000	100%	Sale of ICs in the PRC
成都飛環電子有限公司 (Chengdu Flyring Electronics Limited ("Chengdu Flyring")) (*note c*)	the PRC, 2 November 2000	Registered capital of RMB2,000,000	100%	Sale of ICs in the PRC

Notes:

(a) No audited financial statements have been prepared since its date of incorporation for this entity since there is no statutory audit requirement in the country of its incorporation.

(b) The statutory financial statements of these entities for the years ended 31 December 2015, 2016 and 2017, which are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, were audited by Moore Stephens CPA Limited, Certified Public Accountants in Hong Kong.

(c) The English name of the subsidiaries established in the PRC represent management's best effort at translating the Chinese name of such subsidiaries as no English name has been registered.

(d) 9.09% of interest in IH Technology was held by Ms. Hui Hung, cousin of Mr. Lam. On 13 January 2017, Mr. Lam acquired the equity interest held by (note 2.1(g)) Ms. Hui Hung.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

2.1 Reorganisation

The companies comprising the Group underwent a reorganisation in preparation for Listing, pursuant to which the Company became the holding company of the Group. The Reorganisation involved the following major steps:

(a) The Company was incorporated as a limited liability company in the Cayman Islands on 16 August 2016, with an authorised share capital of HK$380,000 divided into 38,000,000 shares of nominal value of HK$0.01 each. At the time of incorporation, the Company allotted and issued one share, credited as fully paid, to its initial subscriber, which was transferred at par value to Mr. Lam on the same day.

(b) P. Grand (BVI) Ltd. ("P. Grand") was incorporated under the laws of the BVI on 19 September 2016, authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each. At the time of incorporation, 1 share of US$1.00 was allotted and issued to Mr. Lam, credited as fully paid. On 8 November 2016, Mr. Lam transferred the one share he held in the Company to P. Grand at par value. As a result, P. Grand became the sole shareholder of the Company.

(c) Contel (BVI) was incorporated under the laws of the BVI on 19 September 2016, authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each. At the time of incorporation, 1 share of US$1.00 was allotted and issued to the Company, credited as fully paid, as a result of which Contel (BVI) became a direct wholly-owned subsidiary of the Company.

(d) On 16 November 2016, Mr. Qing and Mrs. Qing transferred their respective shareholdings in Shenzhen IH, representing 100% of the equity interest of Shenzhen IH in aggregate, to Flyring Electronics, for an aggregate cash consideration of approximately RMB2,292,000 (equivalent to approximately US$330,000), with reference to the valuation of Shenzhen IH, which was fully settled on 22 March 2017. The transfer was completed on 14 December 2016. Upon completion of the transfer, Shenzhen IH became a wholly-owned subsidiary of Flyring Electronics.

(e) On 25 November 2016, Mr. Lam transferred the entire issued share capital of Flyring Electronics to Contel (BVI) at a consideration of approximately HK$54,693,000 (equivalent to approximately US$7,057,000) (the "Consideration"), with reference to the valuation of Flyring Electronics. Upon completion of the transfer, Flyring Electronic became an indirect wholly-owned subsidiary of the Company. On the same date, Mr. Lam has declared an irrevocably undertaking and confirmed that will not demand for repayment of the Consideration, such amounts have been capitalised on 25 December 2017.

(f) On 26 December 2016, Mr. Qing and Mrs. Qing transferred their respective shareholding in Shanghai IH, representing 100% of the equity interest of Shanghai IH, to Shenzhen IH, for an aggregate cash consideration of approximately RMB2,089,000 (equivalent to approximately US$300,800), with reference to the valuation of Shanghai IH, which was fully settled on 16 March 2017. The transfer was completed on 26 December 2016. Upon completion of the transfer, Shanghai IH became an indirect wholly-owned subsidiary of the Company.

(g) On 13 January 2017, Ms. Hui Hung transferred her one share in IH Technology to Mr. Lam at nominal value of HK$1.00, which was settled on the same date. Upon completion of the transfer, IH Technology became wholly-owned by Mr. Lam.

(h) On 16 January 2017, Mr. Qing and Mrs. Qing transferred their respective shareholdings in Chengdu Flyring, representing 100% of the equity interest of Chengdu Flyring in aggregate, to Shenzhen IH, for an aggregate cash consideration of RMB6,000,000 (equivalent to approximately US$872,000), with reference to the registered capital of Chengdu Flyring, which was fully settled on 16 March 2017. The transfer was completed on 16 January 2017. Upon completion of the transfer, Chengdu Flyring became an indirect wholly-owned subsidiary of the Company.

(i) On 12 April 2017, Mr. Lam transferred the entire issued share capital of IH Technology to Contel (BVI) in consideration of the Company allotting and issuing 9,999 shares to P. Grand, at the direction of Mr. Lam. Upon completion of the transfer, IH Technology became an indirect wholly-owned subsidiary of the Company.

(j) On 25 April 2017, the Company allotted and issued 9,999 shares to P. Grand. Upon the issuance of 9,999 shares to P. Grand, the issued share capital of the Company was increased to HK$100.00 divided into 10,000 shares with a nominal value of HK$0.01 each and the Company was wholly owned by P. Grand.

(k) On 25 December 2017, each of P. Grand and Kingtech (BVI) Limited ("Kingtech") subscribed for 80,000 and 10,000 shares, respectively, at nominal value. On the same date, the Company allotted and issued 80,000 and 10,000 shares to P. Grand and Kingtech, respectively. Upon completion of the above subscriptions of shares by P. Grand and Kingtech, the issued share capital of the Company was increased to HK$1,000.00 divided into 100,000 shares with a nominal value of HK$0.01 each and is owned as to 90% by P. Grand and 10% by Kingtech.

Kingtech is a company incorporated in the BVI and is wholly owned by Mrs. Qing.

2.2 Basis of presentation

The transfers of the entire issued share capital of Flyring Electronics and IH Technology to Contel (BVI) on 25 November 2016 and 12 April 2017 respectively have been accounted for by the Group as a reorganisation of companies, using the principles of merger accounting according to the common control exemption under HKFRS 3, Business Combination. The Historical Financial Information has been prepared as if Flyring Electronics and IH Technology had been subsidiaries of the Group throughout the Track Record Period. Shenzhen IH, Shanghai IH and Chengdu Flyring (together the "PRC Subsidiaries") were acquired by Flyring Electronics, as stated in note 2.1, and have been accounted for using the principles of acquisition accounting under the accounting policies of "Business Combination" as stated in note 5 from the respective dates of acquisition.

Under the principles of merger accounting, the assets and liabilities of the combining entities or businesses are consolidated using the existing book values from the controlling shareholder's perspective. No amount is recognised in respect of goodwill or any gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's or parties' interests.

The consolidated statement of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period includes the results and cash flows of Flyring Electronics and IH Technology, as if they were subsidiaries of the Group throughout the Track Record Period. The consolidated statements of financial position of the Group as at 31 December 2015, 2016, 2017 and 2018 have been prepared to include the assets and liabilities of Flyring Electronics and IH Technology as if they were subsidiaries of the Group at those dates.

3. BASIS OF PREPARATION

The Historical Financial Information have been prepared in accordance with the basis of presentation set out in note 2.2 and the accounting policies in note 5 below which are in conformity with HKFRSs, which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. The Historical Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange.

The HKICPA has issued a number of new or revised HKFRSs which are relevant to the Group and become effective during the Track Record Period. In preparing this Historical Financial Information, the Group has adopted all these new or revised HKFRSs throughout the Track Record Period. At the date of this report, certain new or revised HKFRSs have been issued by the HKICPA but are not yet effective and have not been adopted early by the Group. Details of which are set out in note 4. The Historical Financial Information have been prepared under historical cost convention.

It should be noted that accounting estimates and assumptions are used in the preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 6.

The Historical Financial Information are presented in US$, while the functional currency of the Company is Hong Kong dollar and the functional currencies of the Group's subsidiaries are in US$ and RMB.

4. ADOPTION OF NEW AND REVISED HKFRSs

(a) Adoption of new and revised HKFRSs

The Group has applied a number of new HKFRSs and amendments to HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2018. The following new and revised HKFRSs are relevant to the Group's consolidated financial statements.

HKFRS 15 "Revenue from contracts with customers"

The Group has adopted HKFRS 15 starting from the beginning of and throughout the Track Record Period. HKFRS 15 supersedes HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, 1 January 2015. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate). Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2015.

HKFRS 15 was adopted without restating any comparative information, and there is no significant impact of transition to HKFRS 15 on the retained profits at 1 January 2015.

HKFRS 9 "Financial instruments"

The Group has adopted the complete version of HKFRS 9 in the consolidated financial statements for the Track Record Period at the date of initial application, 1 January 2015. The adoption of HKFRS 9 has no significant impact on the Group's consolidated financial statements.

HKFRS 9 replaces HKAS 39 Financial instruments: Recognition and Measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. In accordance with the specific transitional provisions set out in HKFRS 9, the Group has applied the classification and measurement requirements (including requirements relating to impairment under expected credit losses ("ECL") model) to items that existed as of the date of initial application on a retrospective basis based on the facts and circumstances that existed as at 1 January 2015. HKFRS 9 was adopted without restating any comparative information, and there is no significant impact of transition of HKFRS 9 on the retained profits at 1 January 2015.

(b) New and revised HKFRSs that have been issued but are not yet effective

At the date of this report, the following new or amended HKFRSs have been published but are not yet effective, and have not been early adopted by the Group.

		Effective for annual reporting periods beginning on or after
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures	1 January 2019*
HKAS 28 and HKFRS 10 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined*
HKFRS 9 Amendments	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
HKAS 1 (Revised) and HKAS 8 Amendments	Definition of Material	1 January 2020
HKFRS 3 (Revised) Amendments	Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

* The amendments were original intended to be effective for annual periods beginning on or after 1 January 2018. The effective date has now been deferred. Early application of the amendments continues to be permitted.

The Group has already commenced an assessment of the related impact of adopting the above new and revised HKFRSs. So far, it has concluded that the above new and revised HKFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the Historical Financial Information except for the following:

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sale and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group represents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

There are recognition exemptions for short-term leases and leases of low-value items. Short-term leases are leased with a lease term of 12 months or less at the commencement date. Low-value items are leases with insignificant value. Payments associated with short-term leases and leases of low value items are recognised on a straight-line basis as expenses in profit or loss.

As set out in Note 28, total operating lease commitments of the Group in respect of its office and warehouse premises as at 31 December 2015, 2016, 2017 and 2018 amounted to approximately US$34,000, US$1,002,000, US$688,000 and US$1,172,000 respectively. The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities.

The Group will transition to HKFRS 16 in accordance with the modified retrospective approach and, therefore, the information presented for the year ended 31 December 2018 will not be restated. The right-of-use assets for the leases of office and warehouse premises will be measured at the amount equal to the lease liability, adjusted by the amount of any prepayments relating to that lease recognised in the consolidated statements of financial position as at 31 December 2018.

In the opinion of directors of the Company, the lease payments will be discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate.

Each lease payment will be allocated between the liability and finance cost. The finance cost will be charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset will be depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Management estimated that the adjustment of the opening balances (affected items only) resulting from the initial application of the HKFRS 16 as at 1 January 2019 are illustrated as follows:

	31 December 2018	**HKFRS 16 Contract capitalisation**	**1 January 2019**
	US$'000	*US$'000*	*US$'000*
Non-current assets			
Right-of-use assets	–	1,044	1,044
Current liabilities			
Lease liabilities	–	(416)	(416)
Non-current liabilities			
Lease liabilities	–	(668)	(668)
Equity			
Retained profits	8,608	(40)	8,568

The Group will apply the practical expedient to grandfather the definition of a lease of transition. This means that it will apply HKFRS 16 to contracts that were previously identified as leases under HKAS 17 Leases and HK(IFRIC)-Int 4 Determining whether an arrangement contains a lease.

Annual Improvements HKFRSs 2015-2017 Cycle

The annual improvement packages amended the following standards.

HKAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

HK(IFRIC) Interpretation 23 "Uncertainty over Income Tax Treatments"

This interpretation clarifies how to apply the recognition and measurement requirements in HKAS 12 when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the Group's consolidated financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Historical Financial Information are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of combination and subsidiaries

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Track Record Period. As explained in Note 2.2 above, the acquisition of Flyring Electronics Limited and IH Technology by Contel (BVI) have been accounted for as reorganisation of companies and using merger basis of accounting. The acquisitions by Flyring Electronics of subsidiaries established in the PRC are accounted for using the acquisition method.

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the Historical Financial Information. Where unrealised losses on intra-group asset sales are reversed on combination, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the owners of the Company and are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income for the year between non-controlling interests and the owners of the Company.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities measured by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at fair value or at the non-controlling interests' proportionate share of the acquirees' identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Goodwill is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in the consolidated statements of comprehensive income as a bargain purchase gain or changes in the consolidated statements of changes in equity.

After initial recognition, goodwill is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statements of financial position.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating units (group of cash-generating units) to which the goodwill relates. If the recoverable amount of the cash-generating units (group of cash-generating units) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of cash-generating units) and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Property, plant and equipment

Property, plant and equipment are stated at cost less provisions for depreciation and impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the item has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit or loss in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item, the expenditure is capitalised as an additional cost of the item. When an item of property, plant and equipment is sold, its cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss.

Depreciation is provided on the straight-line method, based on the estimated economic useful life of the individual assets, as follows:

Leasehold improvement	5 years or over the lease terms, whichever is shorter
Furniture, fixture and equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, estimated useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Company's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Intangible assets other than goodwill

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Gains of losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Impairment of non-financial assets

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the value in use of the asset or cash-generating unit to which it belongs and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the profit or loss in the period in which it arises.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Financial assets

The Group's financial assets include trade and bills receivables, deposits and other receivables, amounts due from related parties, pledged bank deposits and cash and cash equivalents, and all of which are classified and accounted for as debt instruments. Financial assets are recognised on the trade date.

Debt instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market which are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for impairment.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial assets.

Impairment of financial assets

The Group recognises loss allowances for ECL on the financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECL as all its financial assets carried at amortised cost are current assets. For trade receivables, the Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected losses provision for all trade receivables.

When estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls which is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised cost is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

(a) significant financial difficulty of the borrower or issuer;

(b) a breach of contract such as a default or past due event; and

(c) it is becoming probable that the debtor will enter bankruptcy.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial assets is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Financial liabilities

The Group's financial liabilities include trade and bills payables, accruals and other payables, amounts due to related parties and bank borrowings. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statements of profit or loss with the exception of monetary items that are designated as part of the hedge of the group's net investment of a foreign operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item. The functional currencies of certain overseas subsidiaries are currencies other than the US$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period, and their income and expense items are translated into US$ at the weighted average exchange rates for the year.

The resulting exchange differences are recorded in other comprehensive income and the cumulative balance is included in exchange reserve in the consolidated statements of changes in equity. On disposal of a foreign operation, the deferred cumulative amount recognised in exchange reserve relating to that particular foreign operation is recognised in the consolidated statements of profit or loss and other comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into US$ at the weighted average exchange rates for the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to a customer, as follows:–

Revenue from sale of goods which are bundled with services

Time of recognition

The Group provides customised reference designs which are bundled together with the sale of ICs and delivery to the customers' designated locations as a package to customers. Sales are recognised when the control of the ICs including the bundled services, being when the ICs are delivered to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the ICs. The Group allows customers to return the defective products in the range from two weeks to one month after the delivery. No warranty or sales rebate is offered to the customers.

Measurement of revenue

Revenue from sales is based on the price specified in the sales contracts and is shown net of value-added tax and after eliminating sales within the Group. No element of financing is deemed present as the sales are made with a credit term not more than four months. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Accumulated experience is used to estimate the likelihood and provide for sales return for the goods sold at the time of sale.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

For a sale of products with a right of return, the Group recognises revenue for the transferred products in the amount of consideration to which the Group expects to be entitled. A right of return asset is also recognised for the right to recover products from a customer.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the company in an independently administered fund.

The employees of the subsidiaries within the Group which operate in the PRC are required to participate in the central defined contribution pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme as specified by the local municipal government.

Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee long service payment

The provision for long service payment is provided based on the employees' basic salaries and their respective length of service in accordance with the applicable rules and regulations in their respective countries of employment.

Income tax

Income tax represents the sum of current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:–

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

– When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Group's parent.

OR

(b) An entity is related to the Group if any of the following conditions apply:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entities and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of the employees either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is apart, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

The measurement policies the Group uses for reporting segment results under HKFRS 8 "Operating Segments" are the same as those used in its financial statements prepared under HKFRSs.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires the directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors have considered the development, selection and disclosure of the Group's critical accounting judgements and estimates.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of accrued purchase rebates

The Group has entered into the ship and debit arrangements with certain suppliers during the Track Record Period. Under the arrangements, the purchases of materials and goods from these suppliers are initially charged to the Group at their standard prices and then rebates are given by these suppliers after the materials have been sold to the Group's customers. The rebate rates vary depending on the scale and sold volume of customers. At the reporting dates, the costs of inventories purchased under the ship and debit arrangements are required to be reassessed and adjusted for the estimated likely rebates. A considerable amount of judgement and estimates is required in determining the appropriate amount to accrue for the purchase rebates and the net of such rebate cost of inventories. If conditions which have an impact on the purchase rebates differ from those assessed previously, further changes to the carrying value of inventories may be required.

Allowance for expected credit loss on financial assets

The policy for the allowance for expected credit loss on financial assets of the Group is based on the assessment of ECL of each debtor based on the observable data and management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their abilities to make payments, additional allowance for expected credit loss may be required.

Allowance for inventories

Management carries out inventory review periodically, at least at the end of each reporting period and makes allowance for obsolete items. A considerable amount of judgement and estimates is required in determining such allowance. If conditions which have an impact on the net realisable value of inventories deteriorate, additional allowances may be required. Management reviews the inventory ageing analysis at the end of reporting period and identifies for slow-moving inventory that are no longer suitable for consumption and saleable. Management estimates the net realisable value for such inventories based primarily on the latest invoice price and current market conditions. When the inventories which have been impaired are sold subsequently, the provision of impairment loss will be reversed to the extent of impairment losses previously recognised in the consolidated statements of profit or loss.

Estimated impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that non-financial assets with definite lives or indefinite lives may be impaired. If any such indication exists, the Group estimates the recoverable amount of the assets in accordance with the accounting policy stated in note 5, Impairment of non-financial assets. In assessing whether there is any indication that non-financial assets may be impaired, the Group considers indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions and economic environment. These assessments are subjective and require management's judgements and estimations.

Provision for income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. Significant judgement is required in determining the tax liabilities to be recognised. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. The Group believes that its provision for tax is adequate for the Track Record Period based on its assessment of many factors including past experience and interpretations of tax law. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

7. SEGMENT INFORMATION

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by executive directors of the Company in order to allocate resources and assess performance of the segment. During the Track Record Period, executive directors received and reviewed information on the performance of the Group as a whole. Accordingly, it is determined that the Group has only one single operating segment, which is determined as sale of ICs including bundled services, for the purpose of allocating resources and assessing performance.

The Company is an investment holding company and the principal place of the Group's operation is in Hong Kong and the PRC. For the purpose of geographical segment information disclosures under HKFRS 8, the Group regarded Hong Kong as its place of domicile. All the Group's revenue from external customers is presented based on the location of the operating subsidiaries and the Group's non-current assets (excluding life insurance policy deposits) is presented based on the location of assets as follows:

	Years ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue recognised at a point in time				
Hong Kong	45,563	36,372	25,923	37,372
The PRC	–	–	27,883	29,907
	45,563	36,372	53,806	67,279

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Hong Kong	38	52	338	326
The PRC	–	343	276	212
	38	395	614	538

Revenue from customer which individually contributed over 10% of the total revenue of the Group during the Track Record Period is as follows:

	Years ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Chengdu Flyring	15,950	8,030	N/A	N/A
Shenzhen IH	5,129	4,607	N/A	N/A
Shanghai IH	N/A	4,970	N/A	N/A
Jiangsu Chen Yang Electronics Co., Ltd.	N/A	N/A	6,415	9,524

Note: Sales to Chengdu Flyring, Shenzhen IH and Shanghai IH were eliminated on consolidation for the years ended 31 December 2017 and 2018 as they become wholly owned subsidiaries of the Group. Sales to Jiangsu Chen Yang Electronics Co., Ltd. were not over 10% of the total revenue of the Group for the years ended 31 December 2015 and 2016.

During the Track Record Period, the Group generated revenue primarily from the sale of five categories of ICs products, comprising IC products for: (i) mobile devices and smart charging; (ii) motor control; (iii) radio frequency ("RF") power; (iv) light-emitting diode ("LED") lighting; and (v) sensor and automation. The following table sets out the breakdown of the revenue recognised at a point in time by product category:

	Years ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Mobile devices and smart charging	5,691	7,770	20,895	34,554
Motor control	7,239	6,886	15,595	16,186
RF power	20,172	11,709	7,721	7,424
LED lighting	10,511	7,778	5,702	6,759
Sensor and automation	1,950	2,229	3,893	2,356
	45,563	36,372	53,806	67,279

8. REVENUE AND OTHER INCOME

Revenue from the Group's principal activities, which is also the Group's turnover, represents the income from sale of ICs including the bundled services delivered to the customers and recognised at a point in time. Revenue and other income recognised during the Track Record Period are as follows:

	Years ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	45,563	36,372	53,806	67,279
Other income				
Bank interest income	–	1	2	5
Exchange gain, net	–	–	504	3
Imputed interest income on life insurance policy deposits	9	14	15	36
Others	9	–	30	45
	18	15	551	89

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sale of ICs including the bundled services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations that had an original expected duration of one year or less.

9. FINANCE COSTS

	Years ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Interest on bills payables	75	140	233	693
Interest on discounted bills	–	–	129	104
Interest on short-term bank loans	3	6	89	67
	78	146	451	864

10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Years ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Auditor's remuneration	26	39	25	25
Amortisation of intangible assets *(note 15)*	–	–	67	72
Cost of inventories recognised as expenses	41,521	33,138	47,233	57,874
Depreciation of property, plant and equipment *(note 14)*	10	11	47	41
Employee benefit expenses *(note)* (including directors' remuneration *(note 11)*)				
Salaries and allowances	636	610	1,333	1,765
Bonus	232	93	291	198
Pension scheme contributions – Defined contribution plan	12	22	222	276
	880	725	1,846	2,239
Exchange loss/(gain), net	176	345	(504)	(3)
Listing expenses	–	430	561	1,543
Operating lease expenses	24	60	380	426
Allowances for expected credit loss on trade receivables *(note 19)*	182	–	–	91
Impairment loss (reversal thereof) on inventories, net *(note 18)* included in cost of inventories recognised as expenses	(45)	(12)	(105)	(128)

Note: Employee benefit expenses are included in cost of sales, selling and distribution expenses and general and administrative expenses.

11. DIRECTORS' REMUNERATION, FIVE HIGHEST PAID EMPLOYEES AND SENIOR MANAGEMENT EMOLUMENTS

(a) Directors' remuneration

Emoluments paid or payable by the Company or its subsidiary undertakings to the directors of the Company during the Track Record Period:

	Fees	**Salaries, allowances, bonus and benefits in kind**	**Pension scheme contributions**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Year ended 31 December 2015				
Executive directors:				
Mr. Lam	–	227	5	232
Mr. Qing	–	32	–	32
Mai Lu	–	58	–	58
	–	317	5	322
Independent non-executive directors:				
Dan Kun Lei, Raymond	–	–	–	–
Wong Kwun Ho	–	–	–	–
Young Eric Dean	–	–	–	–
	–	–	–	–
Total	–	317	5	322

	Fees	Salaries, allowances, bonus and benefits in kind	Pension scheme contributions	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Year ended 31 December 2016				
Executive directors:				
Mr. Lam	–	202	5	207
Mr. Qing	–	18	–	18
Mai Lu	–	48	–	48
	–	268	5	273
Independent non-executive directors:				
Dan Kun Lei, Raymond	–	–	–	–
Wong Kwun Ho	–	–	–	–
Young Eric Dean	–	–	–	–
	–	–	–	–
Total	–	268	5	273
Year ended 31 December 2017				
Executive directors:				
Mr. Lam	–	238	5	243
Mr. Qing	–	111	5	116
Mai Lu	–	38	3	41
	–	387	13	400
Independent non-executive directors:				
Dan Kun Lei, Raymond	–	–	–	–
Wong Kwun Ho	–	–	–	–
Young Eric Dean	–	–	–	–
	–	–	–	–
Total	–	387	13	400
Year ended 31 December 2018				
Executive directors:				
Mr. Lam	–	240	5	245
Mr. Qing	–	113	8	121
Mai Lu	–	39	8	47
	–	392	21	413
Independent non-executive directors:				
Dan Kun Lei, Raymond	–	–	–	–
Wong Kwun Ho	–	–	–	–
Young Eric Dean	–	–	–	–
	–	–	–	–
Total	–	392	21	413

- Mr. Lam was appointed as the executive director in 16 August 2016.
- Mr. Qing was appointed as the executive director on 16 March 2018.
- Mr. Mai Lu was appointed as the executive director on 16 March 2018.

- Mr. Dan Kun Lei, Raymond, Mr. Wong Kwun Ho and Mr. Lai Man Shun were appointed as the independent non-executive directors on 21 June 2019, they have not received any remuneration during the Track Record Period.

- No chief executive officer was appointed by the Group during the Track Record Period.

Emoluments paid or payable to the executive directors are generally for the management of the affairs of the Company and its subsidiaries.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2015, 2016, 2017 and 2018 included 2, 2, 2 and 2 directors, respectively, whose emoluments are reflected in the analysis shown in the note 11(a). The emoluments payable to the remaining 3, 3, 3 and 3 highest paid individuals during the years ended 31 December 2015, 2016, 2017 and 2018 are as follows:

	Years ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Salaries, allowances, bonus and benefits in kind	254	154	241	232
Contributions to pension fund	2	4	9	6
	256	158	250	238

The emoluments of top five individuals fell within the following bands:

	Number of the individuals for the years ended 31 December			
	2015	**2016**	**2017**	**2018**
Nil – HK$1,000,000 (equivalent to approximately US$129,000)	3	4	4	4
HK$1,000,001 to HK$1,500,000 (equivalent to approximately US$194,000)	1	–	–	–
HK$1,500,001 to HK$2,000,000 (equivalent to approximately US$258,000)	1	1	1	1
	5	5	5	5

(c) During the Track Record Period, no director or any of the highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

12. INCOME TAX EXPENSE

	Years ended 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current tax expenses				
– Hong Kong Profits Tax	455	324	533	811
– PRC Corporate Income Tax	–	–	69	128
	455	324	602	939

	Years ended 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Over-provision of tax expenses in prior years, net				
– Hong Kong Profits Tax	(7)	(2)	(1)	–
	(7)	(2)	(1)	–
	448	322	601	939

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

(iii) The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% of the assessable profits of subsidiaries which carried on businesses in the PRC during the Track Record Period.

A reconciliation of the income tax expenses applicable to profit before income tax at the statutory tax rate to income tax expenses at the effective tax rate is as follows:

	Years ended 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Profit before income tax	2,756	1,455	3,124	3,550
Notional tax on profit before tax, calculated at the applicable tax rates	455	240	534	619
Effect of non-deductible expense	5	108	143	385
Effect of non-taxable income	–	(19)	(72)	(18)
Effect of tax concession	(5)	(5)	(5)	(21)
Effect of unrecognised/(utilised) tax losses, net	–	–	2	(26)
Over-provision of tax in prior years, net	(7)	(2)	(1)	–
Income tax expense	448	322	601	939

At 31 December 2015, 2016, 2017 and 2018, there are no material deferred tax asset or liabilities not being recognised.

13. EARNINGS PER SHARE

Earnings per share is not presented as its inclusion for the purpose of the Financial Information, is not considered meaningful due to the Reorganisation and the presentation of the results of the Group for the Track Record Period on the basis as disclosed in note 2.2.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost				
At 1 January 2015, 31 December 2015 and 1 January 2016	–	6	90	96
Additions	18	17	–	35
Acquisition of Shenzhen IH *(note 34(a))*	–	1	–	1
Acquisition of Shanghai IH *(note 34(b))*	–	35	–	35
At 31 December 2016 and 1 January 2017	18	59	90	167
Additions	21	29	–	50
Acquisition of Chengdu Flyring *(note 34(c))*	–	13	–	13
Exchange difference	–	4	–	4
At 31 December 2017 and 1 January 2018	39	105	90	234
Additions	–	41	–	41
Exchange difference	–	(5)	–	(5)
At 31 December 2018	39	141	90	270
Accumulated depreciation				
At 1 January 2015	–	4	44	48
Charge for the year	–	1	9	10
At 31 December 2015 and 1 January 2016	–	5	53	58
Charge for the year	1	1	9	11
At 31 December 2016 and 1 January 2017	1	6	62	69
Charge for the year	7	31	9	47
Exchange difference	–	1	–	1
At 31 December 2017 and 1 January 2018	8	38	71	117
Charge for the year	10	22	9	41
Exchange difference	–	(1)	–	(1)
At 31 December 2018	18	59	80	157
Net carrying amount				
At 31 December 2015	–	1	37	38
At 31 December 2016	17	53	28	98
At 31 December 2017	31	67	19	117
At 31 December 2018	21	82	10	113

15. INTANGIBLE ASSETS

	Customer relationship *US$'000*
Cost	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Acquisition of Shenzhen IH *(note 34(a))*	16
Acquisition of Shanghai IH *(note 34(b))*	17
At 31 December 2016 and 1 January 2017	33
Acquisition of Chengdu Flyring *(note 34(c))*	267
At 31 December 2017 and 2018	300
Accumulated amortisation	
At 1 January 2015, 31 December 2015, 2016 and 1 January 2017	–
Charge for the year	67
At 31 December 2017 and 1 January 2018	67
Charge for the year	72
At 31 December 2018	139
Net carrying amount	
At 31 December 2015	–
At 31 December 2016	33
At 31 December 2017	233
At 31 December 2018	161

The above intangible assets have finite useful live in the range from 4 to 7 years and are amortised on a straight-line basis.

The useful life of the customer relationship under intangible assets arising from the business combination of Shenzhen IH, Shanghai IH and Chengdu Flyring was determined by the independent valuer at 5 years, 7 years and 4 years respectively. It was taken into consideration that the economic benefits expected to be generated from the use of the customer relationship would diminish over time due to attrition and time value of money.

16. GOODWILL

	US$'000
Cost and net carrying amount	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Acquisition of Shenzhen IH *(note 34(a))*	264
At 31 December 2016, 2017 and 2018	264

Goodwill was arising from the acquisition of Shenzhen IH (note 34(a)). Management concluded impairment in respect of the goodwill was considered not necessary during the Track Record Period.

For the purpose of impairment testing on goodwill, management allocated goodwill to the operating performance of Shenzhen IH.

The recoverable amount of the operating subsidiary located in the PRC is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The pre-tax discount rates used of 12% for the operating subsidiary located in the PRC. Management determined the budgeted gross margin based on past performance and its expectations for the market development. The cash flows beyond five years have been extrapolated using a steady 3% per annum growth rate.

Management has calculated that the value in use of the operating subsidiary located in the PRC is greater than their total carrying amount and the respective allocated goodwill and therefore has concluded that there is no impairment in respect of the Group's goodwill during the Track Record Period.

Assumptions were used in the value in use calculation of each operating subsidiary located in the PRC for the Track Record Period. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:–

Business growth rate – The basis used to determine the value assigned to the budgeted sales during the five-year projection period is the sales growth rate achieved in the prior year immediately before the budget year.

Pre-tax discount rates – The pre-tax discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on each operating subsidiary located in the PRC are consistent with external information sources.

As at 31 December 2016, 2017 and 2018, the recoverable amounts of the operating subsidiary containing goodwill and the corresponding headroom (i.e. the excess of the recoverable amounts of Shenzhen IH over the carrying amount of goodwill) were as follows:–

	As at 31 December		
	2016	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*
Recoverable amounts	9,584	11,286	14,975
Headroom	9,320	11,022	14,711

The directors of the Company performed sensitivity analysis based on the assumption that gross profit margin or growth rate or pre-tax discount rate has been changed. Had the estimated key assumption during the forecast period been changed as below, the headroom would decrease to the amounts as follows:

	As at 31 December		
	2016	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*
Business growth rate decreased by 1% point	7,874	8,805	11,535
Pre-tax discount rate per annum increased by 1% point	8,439	9,900	13,290

The directors of the Company have not identified any key assumptions where a reasonably possible change in such assumptions could cause the carrying amount of goodwill to exceed the recoverable amount. No impairment of goodwill was recognised.

17. LIFE INSURANCE POLICY DEPOSITS

During the Track Record Period, the Group entered into life insurance policies (the "Policy") to insure one of the directors of the Company, Mr. Lam and one of the senior management of the Group, Ms. Cheng. Under the Policy, the beneficiary and policy holder is the Group and the total insured sum was US$1,650,000 as at 31 December 2015, 2016 and 2017 and US$3,991,000 as at 31 December 2018. At inception of the Policy, the Group paid upfront payments of US$376,000 during the year ended 31 December 2015, and US$264,960 and US$260,005 during the year ended 31 December 2018. The Group can terminate the Policy at any time and can receive cash back based on the net nominal account value of the Policy at the date of withdrawal. Interest is earned at interest rates of at least those guaranteed by the insurer.

The directors of the Company expected that one of the policies with upfront payment of US$376,000 will be terminated at the 38th policy year in 2053, other one with upfront payment of US$264,960 will be terminated at the 40th policy year in 2058 and the last one with upfront payment of US$260,005 will be terminated at the 43rd policy year in 2061. There will be a specified surrender charge of US$55,000, US$37,220 and US$22,770 in accordance with each policy respectively. The expected life of the Policy remained unchanged from the date of initial recognition and the directors of the Company considered that the financial impact of the option to terminate the Policy was not significant.

As at 31 December 2015, 2016, 2017 and 2018, the carrying value of the policy terminated at the 38th policy year was approximately US$355,000, US$360,000, US$367,000 and US$376,000 respectively. Other two policies which will be terminated at the 40th policy year and 43rd policy year have carrying value of approximately US$251,000 and US$246,000 as at 31 December 2018.

The premium charges and prepaid premium will be amortised to profit or loss through the expected life of the Policy of 38 years to 43 years. As at 31 December 2015, 2016, 2017 and 2018, the Policy was pledged to a bank to secure bills payables (note 22) and bank borrowings (note 24(a)) granted to the Group.

18. INVENTORIES

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Finished goods	4,323	5,345	6,429	6,547

At 31 December 2015, 2016, 2017 and 2018, certain inventories with original cost amounting to approximately US$188,000, US$201,000, US$166,000 and US$35,000 were fully impaired.

19. TRADE AND BILLS RECEIVABLES

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade receivables	10,519	8,306	16,693	18,347
Less: allowance for expected credit loss on trade receivables	(182)	(182)	–	(91)
Trade receivables, net	10,337	8,124	16,693	18,256
Bills receivables *(note 24(c))*	–	1,635	2,844	751
	10,337	9,759	19,537	19,007

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period granted is based on the historical trading and payment records of each customer, generally not more than four months. Extended credit terms may be granted for some major long-term customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Some of the trade receivables that were not impaired are past due as at the reporting date. Ageing analysis of trade receivables not impaired is as follows:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Neither past due nor impaired	6,907	4,780	9,709	10,862
1 – 30 days past due	1,392	2,041	3,585	3,944
31 – 90 days past due	1,347	992	2,603	3,114
91 – 120 days past due	122	40	43	112
More than 120 days past due	569	271	753	224
	10,337	8,124	16,693	18,256

At each reporting date, the Group carries out impairment reviews of its trade receivables using a lifetime ECL model. The ECL on trade receivables is assessed for debtors with significant balances or collectively using a provision matrix appropriate groupings. As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its trade receivables because trade receivables consist of balances due from a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms. The estimated credit rate loss rates are estimated based on historical default rates of the debtors and are adjusted with forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. As at 31 December 2015, 2016, 2017 and 2018, expected credit loss rate of trade receivables is assessed to be 0.53%, 0.49%, 0.42% and 0.42% respectively. Based on evaluation on expected credit loss rates and gross carrying amount of trade receivables, the directors of the Company determined the expected credit loss of approximately US$182,000, US$182,000, Nil and US$91,000, as at 31 December 2015, 2016, 2017 and 2018 respectively.

The movements in allowances for expected credit loss on trade receivables are as follows:

	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January	–	182	182	–
Allowances for expected credit loss recognised	182	–	–	91
Acquisition of Chengdu Flyring	–	–	1	–
Written off allowances of expected credit loss	–	–	(191)	–
Exchange difference	–	–	8	–
At 31 December	182	182	–	91

Included in the above provision for allowance for expected credit loss on trade receivables are allowances for individually impaired trade receivables of approximately US$182,000, US$182,000 and US$91,000 as at 31 December 2015, 2016 and 2018 respectively. The individually impaired receivables related to customers that were in financial difficulties and all receivables is not expected to be recovered. During the year ended 31 December 2017, the Group has been informed that those customers are under liquidation and unable to repay the trade receivables. Provision for allowance for expected credit loss of approximately US$191,000 previously made are written off.

Ageing analysis of the Group's trade receivables, based on the invoice dates, that are not impaired as at each reporting date is as follows:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
1 – 30 days	3,828	3,113	5,114	6,780
31 – 90 days	3,518	3,098	7,912	6,926
91 – 120 days	1,074	1,146	879	2,600
Over 120 days	1,917	767	2,788	1,950
	10,337	8,124	16,693	18,256

Ageing analysis of the Group's bills receivables, based on the bills receipt dates as at each reporting date is as follows:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
1 – 30 days	–	391	371	549
31 – 90 days	–	607	1,231	202
91 – 120 days	–	348	464	–
Over 120 days	–	289	778	–
	–	1,635	2,844	751

As at 31 December 2015, 2016, 2017 and 2018, all bills receivables were neither past due nor impaired.

As at 31 December 2015 and 2016, certain balance with related companies of the Group, namely Shenzhen IH, Shanghai IH and Chengdu Flyring, were included in trade receivables. Shenzhen IH, Shanghai IH and Chengdu Flyring were acquired by the Group on 14 December 2016, 26 December 2016 and 16 January 2017 respectively. Details of the balances are set out in note 27 to the Historical Financial Statements.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Prepayments	12	9	111	1,085
Prepayments for listing expenses	–	569	67	601
Accrued purchase rebates	–	2,709	1,608	1,582
Rental and utilities deposits	9	78	81	97
Other receivables	–	39	11	29
	21	3,404	1,878	3,394

21. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cash and cash equivalents:				
Cash in hand and bank balances	2,175	1,842	1,629	2,874
Pledged bank deposits	–	–	–	300

At 31 December 2015, 2016, 2017 and 2018, the cash and bank balances of the Group denominated in RMB amounted to approximately Nil, US$283,000, US$730,000 and US$349,000 respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earned interest at floating rates based on daily bank deposit rates. The bank balances were deposited with creditworthy banks with no recent history of default.

As at 31 December 2018, the Group's bank deposits of US$300,000 was pledged to secure the bills payables (note 22).

22. TRADE AND BILLS PAYABLES

	As at 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade payables	4,234	6,676	7,934	6,569
Bills payables *(note)*	3,003	3,183	4,556	10,318
	7,237	9,859	12,490	16,887

Note: At 31 December 2015, 2016, 2017 and 2018, all bills payables were secured by an assignment over the Policy (note 17), pledged bank deposits (note 21) and an unlimited personal guarantee executed by a director of the Company, Mr. Lam. The guarantee will be released upon listing.

Ageing analysis of trade payables, based on invoice dates, as at the end of reporting period is shown as follow:

	As at 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
1 – 30 days	3,042	2,362	2,953	3,798
31 – 90 days	1,180	4,252	3,933	2,580
91 – 120 days	–	–	714	127
Over 120 days	12	62	334	64
	4,234	6,676	7,934	6,569

23. ACCRUALS, RECEIPTS IN ADVANCE AND OTHER PAYABLES

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Accruals	80	165	514	444
Accrued listing expenses	–	–	275	867
Receipts in advance *(note)*	108	74	246	54
Other payables	–	148	67	33
	188	387	1,102	1,398

Note: Receipts in advance represent billings in advance of performance in regarding the provision of customised reference designs which are bundled together with the sale of ICs as a package for the new customers. The amount of receipts in advance are negotiated on a case by case basis with customers.

Movements in receipts in advance

	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January	389	108	74	246
Decrease in receipts in advance as a result of recognising revenue during the year	(2,939)	(2,292)	(2,894)	(7,101)
Increase of receipts in advance from customers	2,658	2,233	2,661	6,912
Acquisition of Shenzhen IH	–	4	–	–
Acquisition of Shanghai IH	–	21	–	–
Acquisition of Chengdu Flyring	–	–	392	–
Exchange difference	–	–	13	(3)
At 31 December	108	74	246	54

24. BANK BORROWINGS

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current				
Bank borrowings – secured *(notes (a) and (b))*	249	211	2,127	969
Discounted bills with recourse *(note (c))*	–	–	2,183	341
	249	211	4,310	1,310

Notes:

(a) At 31 December 2015, 2016, 2017 and 2018, bank borrowings with carrying amount of approximately US$249,000, US$211,000, US$436,000 and US$969,000 respectively were secured by an assignment over the Policy (note 17) and an unlimited personal guarantee provided by a director of the Company, Mr. Lam. Interest was charged at a rate of 2.5% per annum as at 31 December 2015 and 2016, a rate of 3.75% per annum as at 31 December 2017 and rate of 4.0% per annum as at 31 December 2018. The guarantee will be released upon Listing.

(b) At 31 December 2017, bank borrowing with carrying amount of US$1,691,000 was secured by an unlimited personal guarantee and cash deposit provided by a director of the Company, Mr. Lam. Interest is charged at a rate of 5.66% per annum as at 31 December 2017. The guarantee and cash deposit provided by Mr. Lam were released when the bank borrowing was fully repaid during the year ended 31 December 2018.

(c) At 31 December 2017 and 2018, all borrowings from discounting of bills with recourse were secured by certain bills receivables of the Group with carrying amount of approximately US$2,183,000 and US$341,000 respectively (note 19). Interest is charged in the range from 5.4% to 6.8% per annum during the Track Record Period.

As at 31 December 2015, 2016, 2017 and 2018, bank borrowing of approximately US$211,000, US$172,000, US$134,000 and US$96,000 respectively was not scheduled to be repaid within one year but were classified as current liabilities as the related loan agreements contain clauses that provide the lender with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these bank borrowing due for repayment after one year, which contains a repayment on demand clause and that is classified as a current liability, was expected to be settled within one year.

At 31 December 2015, 2016, 2017 and 2018, total current and non-current bank borrowings were scheduled to repay as follows:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	38	38	4,176	1,214
More than one year, but not exceeding two years	38	38	38	38
More than two years, but not exceeding five years	115	115	96	58
After five years	58	20	–	–
	249	211	4,310	1,310

25. SHARE CAPITAL

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$	*US$*	*US$*	*US$*
Issued and fully paid				
100,000 ordinary shares of HK$0.01 each	–	–	129	129

The Company was incorporated in the Cayman Islands on 16 August 2016 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of par value of HK$0.01 each. Pursuant to the resolutions in writing of the sole shareholder passed on 21 June 2019, the authorised share capital of the Company was increased from HK$380,000 to HK$20,000,000 divided into 2,000,000,000 shares of par value of HK$0.01 each.

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** *US$*
At date of incorporation – allotment of share *(note 2.1(a))*	1	–
At 31 December 2016 and 1 January 2017	1	–
Allotment and issue of shares *(notes 2.1(j) and 2.1(k))*	99,999	129
At 31 December 2017 and 2018	100,000	129

26. RESERVES

Details of the movements on the Group's reserve are as set out in the consolidated statements of changes in equity.

Other reserve as at 31 December 2015 represented the aggregate share capital of Flyring Electronics and IH Technology.

Other reserve as at 31 December 2016 represented the (i) aggregate share capital of IH Technology after the Reorganisation procedures during the year as set out in notes 2.1(c) and (ii) consideration payable to Mr. Lam that will be capitalised upon listing as set out in note 2.1(e).

Other reserve as at 31 December 2017 and 2018 represented consideration payable to Mr. Lam that will be capitalised upon listing as set out in note 2.1(e), and the amount of bargain purchase arising from acquisition of Shanghai IH and Chengdu Flyring.

Merger reserve represented the difference between the investment costs in subsidiaries and the aggregate amount of issued share capital of subsidiaries acquired in the Reorganisation during the Track Record Period.

In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC to the statutory surplus reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory surplus reserve is not less than 25% of registered capital.

27. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the Track Record Period:

(a) Particulars of balances with related companies contained in trade receivables are as follows:–

		As at 31 December			
Name of related companies	*Note*	**2015**	**2016**	**2017**	**2018**
		US$'000	*US$'000*	*US$'000*	*US$'000*
Shenzhen IH	*(i)*	1,887	–	–	–
Shanghai IH	*(i)*	3,429	–	–	–
Chengdu Flyring	*(i)*	2,385	802	–	–
		7,701	802	–	–

(b) Transactions and balances with related parties

		Years ended 31 December			
		2015	**2016**	**2017**	**2018**
Transactions during the year	*Note*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Sales to Shenzhen IH	*(i)*	5,129	4,607	–	–
Sales to Shanghai IH	*(i)*	4,128	4,970	–	–
Sales to Chengdu Flyring	*(i)*	15,950	8,030	–	–
Sales to a related company	*(ii)*	102	42	–	–

Except for the above transactions, no other related party transactions were occurred during the Track Record Period.

		As at 31 December			
		2015	**2016**	**2017**	**2018**
Balances at the end of the year		*US$'000*	*US$'000*	*US$'000*	*US$'000*
Advances from a director, Mr. Lam	*(iv)*	(1,557)	(1,451)	(1,439)	–
Advance from a director, Mr. Qing	*(iv)*	–	(231)	–	–
Advance to a director, Mr. Mak Lu	*(iv)*	–	–	44	–
Advances to related companies	*(iii),(iv)*	–	–	2	8

Notes:

(i) Mr. Qing and Mrs. Qing were the then shareholders of the related companies. Their shareholdings in the related companies were disposed to the Group during the year ended 31 December 2016 and 2017 (Note 34). The terms of these transactions were in the normal course of its business and mutually agreed between both parties.

(ii) Mr. Qing, a director of the Company, was the ultimate beneficial owner of the related company. Mr. Qing has disposed his shareholding of the related company in June 2016. The terms of these transactions are in the normal course of its business and mutually agreed between both parties.

(iii) P. Grand and Kingtech are the related companies controlled by Mr. Lam and Mrs. Qing, respectively.

(iv) Amounts due were unsecured, non-interest bearing and repayable on demand. Amounts will be settled prior to Listing.

(c) Amounts due from/(to) subsidiaries/shareholders of the Company

Amounts due from/(to) subsidiaries and shareholders were non-trade in nature, unsecured, non-interest bearing and repayable on demand. Amounts will be settled prior to Listing.

(d) Compensation of key management personnel

The details of the remuneration paid to the key management personnel during the Track Record Period are set out in Note 11.

28. OPERATING LEASE COMMITMENTS

Future minimum rental payable under non-cancellable operating leases of the Group in respect of office properties at each of the reporting period is as follows:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	22	309	235	437
Within two to five years	13	669	454	735
Over five years	–	24	–	–
	35	1,002	689	1,172

The Group leases an office property under a cancellable operating lease agreement which is located in Hong Kong during the Track Record Period. The Group is required to give one month's notice for the termination of this agreement, but this is exercisable only when the remaining lease period does not exceed 6 months. The lease term is 2 years and the lease agreement is renewable at the end of the lease period at market rate.

The Group also leases various offices under cancellable operating lease agreements which are located in Shenzhen and Chengdu. These leases are not included in the above operating lease commitments. The monthly charge of the lease for office located in Shenzhen was approximately US$11,000, US$12,000 and US$12,000 respectively for the years ended 31 December 2016, 2017 and 2018. The monthly charge of the lease for office located in Chengdu was approximately US$5,400 and US$5,200 respectively for the years ended 31 December 2017 and 2018. The Group is required to give one to two months' notice for the termination of these agreements. The scheduled commitments under these agreements are not included in the above operating lease commitments.

The Group leases an office property under a cancellable operating lease agreement which located in Shanghai during the Track Record Period. The Group is required to pay compensation determined at a discount of the remaining rental payables upon the date of termination for the early termination of the agreements. The scheduled commitments under this agreement is included in the above operating lease commitment.

The lease expenditure charged to the consolidated statements of profit or loss during the Track Record Period is disclosed in note 10.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets				
At amortised cost:				
Trade and bills receivables	10,337	9,759	19,537	19,007
Deposits and other receivables	9	112	90	104
Amounts due from related parties	–	–	46	8
Pledged bank deposits	–	–	–	300
Cash and cash equivalents	2,175	1,842	1,629	2,874
	12,521	11,713	21,302	22,293
Financial liabilities				
At amortised cost:				
Trade and bills payables	7,237	9,859	12,490	16,887
Accruals and other payables	80	313	790	1,311
Amounts due to related parties	1,557	1,682	1,439	–
Bank borrowings	249	211	4,310	1,310
	9,123	12,065	19,029	19,508

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group's principal financial instruments comprise trade and bills receivables, deposits and other receivables, amounts due from related parties, pledged bank deposits, cash and cash equivalents, trade and bills payables, accruals and other payables, amounts due to related parties and bank borrowings. These financial instruments mainly arise from its operations. Details of the financial instruments are disclosed in respective notes.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments.

These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is limited since the Group's interest rate risk relates primarily to the Group's fixed-rate bank loans.

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is exposed to foreign currency risk related primarily to sales and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily RMB. The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised monetary assets or liabilities denominated in RMB, a foreign currency compared to the functional currency of USD of the entity to which they relate.

	As at 31 December			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade and bills receivables	–	5,533	12,857	10,293
Deposits and other receivables	–	62	7	6
Cash and cash equivalents	–	255	730	349
Trade and bills payables	–	(247)	(919)	(429)
Accruals and other payables	–	(451)	(67)	(83)
Bank borrowings	–	–	(3,874)	(340)
	–	5,152	8,734	9,796

At 31 December 2016, 2017 and 2018, if the US$ had weakened/strengthened 5% against the RMB with all other variables held constant, the Group's profit after tax for the year would have been approximately US$193,000, US$328,000 and US$375,000 higher/lower respectively.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade and bills receivables). The Group performs ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for expected credit loss of trade and other receivables based upon the expected collectability of all trade and bills receivables.

At 31 December 2015, 2016, 2017 and 2018, the Group has a certain level of concentration of credit risk as 22%, 28%, 29% and 30% of the total trade receivables arising from the Group's largest customer, respectively.

Significant increase in credit risk

The Group considers the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations; and

- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

Bank balances of the Group are with counter parties with sound credit ratings to minimise credit exposure.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The maturity profile of the Group's non-derivative financial liabilities as at 31 December 2015, 2016, 2017 and 2018, based on the contracted undiscounted payments and the earliest dates the creditors can demand repayment, is as follows:–

	Carrying amount	**Total contractual undiscounted cash flow**	**On demand or within 1 year**
	US$'000	*US$'000*	*US$'000*
At 31 December 2015			
Trade and bills payables	7,237	7,237	7,237
Accruals and other payables	80	80	80
Amounts due to related parties	1,557	1,557	1,557
Bank borrowings	249	269	269
	9,123	9,143	9,143
At 31 December 2016			
Trade and bills payables	9,859	9,859	9,859
Accruals and other payables	313	313	313
Amounts due to related parties	1,682	1,682	1,682
Bank borrowings	211	225	225
	12,065	12,079	12,079

	Carrying amount	Total contractual undiscounted cash flow	On demand or within 1 year
	US$'000	*US$'000*	*US$'000*
At 31 December 2017			
Trade and bills payables	12,490	12,490	12,490
Accruals and other payables	790	790	790
Amounts due to related parties	1,439	1,439	1,439
Bank borrowings	4,310	4,367	4,367
	19,029	19,086	19,086
At 31 December 2018			
Trade and bills payables	16,887	16,887	16,887
Accruals and other payables	1,311	1,311	1,311
Amounts due to related parties	–	–	–
Bank borrowings	1,310	1,345	1,345
	19,508	19,543	19,543

Fair values of financial instruments

The notional amounts of financial assets and financial liabilities with a maturity of less than one year (including trade and bills receivables, deposits and other receivables, cash and cash equivalents, trade and bills payables, accruals and other payables, amounts due to related parties and bank borrowings) are assumed to approximate their fair values.

31. NON-CONTROLLING INTERESTS

	As at 31 December			
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January	285	293	253	–
Profit/(loss) and total comprehensive income for the year	8	(40)	(24)	–
Acquisition of interests of a subsidiary from non-controlling interests *(note 2.1(g))*	–	–	(229)	–
At 31 December	293	253	–	–

32. CASH FLOW INFORMATION

(a) Major non-cash transaction

On 30 December 2017, an interim dividend of US$35 per share amounting to US$3,500,000 was declared and settled through amounts due from/(to) related parties *(note 33)*.

(b) The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities:

	Interest-bearing bank borrowings ***(Note 24)*** **Years ended 31 December**			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January	34	249	211	4,310
Changes from financing cash flows:				
Repayments of bank borrowings	(53)	(38)	(4,882)	(4,310)
Proceeds from bank borrowings	268	–	7,523	1,310
Acquisition from Chengdu Flyring *(note 34(c))*	–	–	1,458	–
Total changes from financing cash flows	215	(38)	4,099	(3,000)
At 31 December	249	211	4,310	1,310

	Amounts due to directors ***(Note 27)*** **Years ended 31 December**			
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January	2,077	1,557	1,682	1,439
Changes from financing cash flows:				
Advances from related parties	–	950	4,303	1,746
Acquisition from Chengdu Flyring (*note 34(c)*)	–	–	1,010	–
Dividend paid (*note (a)*)	–	–	(3,150)	–
Repayments to related parties	(520)	(825)	(1,920)	(3,185)
Total changes from financing cash flows	(520)	125	(243)	(1,439)
At 31 December	1,557	1,682	1,439	–

33. DIVIDENDS

An interim dividend of US$35 per share amounting to US$3,500,000 to Mr. Lam and Mrs. Qing was declared and approved by the written resolution of shareholders on 30 December 2017, and settled through amounts due from/(to) related parties.

34. BUSINESS COMBINATION

(a) Acquisition of Shenzhen IH

On 16 November 2016, Flyring Electronics acquired 100% equity interest of Shenzhen IH as set out in note 2.1(d). Details of Shenzhen IH are set out in note 2.1.

The acquisition was completed on 14 December 2016 and Shenzhen IH became an indirect wholly owned subsidiary of the Company.

The table below summarises the consideration paid, which was fully settled on 22 March 2017, for the acquisition of Shenzhen IH, and the fair values of assets and liabilities recognised at the acquisition date:

	Notes	**As at acquisition date** *US$'000*
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment	*14*	1
Intangible asset *(note)*	*15*	16
Inventories		106
Trade and bills receivables		2,350
Prepayments, deposits and other receivables		14
Cash and cash equivalents		85
Trade payables		(2,335)
Accruals, receipts in advance and other payables		(10)
Amount due to a related party		(144)
Tax payable		(17)
Total identifiable net assets		66
Goodwill	*16*	264
Total consideration		330
Net cash flow arising on acquisition:		
Cash consideration paid		330
Less: Cash and cash equivalents acquired		(85)
Net cash outflow on acquisition		245

Note: Intangible asset represents the business relationship with the existing customers of the acquired business of which the Company assessed and estimated its useful life at 5 years based on the considerations of long term relationship built up with the customers, market practice in the industry as well as that the turnover of customers was very low in the past. The Company also benchmarked with the useful life of the similar intangible assets from the comparable deals in the market.

Goodwill, which is not tax deductible, is primarily attributable to the synergies expected to be achieved from the acquisition. Following the acquisition, the Group gains benefit from the engineers and their technological knowledge on IC application solution and has achieved greater economies of scale.

The acquired business contributed revenue of approximately US$473,000 and US$664,000 and net profit after tax of approximately US$68,000 and US$147,000 for the years ended 31 December 2017 and 2018 respectively. If the acquisition had occurred on 1 January 2015 and 2016, consolidated pro forma revenue for each of the two years ended 31 December 2016 would have been approximately US$51,904,000 and US$41,517,000 respectively, while consolidated pro forma profit for each of the two years ended 31 December 2016 would have been approximately US$2,342,000 and US$1,035,000 respectively.

(b) Acquisition of Shanghai IH

On 26 December 2016, Shenzhen IH acquired 100% equity interest of Shanghai IH as set out in note 2.1(f). Details of Shanghai IH are set out note 2.1.

Shanghai IH was established in the PRC with limited liability on 28 June 2009. The principal activity of Shanghai IH is the provision of customised reference designs which are bundled together with the sale of IC as a package to customers in the PRC.

The acquisition was completed on 26 December 2016 and Shanghai IH became an indirect wholly owned subsidiary of the Company.

The table below summarises the consideration paid, which was fully settled on 16 March 2017, for the acquisition of Shanghai IH, and the fair values of assets and liabilities recognised at the acquisition date:

	Notes	**As at acquisition date** *US$'000*
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment	*14*	35
Intangible asset *(note)*	*15*	17
Inventories		320
Trade and bills receivables		3,189
Prepayments, deposits and other receivables		95
Amount due from a related party		263
Cash and cash equivalents		170
Trade payables		(3,639)
Accruals, receipts in advance and other payables		(49)
Tax payable		(14)
Total identifiable net assets		387
Gain from a bargain purchase		(86)
Total consideration		301
Net cash flow arising on acquisition:		
Cash consideration paid		301
Less: Cash and cash equivalents acquired		(170)
Net cash outflow on acquisition		131

Note: Intangible asset represents the business relationship with the existing customers of the acquired business of which the Company assessed and estimated its useful life at 7 years based on the considerations of long term relationship built up with the customers, market practice in the industry as well as that the turnover of customers was very low in the past. The Company also benchmarked with the useful life of the similar intangible assets from the comparable deals in the market.

The Group recognised a gain from a bargain purchase of approximately US$86,000, which is the difference between the consideration and the fair value of net assets acquired. The gain from bargain purchase was recognised in the consolidated statement of changes in equity of the Group for the reasons explained in note 34(c) below.

The acquired business contributed revenue of approximately US$836,000 and US$1,359,000 and net (loss)/profit after tax of approximately US$92,000 and US$168,000 for the years ended 31 December 2017 and 2018 respectively. If the acquisition had occurred on 1 January 2015 and 2016, consolidated pro forma revenue for each of the two years ended 31 December 2015 and 31 December 2016 would have been approximately US$50,765,000 and US$42,305,000 respectively, while consolidated pro forma profit for each of the two years ended 31 December 2015 and 31 December 2016 would have been approximately US$2,349,000 and US$1,124,000 respectively.

(c) Acquisition of Chengdu Flyring

On 16 January 2017, Shenzhen IH, an indirect wholly owned subsidiary of the Company, entered into a share transfer agreement with Mr. Qing and Mrs. Qing to acquire its 100% equity interest of Chengdu Flyring with a cash consideration of US$872,000 (equivalent to approximately RMB6,000,000).

Chengdu Flyring was established in the PRC with limited liability on 2 November 2000. The principal activity of Chengdu Flyring is the provision of customised reference designs which are bundled together with the sale of IC as a package to customers in the PRC.

The acquisition was completed on 16 January 2017 and Chengdu Flyring became an indirect wholly owned subsidiary of the Company. The cash consideration of US$864,000 (equivalent to approximately RMB6,000,000) was fully settled on 16 March 2017.

The table below summarises the consideration paid for the acquisition of Chengdu Flyring, and the fair values of assets and liabilities recognised at the acquisition date:

	Notes	**As at acquisition date** *US$'000*
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment	*14*	13
Intangible asset *(note)*	*15*	267
Inventories		1,151
Trade and bills receivables		4,765
Prepayments and other receivables		149
Amount due from a related party		589
Tax recoverable		27
Cash and cash equivalents		103
Trade and bills payables		(1,822)
Accruals, receipts in advance and other payables		(436)
Amount due to a related party		(1,010)
Bank borrowings		(1,458)
Total identifiable net assets		2,338
Gain from a bargain purchase		(1,474)
Total consideration		864
Net cash flow arising on acquisition:		
Cash consideration paid		864
Less: Cash and cash equivalents acquired		(103)
Net cash outflow on acquisition		761

Note: Intangible asset represents the business relationship with the existing customers of the acquired business of which the Company assessed and estimated its useful life at 4 years based on the considerations of long term relationship built up with the customers, market practice in the industry as well as that the turnover of customers was very low in the past. The Company also benchmarked with the useful life of the similar intangible assets from the comparable deals in the market.

The Group recognised a gain from a bargain purchase of approximately US$1,474,000, which is the difference between the consideration and the fair value of net assets acquired. Taking into account the following:

- Mr. Qing and Mrs. Qing were the registered owners of Chengdu Flyring before the acquisition and Mrs. Qing is one of the equity holders of the Company after the Reorganisation; and
- The consideration received by Mr. Qing and Mrs. Qing from such acquisition was used for the subscription of the Company's shares allotted to Mrs Qing;

The directors of the Company are of the opinion that the gain from bargain purchase of approximately US$86,000 and US$1,474,000 from the acquisition of Shanghai IH and Chengdu Flyring are in substance a contribution from equity participant of the Group, rather than a gain to be recognised as income in consolidated profit or loss. Accordingly, the gain from bargain purchase was recognised in the consolidated statement of changes in equity of the Group.

The acquired business contributed revenue of approximately US$559,000 and US$449,000 and net profit after tax of approximately US$194,000 and US$76,000 for the years ended 31 December 2017 and 2018 respectively. If the acquisition had occurred on 1 January 2015 and 2016, consolidated pro forma revenue for each of the two years ended 31 December 2016 would have been approximately US$63,792,000 and US$46,871,000 respectively, while consolidated pro forma profit for each of the two years ended 31 December 2016 would have been approximately US$2,551,000 and US$1,274,000 respectively.

35. EVENT AFTER THE REPORTING PERIOD

The companies comprising the Group underwent the Reorganisation in preparation for the listing of shares of the Company on the Stock Exchange.

Except as disclosed elsewhere in this Historical Financial Information, there are no other material subsequent events undertaken by the Group after 31 December 2018.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2018 up to the date of this Historical Financial Information.

IV. ADDITIONAL PRE-ACQUISITION FINANCIAL INFORMATION OF SHENZHEN IH

As stated in note 34(a) to the Historical Financial Information, the Group acquired the entire equity interests in Shenzhen IH on 14 December 2016.

The pre-acquisition financial information of Shenzhen IH for the year ended 31 December 2015 and the period from 1 January 2016 to 14 December 2016 (the date prior to Shenzhen IH becoming a subsidiary of the Group) (the "SZ Pre-Acquisition Period") (the "SZ Pre-Acquisition Financial Information") has been prepared by the directors of Shenzhen IH in accordance with the accounting policies set out in note 5 to the Historical Financial Information, which conform with HKFRSs.

The SZ Pre-Acquisition Financial Information is presented in US$ where the functional currency of Shenzhen IH is RMB. The directors of Shenzhen IH consider that the business is acquired by the Group which the presentation currency is US$. The SZ Pre-Acquisition Financial Information is then presented in US$ for better compliance with the Group's Historical Financial Information.

STATEMENTS OF COMPREHENSIVE INCOME OF SHENZHEN IH

	Notes	Year ended 31 December 2015 US$'000	Period from 1 January to 14 December 2016 US$'000
Revenue	2	5,984	4,973
Cost of sales		(5,645)	(4,816)
Gross profit		339	157
Bank interest income		–#	–#
Selling and distribution expenses		(138)	(106)
General and administrative expenses		(153)	(141)
Finance costs		(2)	(4)
Profit/(loss) before income tax	3	46	(94)
Income tax expense	4	(12)	(4)
Profit/(loss) for the year/period		34	(98)
Other comprehensive income			
Item that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translating foreign operations		(8)	(6)
Other comprehensive income for the year/period attributable to the owners of Shenzhen IH		(8)	(6)
Total comprehensive income for the year/period		26	(104)

Item with value below US$1,000

STATEMENTS OF FINANCIAL POSITION OF SHENZHEN IH

	Notes	As at 31 December 2015 US$'000	As at 14 December 2016 US$'000
ASSETS AND LIABILITIES			
Non-current asset			
Property, plant and equipment	*6*	–	1
Current assets			
Inventories	*7*	240	106
Trade and bills receivables	*8*	3,285	2,350
Prepayments, deposits and other receivables	*9*	7	14
Cash and cash equivalents	*10*	172	85
		3,704	2,555
Current liabilities			
Trade payables	*11*	3,231	2,335
Accruals, receipts in advance and other payables	*12*	81	10
Amount due to a related party	*13*	212	144
Tax payable		25	17
		3,549	2,506
Net current assets		155	49
Net assets		155	50
EQUITY			
Paid-up capital		328	328
Reserves		(173)	(278)
Total equity		155	50

STATEMENTS OF CHANGES IN EQUITY OF SHENZHEN IH

	Paid-up capital *US$'000*	Translation reserves *US$'000*	Accumulated losses *US$'000*	Total equity *US$'000*
At 1 January 2015	328	2	(202)	128
Profit for the year	–	–	34	34
Foreign currency translation differences for foreign operation	–	(8)	–	(8)
Total comprehensive income for the year	–	(8)	34	26
At 31 December 2015	328	(6)	(168)	154
At 1 January 2016	328	(6)	(168)	154
Loss for the period	–	–	(98)	(98)
Foreign currency translation differences for foreign operation	–	(6)	–	(6)
Total comprehensive income for the period	–	(6)	(98)	(104)
At 14 December 2016	328	(12)	(266)	50

STATEMENTS OF CASH FLOWS OF SHENZHEN IH

	Notes	Year ended 31 December 2015 US$'000	Period from 1 January to 14 December 2016 US$'000
Cash flows from operating activities			
Profit/(loss) before income tax		46	(94)
Adjustments for:–			
Depreciation of property, plant and equipment	6	3	1
Impairment loss (reversal thereof) on inventories to net realisable value, net	7	10	(1)
Operating profit/(loss) before working capital changes		59	(94)
Decrease in inventories		86	133
(Increase)/decrease in trade and bills receivables		(1,472)	935
Decrease/(increase) in prepayments, deposits and other receivables		2	(7)
Increase/(decrease) in trade payables		1,548	(896)
Decrease in accruals, receipts in advance and other payables		(365)	(71)
Net cash used in operations		(142)	–
Income tax paid		(9)	(12)
Net cash used in operating activities		(151)	(12)
Cash flows from investing activities			
Purchase of property, plant and equipment		–	(1)
Repaid from a related party		2	–
Net cash generated from/(used in) investing activities		2	(1)
Cash flows from financing activity			
Advanced from/(repaid to) a related party		212	(68)
Net cash generated from/(used in) financing activity		212	(68)
Net increase/(decrease) in cash and cash equivalents		63	(81)
Cash and cash equivalents at the beginning of the year/period		118	172
Effect of foreign exchange rate changes		(9)	(6)
Cash and cash equivalents at the end of the year/period		172	85

NOTES TO THE PRE-ACQUISITION FINANCIAL INFORMATION OF SHENZHEN IH

1. SEGMENT INFORMATION

An operating segment is a component of Shenzhen IH that is engaged in business activities from which Shenzhen IH may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by executive directors of Shenzhen IH in order to allocate resources and assess performance of the segment. During the SZ Pre-Acquisition Period, executive directors received information on the performance of Shenzhen IH as a whole. Accordingly, it is determined that Shenzhen IH has only one single operating segment, which is determined as sale of ICs bundled with services, for the purpose of allocating resources and assessing performance.

For the purpose of geographical segment information disclosures under HKFRS 8, Shenzhen IH regarded the PRC as its place of domicile. All Shenzhen IH's revenue from external customers is recognised at a point in time located in the PRC and all Shenzhen IH's non-current assets is located in the PRC.

Revenue from customer contributing over 10% of the total revenue of Shenzhen IH during the SZ Pre-Acquisition Period is as follows:

	Year ended 31 December 2015	Period from 1 January to 14 December 2016
	US$'000	*US$'000*
Customer I	1,649	1,935
Customer II *(note (i))*	701	N/A
Customer III *(note (ii))*	N/A	672
Customer IV *(note (ii))*	N/A	522

Notes:

(i) Sales to Customer II were not over 10% of the total revenue of Shenzhen IH for the period from 1 January to 14 December 2016.

(ii) Sales to Customer III and Customer IV were not over 10% of the total revenue of Shenzhen IH for the year ended 31 December 2015.

During the SZ Pre-Acquisition Period, Shenzhen IH generated revenue primarily from the sale of five categories of ICs products, including (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation. The following table sets out the breakdown of the revenue recognised at a point in time by product category:

	Year ended 31 December 2015	Period from 1 January to 14 December 2016
	US$'000	*US$'000*
Mobile devices and smart charging	277	592
Motor control	2,885	2,656
RF Power	24	26
LED lighting	2,404	1,435
Sensors and automation	394	264
	5,984	4,973

2. REVENUE

Revenue from Shenzhen IH's principal activity represents the sale of ICs bundled with services during the Track Record Period.

3. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging/(crediting):-

	Year ended 31 December 2015	**Period from 1 January to 14 December 2016**
	US$'000	*US$'000*
Cost of inventories recognised as expenses	5,645	4,816
Depreciation of property, plant and equipment *(note 6)*	3	1
Employee benefit expenses *(note)* (including directors' remuneration)		
Salaries and wages	74	75
Bonus	21	5
Pension scheme contribution – Defined contribution plan	14	13
	109	93
Operating lease expenses	72	69
Impairment loss (reversal thereof) on inventories, net *(note 7)* included in cost of inventories recognised as expenses	10	(1)

Note: Employee benefit expenses are included in cost of sales, selling and distribution expenses and administrative expenses.

4. INCOME TAX EXPENSE

	Year ended 31 December 2015	**Period from 1 January to 14 December 2016**
	US$'000	*US$'000*
Current tax expenses		
– PRC Corporate Income Tax	12	4

The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% of the assessable profits of Shenzhen IH which carried on business in the PRC during the SZ Pre-Acquisition Period.

A reconciliation of the income tax expenses applicable to profit/(loss) before income tax at the statutory tax rate to income tax expenses at the effective tax rate is as follows:

	Year ended 31 December 2015	**Period from 1 January to 14 December 2016**
	US$'000	*US$'000*
Profit/(loss) before income tax	46	(94)
Notional tax on profit/(loss) before income tax, calculated at the applicable tax rate	11	(24)
Effect of non-deductible expenses	1	1
Effect of unrecognised tax losses	–	27
Income tax expense	12	4

At 31 December 2015 and 14 December 2016, there were no material deferred tax assets or liabilities being recognised.

5. DIVIDEND

No dividend was paid or declared by Shenzhen IH during the SZ Pre-Acquisition Period.

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment
	US$'000
Cost	
At 1 January 2015	12
Exchange difference	(1)
At 31 December 2015 and 1 January 2016	11
Additions	1
At 14 December 2016	12
Accumulated depreciation	
At 1 January 2015	9
Charge for the year	3
Exchange difference	(1)
At 31 December 2015 and 1 January 2016	11
Charge for the period	1
Exchange difference	(1)
At 14 December 2016	11
Net carrying amount	
At 31 December 2015	–
At 14 December 2016	1

7. INVENTORIES

	At 31 December 2015	**At 14 December 2016**
	US$'000	*US$'000*
Finished goods	240	106

At 31 December 2015 and at 14 December 2016, certain inventories with original cost amounting to approximately US$25,000 and US$24,000 were fully impaired.

8. TRADE AND BILLS RECEIVABLES

	At 31 December 2015 US$'000	At 14 December 2016 US$'000
Trade receivables	2,621	1,244
Bills receivables	664	1,106
	3,285	2,350

The trading terms with Shenzhen IH's customers were mainly on credit, except for customers where payment in advance was normally required. The credit period is granted based on the historical trading and payment records of each customer, generally not more than four months. Extended credit terms may be granted for some major long-term customers. Shenzhen IH seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that Shenzhen IH's trade receivables related to a number of diversified customers, there was no significant concentration of credit risk. Shenzhen IH did not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables were non-interest-bearing.

Ageing analysis of Shenzhen IH's trade receivables, based on the invoice dates, that were not impaired as at each reporting date is as follows:

	At 31 December 2015 US$'000	At 14 December 2016 US$'000
1 – 30 days	1,301	532
31 – 90 days	1,023	412
91 – 120 days	126	120
Over 120 days	171	180
	2,621	1,244

Some of the trade receivables that were not impaired are past due as at the reporting date. Ageing analysis of trade receivables not impaired is as follows:

	At 31 December 2015 US$'000	At 14 December 2016 US$'000
Neither past due nor impaired	1,925	675
1 – 30 days past due	473	265
31 – 90 days past due	216	148
91 – 120 days past due	7	26
More than 120 days past due	–	130
	2,621	1,244

At each reporting date, Shenzhen IH carries out the impairment reviews of its trade receivables using lifetime ECL model. The ECL on trade receivables is assessed for debtors with significant balances or collectively using a provision matrix based on appropriate groupings. Shenzhen IH uses debtors' ageing to assess the impairment for its trade receivables because trade receivables consist of balances due from a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms. The estimated credit loss rates are estimated based on historical default rates of the debtors and are adjusted with forward-looking information about specific debtors is updated. As at 31 December 2015 and 14 December 2016, expected credit loss rate of trade receivables is assessed to be 0.53% and 0.49% respectively. Based on the evaluation on expected credit loss rates and gross carrying amount of trade receivables, in the opinion of the directors of Shenzhen IH, no expected credit loss was recognised.

Ageing analysis of Shenzhen IH's bills receivables, based on the bills receipt dates as at each reporting date is as follows:

	At 31 December 2015 US$'000	At 14 December 2016 US$'000
1 – 30 days	156	391
31 – 90 days	277	535
91 – 120 days	231	168
Over 120 days	–	12
	664	1,106

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2015 US$'000	At 14 December 2016 US$'000
Prepayments	5	3
Rental and utilities deposits	1	1
Other receivables	1	10
	7	14

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represents bank balances and cash in hand.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

11. TRADE PAYABLES

Ageing analysis of trade payables, based on invoice dates, as at each reporting date is as follows:

	At 31 December 2015 US$'000	At 14 December 2016 US$'000
1 – 30 days	1,201	570
31 – 90 days	1,032	629
91 – 120 days	178	233
Over 120 days	820	903
	3,231	2,335

12. ACCRUALS, RECEIPTS IN ADVANCE AND OTHER PAYABLES

	At 31 December 2015 US$'000	At 14 December 2016 US$'000
Accruals	18	–
Receipts in advance *(note)*	4	4
Other payables	59	6
	81	10

Note: Receipts in advance represent billings in advance of performance in regarding the provision of customised reference designs which are bundled together with the sale of ICs as a package for the new customers. The amount of receipts in advance are negotiated on a case by case basis with customers.

Movements in receipts in advance

	Year ended 31 December 2015 US$'000	Period from 1 January to 14 December 2016 US$'000
At 1 January	2	4
Decrease in receipts in advance as a result of recognising revenue during the year	(55)	(68)
Increase of receipts in advance from customers	57	67
Exchange difference	–	1
At 31 December 2015 and 14 December 2016	4	4

13. AMOUNT DUE TO A RELATED PARTY

The amount due is unsecured, non-interest bearing and repayable on demand.

14. RELATED PARTY TRANSACTIONS

Shenzhen IH had the following transactions with related parties during the SZ Pre-Acquisition Period:

(a) Particulars of balances with related companies contained in trade payables are as follows:–

Name of related companies	*Note*	As at 31 December 2015 US$'000	As at 14 December 2016 US$'000
Flyring Electronics	*(i)*	851	496
IH Technology	*(i)*	1,036	1,831
		1,887	2,327

(b) Transactions with related parties

Transactions during the SZ Pre-Acquisition Period	*Notes*	Year ended 31 December 2015 *US$'000*	Period from 1 January to 14 December 2016 *US$'000*
Sales to Shanghai IH	*(ii)*	64	10
Sales to Chengdu Flyring	*(ii)*	65	1
Purchases from Flyring Electronics	*(i)*	1,791	1,462
Purchases from IH Technology	*(i)*	3,338	3,145
Purchases from Shanghai IH	*(ii)*	22	64
Purchases from Chengdu Flyring	*(ii)*	111	23

Notes:

(i) Mr. Qing is the director of the holding company of Flyring Electronics and IH Technology. The terms of these transactions were in the normal course of its business and mutually agreed between both parties.

(ii) Mr. Qing and Mrs. Qing were the then shareholders of Shanghai IH and Chengdu Flyring during the SZ Pre-Acquisition Period. The terms of these transactions were in the normal course of its business and mutually agreed between both parties.

V. ADDITIONAL PRE-ACQUISITION FINANCIAL INFORMATION OF SHANGHAI IH

As stated in note 34(b) to the Historical Financial Information, the Group acquired the entire equity interests in Shanghai IH on 26 December 2016.

The pre-acquisition financial information of Shanghai IH for the year ended 31 December 2015 and the period from 1 January 2016 to 26 December 2016 (the date prior to Shanghai IH becoming a subsidiary of the Group) (the "SH Pre-Acquisition Period") (the "SH Pre-Acquisition Financial Information") has been prepared by the directors of Shanghai IH in accordance with the accounting policies set out in note 5 to the Historical Financial Information, which conform with HKFRSs.

The SH Pre-Acquisition Financial Information is presented in US$ where the functional currency of Shanghai IH is RMB. The directors of Shanghai IH consider that the business is acquired by the Group which the presentation currency is US$. The SH Pre-Acquisition Financial Information is then presented in US$ for better compliance with the Group's Historical Financial Information.

STATEMENTS OF COMPREHENSIVE INCOME OF SHANGHAI IH

	Notes	Year ended 31 December 2015 US$'000	Period from 1 January to 26 December 2016 US$'000
Revenue	2	5,180	5,914
Cost of sales		(4,587)	(5,344)
Gross profit		593	570
Bank interest income		4	4
Selling and distribution expenses		(313)	(325)
General and administrative expenses		(225)	(255)
Profit/(loss) before income tax	3	59	(6)
Income tax expense	4	(18)	(3)
Profit/(loss) for the year/period		41	(9)
Other comprehensive income			
Item that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translating foreign operations		(22)	(26)
Other comprehensive income for the year/period attributable to the owners of Shanghai IH		(22)	(26)
Total comprehensive income for the year/period		19	(35)

STATEMENTS OF FINANCIAL POSITION OF SHANGHAI IH

	Notes	As at 31 December 2015 US$'000	As at 26 December 2016 US$'000
ASSETS AND LIABILITIES			
Non-current asset			
Property, plant and equipment	6	8	35
Current assets			
Inventories	7	346	320
Trade and bills receivables	8	2,227	3,189
Payments, deposits and other receivables	9	35	95
Amount due from a related party	10	205	263
Cash and cash equivalents	11	158	170
		2,971	4,037
Current liabilities			
Trade payables	12	2,452	3,639
Accruals, receipts in advance and other payables	13	105	49
Tax payable		17	14
		2,574	3,702
Net current assets		397	335
Net assets		405	370
EQUITY			
Paid-up capital		328	328
Reserves		77	42
Total equity		405	370

STATEMENTS OF CHANGES IN EQUITY OF SHANGHAI IH

	Paid-up capital *US$'000*	Statutory surplus reserve *US$'000*	Translation reserves *US$'000*	Retained earnings *US$'000*	Total equity *US$'000*
At 1 January 2015	328	6	(1)	53	386
Profit for the year	–	–	–	41	41
Foreign currency translation differences for foreign operation	–	–	(22)	–	(22)
Total comprehensive income for the year	–	–	(22)	41	19
Appropriation to statutory surplus reserve	–	4	–	(4)	–
At 31 December 2015	328	10	(23)	90	405
At 1 January 2016	328	10	(23)	90	405
Loss for the period	–	–	–	(9)	(9)
Foreign currency translation differences for foreign operation	–	–	(26)	–	(26)
Total comprehensive income for the period	–	–	(26)	(9)	(35)
At 26 December 2016	328	10	(49)	81	370

STATEMENTS OF CASH FLOWS OF SHANGHAI IH

	Notes	Year ended 31 December 2015 US$'000	Period from 1 January to 26 December 2016 US$'000
Cash flows from operating activities			
Profit/(loss) before income tax		59	(6)
Adjustments for:–			
Bank interest income		(4)	(4)
Depreciation of property, plant and equipment	6	2	4
Impairment loss on inventories to net realisable value, net	7	2	–
Operating profit/(loss) before working capital changes		59	(6)
(Increase)/decrease in inventories		(177)	26
Increase in trade and bills receivables		(1,613)	(962)
Increase in prepayments, deposits and other receivables		(4)	(60)
Increase in trade payables		1,821	1,187
Increase/(decrease) in accruals, receipts in advance and other payables		11	(56)
Net cash generated from operations		97	129
Income tax paid		(7)	(6)
Net cash generated from operating activities		90	123
Cash flows from investing activities			
Purchases of property, plant and equipment		(10)	(32)
Advanced to a related party		(94)	(58)
Interest received		4	4
Net cash used in investing activities		(100)	(86)
Net (decrease)/increase in cash and cash equivalents		(10)	37
Cash and cash equivalents at beginning of the year/period		189	158
Effect of foreign exchange rate changes		(21)	(25)
Cash and cash equivalents at end of the year/period		158	170

NOTES TO THE PRE-ACQUISITION FINANCIAL INFORMATION OF SHANGHAI IH

1. SEGMENT INFORMATION

An operating segment is a component of Shanghai IH that is engaged in business activities from which Shanghai IH may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by executive directors of Shanghai IH in order to allocate resources and assess performance of the segment. During the SH Pre-Acquisition Period, executive directors received information on the performance of Shanghai IH as a whole. Accordingly, it is determined that Shanghai IH has only one single operating segment, which is determined as sale of ICs bundled with services, for the purpose of allocating resources and assessing performance.

For the purpose of geographical segment information disclosures under HKFRS 8, Shanghai IH regarded the PRC as its place of domicile. All Shanghai IH's revenue from external customers is recognised at a point in time located in the PRC and all Shanghai IH's non-current assets is located in the PRC.

Revenue from customer contributing over 10% of the total revenue of Shanghai IH during the SH Pre-Acquisition Period is as follows:

	Year ended 31 December 2015 *US$'000*	**Period from 1 January to 26 December 2016** *US$'000*
Customer V	1,159	914
Customer VI (*note (i)*)	723	N/A
Jiangsu Chen Yang (*note (ii)*)	N/A	1,399

Notes:

(i) Sales to Customer VI were not over 10% of the total revenue of Shanghai IH for the period from 1 January to 26 December 2016.

(ii) Sales to Jiangsu Chen Yang were not over 10% of the total revenue of Shanghai IH for the year ended 31 December 2015.

During the SH Pre-Acquisition Period, Shanghai IH generated revenue primarily from the sale of five categories of ICs products, including (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation. The following table sets out the breakdown of the revenue recognised at a point in time by product category:

	Year ended 31 December 2015 *US$'000*	**Period from 1 January to 26 December 2016** *US$'000*
Mobile devices and smart charging	143	1,421
Motor control	3,855	3,951
RF Power	4	30
LED lighting	321	148
Sensors and automation	857	364
	5,180	5,914

2. REVENUE

Revenue from Shanghai IH's principal activity represents the sale of ICs bundled with services during the Track Record Period.

3. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging:–

	Year ended 31 December 2015	**Period from 1 January to 26 December 2016**
	US$'000	*US$'000*
Cost of inventories recognised as expenses	4,587	5,344
Depreciation of property, plant and equipment (*note 6*)	2	4
Employee benefit expenses (*note*) (including directors' remuneration)		
Salaries and wages	204	248
Bonuses	44	–
Pension scheme contribution – Defined contribution plan	81	101
	329	349
Operating lease expenses	93	113
Impairment loss on inventories, net (*note 7*) included in cost of inventories recognised as expenses	2	–

Note: Employee benefit expenses are included in cost of sales, selling and distribution expenses and administrative expenses.

4. INCOME TAX EXPENSE

	Year ended 31 December 2015	**Period from 1 January to 26 December 2016**
	US$'000	*US$'000*
Current tax expenses		
– PRC Corporate Income Tax	18	3

The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% of the assessable profits of Shanghai IH which carried on business in the PRC during the SH Pre-Acquisition Period.

A reconciliation of the income tax expenses applicable to profit/(loss) before income tax at the statutory tax rate to income tax expenses at the effective tax rate is as follows:

	Year ended 31 December 2015	**Period from 1 January to 26 December 2016**
	US$'000	*US$'000*
Profit/(loss) before income tax	59	(6)
Notional tax on profit/(loss) before income tax, calculated at the applicable tax rate	15	(2)
Effect of non-deductible expenses	3	5
Income tax expense	18	3

At 31 December 2015 and 26 December 2016, there are no material deferred tax assets or liabilities being recognised.

5. DIVIDEND

No dividend was paid or declared by Shanghai IH during the SH Pre-Acquisition Period.

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *US$'000*
Cost	
At 1 January 2015	6
Additions	10
Exchange difference	(1)
At 31 December 2015 and 1 January 2016	15
Additions	32
Exchange difference	(2)
At 26 December 2016	45
Accumulated depreciation	
At 1 January 2015	5
Charge for the year	2
At 31 December 2015 and 1 January 2016	7
Charge for the period	4
Exchange difference	(1)
At 26 December 2016	10
Net carrying amount	
At 31 December 2015	8
At 26 December 2016	35

7. INVENTORIES

	At 31 December 2015 *US$'000*	**At 26 December 2016** *US$'000*
Finished goods	346	320

At 31 December 2015 and 26 December 2016, certain inventories with original cost amounting to approximately US$2,000 and US$2,000 were fully impaired.

8. TRADE AND BILLS RECEIVABLES

	At 31 December 2015	At 26 December 2016
	US$'000	*US$'000*
Trade receivables	1,607	2,660
Bills receivables	620	529
	2,227	3,189

The trading terms with Shanghai IH's customers are mainly on credit, except for customers where payment in advance is normally required. The credit period is granted based on the historical trading and payment records of each customer, generally not more than four months. Extended credit terms may be granted for some major long-term customers. Shanghai IH seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that Shanghai IH's trade receivables related to a number of diversified customers, there was no significant concentration of credit risk. Shanghai IH did not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables were non-interest-bearing.

Ageing analysis of Shanghai IH's trade receivables, based on the invoice dates, that are not impaired as at each reporting date is as follows:

	At 31 December 2015	At 26 December 2016
	US$'000	*US$'000*
1 – 30 days	732	754
31 – 90 days	760	1,072
91 – 120 days	56	523
Over 120 days	59	311
	1,607	2,660

Some of the trade receivables that were not impaired are past due as at the reporting date. Ageing analysis of trade receivables not impaired is as follows:

	At 31 December 2015	At 26 December 2016
	US$'000	*US$'000*
Neither past due nor impaired	1,141	1,643
1 – 30 days past due	282	649
31 – 90 days past due	131	364
91 – 120 days past due	19	–
More than 120 days past due	34	4
	1,607	2,660

At each reporting date, Shanghai IH carries out the impairment reviews of its trade receivables using lifetime ECL model. The ECL on trade receivables is assessed for debtors with significant balances or collectively using a provision matrix based on appropriate groupings. Shanghai IH uses debtors' ageing to assess the impairment for its trade receivables because trade receivables consist of balances due from a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms. The estimated credit loss rates are estimated based on historical default rates of the debtors and are adjusted with forward-looking information about specific debtors is updated. As at 31 December 2015 and 26 December 2016, expected credit loss rate of trade receivables is assessed to be 0.53% and 0.49% respectively. Based on the evaluation on expected credit loss rates and gross carrying amount of trade receivables, in the opinion of the directors of Shanghai IH, no expected credit loss was recognised.

Ageing analysis of Shanghai IH's bills receivables, based on the bills receipt dates as at each reporting date is as follows:

	At 31 December 2015 *US$'000*	At 26 December 2016 *US$'000*
1 – 30 days	133	–
31 – 90 days	334	72
91 – 120 days	108	180
Over 120 days	45	277
	620	529

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2015 *US$'000*	At 26 December 2016 *US$'000*
Prepayments	15	36
Rental and utilities deposits	20	44
Other receivables	–	15
	35	95

10. AMOUNT DUE FROM A RELATED PARTY

Particulars of amount due from a related party, disclosed pursuant to Section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:–

Name	Maximum amount outstanding during the year *US$'000*	As at 31 December 2016 *US$'000*	Maximum amount outstanding during the period *US$'000*	As at 26 December 2017 *US$'000*
Mr. Lam	205	205	263	263

The amount due from a related party are non-trade in nature. The amount is unsecured, interest-free and repayable on demand and will be settled fully prior to the Listing.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represents bank balances and cash in hand.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

12. TRADE PAYABLES

Ageing analysis of trade payables, based on invoice dates, as at each reporting date is as follows:

	At 31 December 2015	At 26 December 2016
	US$'000	*US$'000*
1 – 30 days	803	676
31 – 90 days	621	1,084
91 – 120 days	327	591
Over 120 days	701	1,288
	2,452	3,639

13. ACCRUALS, RECEIPTS IN ADVANCE AND OTHER PAYABLES

	At 31 December 2015	At 26 December 2016
	US$'000	*US$'000*
Accruals	2	5
Receipts in advance *(note)*	71	21
Other payables	32	23
	105	49

Note: Receipts in advance represent billings in advance of performance in regarding the provision of customised reference designs which are bundled together with the sale of ICs as a package for the new customers. The amount of receipts in advance are negotiated on a case by case basis with customers.

Movements in receipts in advance

	Year ended 31 December 2015	Period from 1 January to 26 December 2016
	US$'000	*US$'000*
At 1 January	72	71
Decrease in receipts in advance as a result of recognising revenue during the year	–	(56)
Increase of receipts in advance from customers	3	8
Exchange difference	(4)	(2)
At 31 December 2015 and 26 December 2016	71	21

14. RELATED PARTY TRANSACTIONS

Shanghai IH had the following transactions with related parties during the SH Pre-Acquisition Period:

(a) Particulars of balances with related companies contained in trade payables are as follows:–

Name of related companies	*Note*	**As at 31 December 2015** *US$'000*	**As at 26 December 2016** *US$'000*
Flyring Electronics	*(i)*	3	1,323
IH Technology	*(i)*	3,426	2,278
		3,429	3,601

(b) Transactions with related parties

Transactions during the SH Pre-Acquisition Period	*Notes*	**Year ended 31 December 2015** *US$'000*	**Period from 1 January to 26 December 2016** *US$'000*
Sales to Shenzhen IH	*(ii)*	22	64
Sales to Chengdu Flyring	*(ii)*	5	–
Purchases from Flyring Electronics	*(i)*	20	1,353
Purchases from IH Technology	*(i)*	4,108	3,617
Purchases from Shenzhen IH	*(ii)*	64	10
Purchases from Chengdu Flyring	*(ii)*	63	35

Notes:

(i) Mr. Qing is the director of the holding company of Flyring Electronics and IH Technology. The terms of these transactions were in the normal course of its business and mutually agreed between both parties.

(ii) Mr. Qing and Mrs. Qing were the then shareholders of Shenzhen IH and Chengdu Flyring during the SH Pre-Acquisition Period. The terms of these transactions were in the normal course of its business and mutually agreed between both parties.

VI. ADDITIONAL PRE-ACQUISITION FINANCIAL INFORMATION OF CHENGDU FLYRING

As stated in note 34(c) to the Historical Financial Information, the Group acquired the entire equity interests in Chengdu Flyring on 16 January 2017.

The pre-acquisition financial information of Chengdu Flyring for the years ended 31 December 2015 and 2016 and the period from 1 January 2017 to 16 January 2017 (the date prior to Chengdu Flyring becoming a subsidiary of the Group) (the "CD Pre-Acquisition Period") (the "CD Pre-Acquisition Financial Information") has been prepared by the directors of Chengdu Flyring in accordance with the accounting policies set out in note 5 to the Historical Financial Information, which conform with HKFRSs.

The CD Pre-Acquisition Financial Information is presented in US$ where the functional currency of Chengdu Flyring is RMB. The directors of Chengdu Flyring consider that the business is acquired by the Group which the presentation currency is US$. The CD Pre-Acquisition Financial Information is then presented in US$ for better compliance with the Group's Historical Financial Information.

STATEMENTS OF COMPREHENSIVE INCOME OF CHENGDU FLYRING

		Year ended 31 December		Period from 1 January to 16 January	
		2015	**2016**	**2016**	**2017**
	Notes	*US$'000*	*US$'000*	*US$'000* *(unaudited)*	*US$'000*
Revenue	*2*	18,210	10,481	847	423
Cost of sales		(17,277)	(9,945)	(785)	(373)
Gross profit		933	536	62	50
Bank interest income		1	3	–	–
Selling and distribution expenses		(188)	(157)	(9)	(10)
General and administrative expenses		(275)	(168)	(15)	(31)
Finance costs	*3*	(121)	(22)	–	(8)
Profit before income tax	*4*	350	192	38	1
Income tax expense	*5*	(107)	(51)	(10)	–
Profit for the year/period		243	141	28	1
Other comprehensive income					
Item that may be reclassified to profit or loss in subsequent periods:					
Exchange differences arising on translating foreign operations		(196)	(154)	(44)	36
Other comprehensive income for the year/period attributable to the owners of Chengdu Flyring		(196)	(154)	(44)	36
Total comprehensive income for the year/period		47	(13)	(16)	37

STATEMENTS OF FINANCIAL POSITION OF CHENGDU FLYRING

	Notes	As at 31 December 2015 US$'000	As at 31 December 2016 US$'000	As at 16 January 2017 US$'000
ASSETS AND LIABILITIES				
Non-current asset				
Property, plant and equipment	7	19	13	13
Current assets				
Inventories	8	2,147	559	1,151
Trade and bills receivables	9	6,889	4,586	4,765
Prepayments and other receivables	10	161	53	149
Amount due from a related party	11	162	583	589
Tax recoverable		–	–	27
Cash and cash equivalents	12	407	204	103
		9,766	5,985	6,784
Current liabilities				
Trade payables	13	4,490	1,592	1,822
Receipts in advance and other payables	14	59	377	436
Amount due to a related party	11	15	–	1,010
Bank borrowings	15	1,752	718	1,458
Tax payable		71	–	–
		6,387	2,687	4,726
Net current assets		3,379	3,298	2,058
Net assets		3,398	3,311	2,071
EQUITY				
Paid-up capital		983	983	983
Reserves		2,415	2,328	1,088
Total equity		3,398	3,311	2,071

STATEMENTS OF CHANGES IN EQUITY OF CHENGDU FLYRING

	Paid-up capital	Statutory surplus reserve	Translation reserves	Retained earnings	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2015	983	237	(6)	2,131	3,345
Profit for the year	–	–	–	243	243
Foreign currency translation differences for foreign operation	–	–	(190)	–	(190)
Total comprehensive income for the year	–	–	(190)	243	53
Appropriation to statutory surplus reserve	–	24	–	(24)	–
At 31 December 2015 and 1 January 2016	983	261	(196)	2,350	3,398
Profit for the year	–	–	–	141	141
Foreign currency translation differences for foreign operation	–	–	(228)	–	(228)
Total comprehensive income for the year	–	–	(228)	141	(87)
Appropriation to statutory surplus reserve	–	14	–	(14)	–
At 31 December 2016 and 1 January 2017	983	275	(424)	2,477	3,311
Profit for the period	–	–	–	1	1
Foreign currency translation differences for foreign operation	–	–	36	–	36
Total comprehensive income for the period	–	–	36	1	37
Dividend paid	–	–	–	(1,277)	(1,277)
Appropriation to statutory surplus reserve	–	161	–	(161)	–
At 16 January 2017	983	436	(388)	1,040	2,071
At 1 January 2016	983	261	(196)	2,350	3,398
Profit for the period (unaudited)	–	–	–	28	28
Foreign currency translation differences for foreign operation (unaudited)	–	–	(44)	–	(44)
Total comprehensive income for the period	–	–	(44)	28	(16)
Appropriation to statutory surplus reserve (unaudited)	–	3	–	(3)	–
At 16 January 2016 (unaudited)	983	264	(240)	2,375	3,382

STATEMENTS OF CASH FLOWS OF CHENGDU FLYRING

	Notes	Year ended 31 December 2015 US$'000	Year ended 31 December 2016 US$'000	Period from 1 January to 16 January 2016 US$'000 (unaudited)	Period from 1 January to 16 January 2017 US$'000
Cash flows from operating activities					
Profit before income tax		350	193	38	1#
Adjustments for:–					
Bank interest income		(1)	(3)	–	–
Depreciation of plant and equipment	7	10	7	–	–
Interest expenses		121	22	–	8
Allowance for expected credit loss on trade receivables	9	1	–	–	–
Impairment loss (reversal thereof) on inventories to net realisable value, net	8	65	(4)	–	–
Operating profit before working capital changes		546	215	38	9
Decrease/(increase) in inventories		170	1,597	1,067	(616)
Decrease/(increase) in trade and bills receivables		243	2,303	2,508	(179)
Decrease/(increase) in prepayments and other receivables		50	108	(308)	(99)
(Decrease)/increase in trade payables		(1,938)	(2,898)	(1,415)	230
Increase/(decrease) in receipts in advance and other payables		20	318	(43)	59
Net cash (used in)/generated from operations		(909)	1,643	1,847	(596)
Income tax paid		(136)	(122)	(231)	–
Net cash (used in)/generated from operating activities		(1,045)	1,521	1,616	(596)
Cash flows from investing activities					
Purchases of plant and equipment	7	(2)	(2)	(2)	–
(Advanced to)/repaid from related parties		(162)	(421)	162	(6)
Interest received		1	3	–	–
Net cash (used in)/generated from investing activities		(163)	(420)	160	(6)
Cash flows from financing activities					
Proceeds from bank borrowings		1,752	718	–	1,458
Repayments of bank borrowings		–	(1,752)	(1,752)	(718)
(Repaid to)/advanced from related parties		(229)	(15)	(15)	1,010
Interest paid		(121)	(22)	–	(8)
Dividend paid		–	–	–	(1,277)
Net cash generated from/(used in) financing activities		1,402	(1,071)	(1,767)	465
Net increase/(decrease) in cash and cash equivalents		194	30	9	(137)
Cash and cash equivalents at beginning of the year/period		406	407	407	204
Effect of foreign exchange rate changes		(193)	(233)	(44)	36
Cash and cash equivalents at end of the year/period		407	204	372	103

Item with value under US$1,000

NOTES TO THE PRE-ACQUISITION FINANCIAL INFORMATION OF CHENGDU FLYRING

1. SEGMENT INFORMATION

An operating segment is a component of Chengdu Flyring that is engaged in business activities from which Chengdu Flyring may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by executive directors of Chengdu Flyring in order to allocate resources and assess performance of the segment. During the CD Pre-Acquisition Period, executive directors received information on the performance of Chengdu Flyring as a whole. Accordingly, it is determined that Chengdu Flyring has only one single operating segment, which is determined as sale of ICs bundled with services, for the purpose of allocating resources and assessing performance.

For the purpose of geographical segment information disclosures under HKFRS 8, Chengdu Flyring regarded the PRC as its place of domicile. All Chengdu Flyring's revenue from external customers is recognised at a point in time located in the PRC and all Chengdu Flyring's non-current assets is located in the PRC.

Revenue from customer contributing over 10% of the total revenue of Chengdu Flyring during the CD Pre-Acquisition Period is as follows:

	Year ended 31 December		Period from 1 January to 16 January	
	2015	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000* *(Unaudited)*	*US$'000*
Jiangsu Chen Yang *(note (i))*	4,592	1,779	N/A	N/A
Customer H *(note (ii))*	N/A	N/A	N/A	45
Customer I *(note (iii))*	N/A	N/A	117	N/A
Customer VII *(note (i))*	2,367	1,177	N/A	N/A
Customer VIII *(note (ii))*	N/A	N/A	N/A	102

Notes:

(i) Sales to Jiangsu Chen Yang and Customer VII were not over 10% of the total revenue of Chengdu Flyring for the periods from 1 January to 16 January 2016 and 2017.

(ii) Sales to Customer H and Customer VIII were not over 10% of the total revenue of Chengdu Flyring for the years ended 31 December 2015 and 2016 and period from 1 January to 16 January 2016.

(iii) Sales to Customer I were not over 10% of the total revenue of the total revenue of Chengdu Flyring for the years ended 31 December 2015 and 2016 and period from 1 January to 16 January 2017.

During the CD Pre-Acquisition Period, Chengdu Flyring generated revenue primarily from the sale of five categories of ICs products, including (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation. The following table sets out the breakdown of the revenue recognised at a point in time by product category:

	Year ended 31 December		**Period from 1 January to 16 January**	
	2015	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000* *(Unaudited)*	*US$'000*
Mobile devices and smart charging	4,743	2,093	64	–
Motor control	163	253	8	–
RF Power	9,172	5,639	552	352
LED lighting	3,806	1,554	114	71
Sensors and automation	326	942	109	–
	18,210	10,481	847	423

2. REVENUE

Revenue from Chengdu Flyring's principal activity represents the sale of ICs bundled with services during the Track Record Period.

3. FINANCE COSTS

Finance costs represent the interest paid on discounted bills.

4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:–

	Year ended 31 December		**Period from 1 January to 16 January**	
	2015	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000* *(Unaudited)*	*US$'000*
Cost of inventories recognised as expenses	17,277	9,945	785	373
Depreciation of Property, plant and equipment *(note 7)*	10	7	–	–
Employee benefit expenses *(note)* (including directors' remuneration)				
Salaries and wages	231	126	12	15
Pension scheme contribution – Defined contribution plan	14	12	1	1
	245	138	13	16
Operating lease expenses	86	62	3	16
Allowance for expected credit loss on trade receivables *(note 9)*	1	–	–	–
Impairment loss (reversal thereof) on inventories, net *(note 7)* included in cost of inventories recognised as expenses	65	(4)	–	–

Note: Employee benefit expenses are included in cost of sales, selling and distribution expenses and administrative expenses.

5. INCOME TAX EXPENSE

	Year ended 31 December		Period from 1 January to 16 January	
	2015	2016	2016	2017
	US$'000	*US$'000*	*US$'000* *(Unaudited)*	*US$'000*
Current tax expenses				
– PRC Corporate Income Tax	107	51	10	–

The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% of the assessable profits of Chengdu Flyring which carried on business in the PRC during the CD Pre-Acquisition Period.

A reconciliation of the income tax expenses applicable to profit before income tax at the statutory tax rate to income tax expense at the effective tax rate is as follows:

	Year ended 31 December		Period from 1 January to 16 January	
	2015	2016	2016	2017
	US$'000	*US$'000*	*US$'000* *(Unaudited)*	*US$'000*
Profit before income tax	350	192	38	1
Notional tax on profit before income tax, calculated at the applicable tax rate	88	48	10	–
Effect of non-deductible expenses	19	3	–	–
Income tax expense	107	51	10	–

At 31 December 2015 and 2016 and 16 January 2017, there are no material deferred tax assets or liabilities being recognised.

6. DIVIDEND

On 18 January 2017, Chengdu Flyring declared an interim dividend of amount approximately US$1,277,000 to its then equity owners, Mr. Qing and Mrs. Qing.

7. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment
	US$'000
Cost	
At 1 January 2015	94
Additions	2
Exchange difference	(5)
At 31 December 2015 and 1 January 2016	91
Additions	2
Disposal	(1)
Exchange difference	(6)
At 31 December 2016 and 1 January 2017	86

	Furniture, fixtures and equipment
	US$'000
Accumulated depreciation	
At 1 January 2015	66
Charge for the year	10
Exchange difference	(4)
At 31 December 2015 and 1 January 2016	72
Charge for the year	7
Disposal	(1)
Exchange difference	(5)
At 31 December 2016 and 1 January 2017	73
Charge for the period	–
Exchange difference	–
At 16 January 2017	73
Net carrying amount	
At 31 December 2015	19
At 31 December 2016	13
At 16 January 2017	13

8. INVENTORIES

	As at 31 December		As at 16 January
	2015	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*
Finished goods	2,147	559	1,151

At 31 December 2015 and 2016 and 16 January 2017, certain inventories with original cost amounting to approximately US$70,000, US$66,000 and US$66,000 were fully impaired.

9. TRADE AND BILLS RECEIVABLES

	As at 31 December		As at 16 January
	2015	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*
Trade receivables	4,263	1,703	1,621
Less: allowance for expected credit loss	(1)	(1)	(1)
Trade receivables, net	4,262	1,702	1,620
Bills receivables *(note 16)*	2,627	2,884	3,145
	6,889	4,586	4,765

The trading terms with Chengdu Flyring's customers are mainly on credit, except for customers where payment in advance is normally required. The credit period is granted based on the historical trading and payment records of each customer, generally not more than four months. Extended credit terms may be granted for some major long-term customers. Chengdu Flyring seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that Chengdu Flyring's trade receivables related to a number of diversified customers, there was no significant concentration of credit risk. Chengdu Flyring did not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables were non-interest-bearing.

Ageing analysis of Chengdu Flyring's trade receivables, based on the invoice dates, that are not impaired as at each reporting date is as follows:

	As at 31 December		As at 16 January
	2015	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*
1 – 30 days	1,442	645	273
31 – 90 days	2,109	564	875
91 – 120 days	319	122	87
Over 120 days	392	371	385
	4,262	1,702	1,620

Some of the trade receivables that were not impaired are past due as at the reporting date. Ageing analysis of trade receivables not impaired is as follows:

	As at 31 December		As at 16 January
	2015	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*
Neither past due nor impaired	3,364	699	810
1 – 30 days past due	578	281	103
31 – 90 days past due	117	403	463
91 – 120 days past due	114	32	10
More than 120 days past due	89	287	234
	4,262	1,702	1,620

At each reporting date, Chengdu Flyring carries out the impairment reviews of its trade receivables using lifetime ECL model. The ECL on trade receivables is assessed for debtors with significant balances or collectively using a provision matrix based on appropriate groupings. Chengdu Flyring uses debtors' ageing to assess the impairment for its trade receivables because trade receivables consist of balances due from a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms. The estimated credit loss rates are estimated based on historical default rates of the debtors and are adjusted with forward-looking information about specific debtors is updated. As at 31 December 2015, 2016 and 16 January 2017, expected credit loss rate of trade receivables is assessed to be 0.53%, 0.49% and 0.49% respectively. Based on the evaluation on expected credit loss rates and gross carrying amount of trade receivables, the directors of Chengdu Flyring determined the expected credit loss of approximately US$1,000, US$1,000 and US$1,000, respectively.

Ageing analysis of Chengdu Flyring's bills receivables, based on the bills receipt dates as at each reporting date is as follows:

	As at 31 December		As at 16 January
	2015	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*
1 – 30 days	256	845	263
31 – 90 days	878	879	1,639
91 – 120 days	430	190	294
Over 120 days	1,063	970	949
	2,627	2,884	3,145

As at 31 December 2015 and 2016 and 16 January 2017, all bills receivables were neither past due nor impaired.

10. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2015	2016	As at 16 January 2017
	US$'000	*US$'000*	*US$'000*
Prepayments	11	26	–
Other receivables	150	27	149
	161	53	149

11. AMOUNT DUE FROM/(TO) A RELATED PARTY

Particulars of amount due from a related party, disclosed pursuant to Section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:–

Name	Maximum amount outstanding during the year	As at 31 December 2016	Maximum amount outstanding during the year	As at 31 December 2017	Maximum amount outstanding during the period	As at 16 January 2017
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Mr. Lam	162	162	583	583	589	589

The amount due from/(to) a related party are non-trade in nature. The amounts were unsecured, interest-free and repayable on demand and will be settled fully prior to the Listing.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represents bank balances and cash in hand.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

13. TRADE PAYABLES

Ageing analysis of trade payables, based on invoice dates, as at each reporting date is as follows:

	As at 31 December 2015	2016	As at 16 January 2017
	US$'000	*US$'000*	*US$'000*
1 – 30 days	2,261	1,114	1,100
31 – 90 days	808	303	15
91 – 120 days	245	168	–
Over 120 days	1,176	7	707
	4,490	1,592	1,822

14. RECEIPTS IN ADVANCE AND OTHER PAYABLES

	As at 31 December 2015 US$'000	2016 US$'000	As at 16 January 2017 US$'000
Receipts in advance *(note)*	52	374	392
Other payables	7	3	44
	59	377	436

Note: Receipts in advance represent billings in advance of performance in regarding the provision of customised reference designs which are bundled together with the sale of ICs as a package for the new customers. The amount of receipts in advance are negotiated on a case by case basis with customers.

Movements in receipts in advance

	Year ended 31 December 2015 US$'000	Year ended 31 December 2016 US$'000	Period from 1 January to 16 January 2017 US$'000
At 1 January	25	52	374
Decrease in receipts in advance as a result of recognising revenue during the year	–	(51)	–
Increase of receipts in advance from customers	30	391	14
Exchange difference	(3)	(18)	4
At 31 December 2015 and 2016 and 16 January 2017	52	374	392

15. BANK BORROWINGS

	As at 31 December 2015 US$'000	2016 US$'000	As at 16 January 2017 US$'000
Current			
Discounted bills with recourse	1,752	718	1,458

At 31 December 2015 and 2016 and 16 January 2017, all borrowings from discounting of bills with recourse are secured by certain bills receivables of Chengdu Flyring with carrying amount of approximately US$1,752,000, US$718,000 and US$1,458,000 respectively *(note 9)*. Interest was charged in the range from 3.1% to 5.3% per annum during the CD Pre-Acquisition Period.

16. RELATED PARTY TRANSACTIONS

Chengdu Flyring had the following transactions with related parties during the CD Pre-Acquisition Period:

(a) Particulars of balances with related companies contained in trade payables are as follows:-

Name of related companies	*Note*	As at 31 December 2015 US$'000	2016 US$'000	As at 16 January 2017 US$'000
Flyring Electronics	*(i)*	2,385	802	789
Shenzhen IH	*(ii)*	71	–	–
		2,456	802	789

(b) Transactions with related parties

Transactions during the CD Pre-Acquisition Period	Notes	Years ended 31 December 2015 US$'000	Years ended 31 December 2016 US$'000	Period from 1 January to 16 January 2016 US$'000	Period from 1 January to 16 January 2017 US$'000
Sales to Shenzhen IH	*(ii)*	111	23	–	–
Sales to Shanghai IH	*(ii)*	63	35	–	–
Purchases from Flyring Electronics	*(i)*	15,950	8,030	517	697
Purchases from Shenzhen IH	*(ii)*	65	1	–	–
Purchases from Shanghai IH	*(ii)*	5	–	–	–
Purchases from a related company	*(iii)*	312	24	–	–

Notes:

(i) Mr. Qing is the director of the Company. The terms of these transactions are in the normal course of its business and mutually agreed between both parties.

(ii) Mr. Qing and Mrs. Qing were the then shareholders of Shenzhen IH and Shanghai IH during the CD Pre-Acquisition Period. The terms of these transactions were in the normal course of its business and mutually agreed between both parties.

(iii) Mr. Qing, a director of the Company, was the ultimate beneficial owner of the related company. Mr. Qing has disposed his shareholding of the related company in June 2016. The terms of these transactions are in the normal course of its business and mutually agreed between both parties.

The information set forth in this appendix does not form part of the Accountants' Report from Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with "Financial information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an illustrative and unaudited pro forma adjusted consolidated net tangible assets of the Group, prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below, for the purpose of illustrating the effect of the Share Offer on the consolidated net tangible assets of the Group as if the Share Offer had taken place on 31 December 2018. This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated financial position of the Group attributable to the owners of the Company had the Share Offer been completed on 31 December 2018 or at any future dates.

	Audited consolidated net tangible assets of the Group as at 31 December 2018	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2018	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2018 per Share
	(Note 1)	*(Note 2)*		*(Note 3)*
	US$'000	*US$'000*	*US$'000*	*HK$*
Based on the Offer Price of HK$0.63 per Share	13,087	12,246	25,333	0.25
Based on the Offer Price of HK$0.68 per Share	13,087	13,407	26,494	0.26

Notes:

(1) The audited consolidated net tangible assets of the Group as at 31 December 2018 is extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Share Offer are based on 200,000,000 Shares to be issued the estimated Offer Price of HK$0.63 or HK$0.68 per Share (being the low end and the high end of the indicative price range of the Offer Shares), after deduction of the estimated underwriting fees and other listing expenses payable by the Company in connection with the Share Offer, excluding the listing expenses of approximately US$2,534,000 that have been recognised in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017 and 2018. It does not take into account any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus or otherwise.

(3) The unaudited pro forma of adjusted consolidated net tangible assets of the Group per Share is calculated based on 800,000,000 Shares in issue immediately following the completion of the Share Offer. It does not take into account any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus or otherwise.

The unaudited pro forma adjusted consolidated net tangible assets of the Group per Share is converted into Hong Kong Dollars at an exchange rate of US$1 to HK$7.75, being the same exchange rate used in this prospectus.

(4) No adjustment has been made to the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group to reflect any trading results of other transactions of the Group entered into subsequent to 31 December 2018.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group.

MOORE STEPHENS

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大華馬施雲
會計師事務所有限公司

TO THE DIRECTORS OF CONTEL TECHNOLOGY COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Contel Technology Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma of adjusted consolidated net tangible assets of the Group as at 31 December 2018 and the related notes as set out in Part A of Appendix II on pages II-1 to II-2 of the prospectus dated 29 June 2019 (the "Prospectus") issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed offer of shares of the Company (the "Share Offer") on the Main Board of The Stock Exchange of Hong Kong Limited on the Group's financial position as at 31 December 2018 as if the Share Offer had taken place at 31 December 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information as at 31 December 2018, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of a significant event or transaction of the Company on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Moore Stephens CPA Limited
Certified Public Accountants

Hung, Wan Fong Joanne
Practising Certificate Number: P05419
Hong Kong, 29 June 2019

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 16 August, 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Company's constitutional documents consist of its Memorandum of Association (the "**Memorandum**") and its Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 21 June 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 30 August, 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and officers

The Company is required to maintain at its registered office a register of Directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial ownership register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic substance requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("**ES Law**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 16 August 2016. We have established a place of business at Unit No. A, 13th Floor, Block 1, Leader Industrial Centre, Nos. 188-202 Texaco Road, Tsuen Wan, New Territories, Hong Kong and was registered in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 13 April 2018. Lam Keung of Room 8, 39/F, Kam Hing House, Kam Tai Court, Ma On Shan, New Territories, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises the Memorandum and Articles of Association. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

As at the date of incorporation, the authorised share capital of our Company was HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

At the time of incorporation, the issued share capital of our Company was HK$0.01, with one Share of HK$0.01 each and held by Sharon Pierson. On the same date, the said one Share was transferred to Mr. Lam for a consideration at par value.

On 8 November 2016, Mr. Lam transferred the one Share he held in our Company to P.Grand at par value. As a result, P.Grand became the sole Shareholder of our Company.

On 25 April 2017, our Company allotted and issued 9,999 Shares to P.Grand and the issued share capital of our Company was increased to HK$100.00 divided into 10,000 Shares with a nominal value of HK$0.01 each and was wholly owned by P.Grand.

On 25 December 2017, our Company allotted and issued 80,000 Shares to P.Grand at nominal value and 10,000 Shares to Kingtech for a total cash consideration of RMB10,381,018, respectively. As such, the issued share capital of our Company was increased to HK$1,000.00 divided into 100,000 Shares with a nominal value of HK$0.01 each and was owned as to 90% by P.Grand and 10% by Kingtech.

Pursuant to the written resolutions of all Shareholders on 21 June 2019, the authorised share capital of our Company was increased from HK$380,000 to HK$20,000,000 by the creation of an additional 1,962,000,000 Shares (ranking *pari passu* in all respects with the then existing issued Shares) such that the authorised share capital of our Company became HK$20,000,000 divided into 2,000,000,000 Shares.

Immediately following completion of the Capitalisation Issue and the Share Offer and assuming that the Over-allotment Option is not exercised, the authorised share capital of our Company will be HK$20,000,000 divided into 2,000,000,000 Shares, of which 800,000,000 Shares will be issued, fully paid or credited as fully paid, and 1,200,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in "Further information about our Company – 3. Written resolutions of the Shareholders of our Company passed on 21 June 2019" in this Appendix, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since incorporation.

3. Written resolutions of the Shareholders of our Company passed on 21 June 2019

Pursuant to the written resolutions of the Shareholders passed on 21 June 2019:

(a) our Company approved and adopted the Memorandum of Association with immediate effect and the Articles of Association with effect from the Listing Date;

(b) our Company increased its authorised share capital from HK$380,000 divided into 38,000,000 Shares of HK$0.01 each to HK$20,000,000 divided into 2,000,000,000 Shares of HK$0.01 each;

(c) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to approve to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;

(ii) conditional on the share premium account of our Company being credited as a result of the Share Offer, the sum of HK$5,999,000 be capitalised and be applied in paying up in full at par 599,900,000 Shares for allotment and issue to the Shareholders whose names were on the register of members of our Company immediately prior to the issue of Shares under the Share Offer and the Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares;

(iii) the rules of the Share Option Scheme were approved and adopted, and the Directors or any committee thereof established by the Board were authorised, at their sole discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of options granted under the Share Option Scheme and to take such action as they consider necessary, expedient or desirable to implement the Share Option Scheme;

(d) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Share Offer, a rights issue or the exercise of any subscription rights under the Share Option Scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by the shareholders in general meeting) with an aggregate nominal value of not more than the sum of:

(i) 20% of the total number of the Shares of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); and

(ii) the number of Shares repurchased by our Company (if any);

(e) a general unconditional mandate was given to the Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange) with a total nominal value of not more than 10% of the number of Shares of our Company in issue or to be issued immediately following completion of the Share Offer and Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); and

(f) the general unconditional mandate as mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above, provided that such extended amount shall not exceed 10% of the number of Shares of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue.

Each of the general mandates referred to in paragraphs (d), (e) and (f) above will remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions;

(ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(iii) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting.

4. Reorganisation

In order to rationalise our structure and prepare for the Listing, our Company has undertaken certain restructuring steps. Please refer to "History, Reorganisation and corporate structure – Reorganisation" in this prospectus for details.

5. Changes in share capital of the subsidiaries of our Company

A. Subsidiaries of our Company

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

B. Changes in share capital of the subsidiaries of our Company

Save as disclosed in "Further information about our Company – 4. Reorganisation" in this Appendix and "History, Reorganisation and corporate structure" in this prospectus, the following changes in share capitals and changes in shareholdings of certain subsidiaries of our Company took place during the two years immediately preceding the date of this prospectus:

Contel (BVI)

Contel (BVI) was incorporated under the laws of the BVI on 19 September 2016, authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each. At the time of incorporation, one share of US$1.00 each was allotted and issued to our Company, credited as fully paid, as a result of which Contel (BVI) became a direct wholly-owned subsidiary of our Company.

IH Technology

On 13 January 2017, Ms. Hui Hung transferred her one share in IH Technology to Mr. Lam at a nominal consideration of HK$1.00, which was settled on the same date. Upon completion of the transfer, IH Technology was 100% owned by Mr. Lam.

On 12 April 2017, Mr. Lam transferred the entire issued share capital of IH Technology to Contel (BVI) in consideration of our Company issuing 9,999 Shares to P.Grand, at the direction of Mr. Lam. Upon completion of the transfer, IH Technology became wholly owned by Contel (BVI) and an indirect wholly-owned subsidiary of our Company.

Flyring Electronics

On 25 November 2016, Mr. Lam transferred the entire issued share capital of Flyring Electronics to Contel (BVI) at a consideration of HK$54,693,021, with reference to the net asset value of Flyring Electronics as at 30 September 2016, which was satisfied by Contel (BVI) issuing 9 shares to our Company under the instruction of Mr. Lam. Upon completion of the transfer, Flyring Electronics became wholly owned by Contel (BVI) and an indirect wholly-owned subsidiary of our Company.

Chengdu Flyring

On 16 January 2017, Mrs. Qing and Mr. Qing transferred their respective shareholding in Chengdu Flyring, representing 100% equity interest of Chengdu Flyring in aggregate, to Shenzhen IH, for an aggregate cash consideration of RMB6,000,000, with reference to the registered capital of Chengdu Flyring, which was fully settled on 16 March 2017. The transfer was completed on 16 January 2017. Upon completion and settlement of the transfer, Chengdu Flyring became wholly-owned by Shenzhen IH and an indirect wholly-owned subsidiary of our Company.

Shenzhen IH

On 16 November 2016, Mrs. Qing and Mr. Qing transferred their respective shareholding in Shenzhen IH, representing 100% of the equity interest of Shenzhen IH in aggregate, to Flyring Electronics, for an aggregate cash consideration of RMB2,292,274, with reference to the valuation of Shenzhen IH, which was fully settled on 22 March 2017. The transfer was completed on 14 December 2016. Upon completion and settlement of the transfer, Shenzhen IH became wholly-owned by Flyring Electronics and an indirect wholly-owned subsidiary of our Company.

Shanghai IH

On 26 December 2016, Mrs. Qing and Mr. Qing transferred their respective shareholding in Shanghai IH, representing 100% of the equity interest of Shanghai IH in aggregate, to Shenzhen IH, for an aggregate cash consideration of RMB2,088,744, with reference to the valuation of Shanghai IH, which was fully settled on 16 March 2017. The transfer was completed on 26 January 2017. Upon completion and settlement of the transfer, Shanghai IH became wholly-owned by Shenzhen IH and an indirect wholly-owned subsidiary of our Company.

6. Repurchase by our Company of our own securities

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Stock Exchange subject to certain restrictions. The most important restrictions are summarised below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions of our Company passed on 21 June 2019 by the Shareholders of our Company, a general unconditional mandate was given to the Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the number of the Shares in issue or to be issued immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option and the share options which may be granted under the Share Option Scheme), such mandate to expire at the earliest of: (i) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; (ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or (iii) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting whichever shall first occur; details of which have been described above in "Further information about our Company – 3. Written resolutions of the Shareholders of our Company passed on 21 June 2019" in this Appendix.

(ii) Source of funds

Any repurchase of Shares by our Company must be paid out of funds legally available for the purpose in accordance with our Company's Memorandum and Articles of Association, the Listing Rules and the Companies Law. We may not repurchase our own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the Shares which are proposed to be repurchased by our Company must be fully-paid up.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and Shareholders.

(c) Material adverse impact

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account our current working capital position, the Directors consider that, if the repurchase mandate is exercised in full, it might have a material adverse effect on our Company's working capital and/or gearing position as compared with the position disclosed in this prospectus.

However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our Company's working capital requirements or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(d) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Our Company has not made any repurchases of our own securities in the past six months. No core connected person (as defined in the Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

FURTHER INFORMATION ABOUT OUR COMPANY'S BUSINESS

1. Summary of the material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) the Deed of Indemnity; and

(b) the Public Offer Underwriting Agreement.

2. Intellectual property rights of our Group

Trademarks

As at the Latest Practicable Date, members of our Group have registered the following trademarks which, in the opinion of our Directors, are material to our business:

Trademark	Registered owner	Place of registration	Class	Registration number	Date of registration	Expiry date
英浩	IH Technology	PRC	4, 6, 14, 42	29732204	14 March 2019	13 March 2029
飛環	Flyring Electronics	PRC	4, 40, 42	29729263	28 March 2019	27 March 2029
Contel 康特隆	Company	Hong Kong	4, 6, 7, 9, 11, 14, 40, 42	304441653	26 February 2018	25 February 2028
IH 英浩	IH Technology	Hong Kong	4, 6, 7, 9, 11, 14, 40, 42	304441644	26 February 2018	25 February 2028
FLYRING 飛環	Flyring Electronics	Hong Kong	4, 6, 7, 9, 11, 14, 40, 42	304441635	26 February 2018	25 February 2028

As at the Latest Practicable Date, members of our Group have applied for the registration of the following trademark which, in the opinion of our Directors, is material to our business:

Applicant	Trademark	Place of application	Class	Application number	Application date
Company	康特隆	PRC	4, 6, 7, 9, 11, 14, 40, 42	29733602	21 March 2018

Domain names

As at the Latest Practicable Date, members of our Group have registered the following domain names which, in the opinion of our Directors, are material to our business:

Registrant	Domain name	Date of registration	Expiry date
Chengdu Flyring	flyring.com.cn	15 April 2002	15 April 2020
IH Technology	www.conteltechnology.com	20 September 2016	19 September 2021
IH Technology	www.conteltechnology.com.cn	20 September 2016	19 September 2021
IH Technology	www.conteltechnology.com.hk	20 September 2016	19 September 2021

3. Further information about our Group's PRC subsidiaries

(a) Shenzhen IH

Nature of the company	Limited liability company
Term of business operation	From 11 May 2005 to 30 December 2046
Registered capital	RMB2 million
Attributable interest of our Company	100%
Scope of business	Design, development, wholesales, importation exportation and relevant supporting business of electronic products, computer software, communication equipment and integrated circuits (excluding franchised, specially controlled and monopolised commodity and restricted items, which shall be applied according to relevant laws and regulations of the State Council.)
Legal representative	Wang Kai

(b) Chengdu Flyring

Nature of the company	Limited liability company
Term of business operation	Long term
Registered capital	RMB6 million
Attributable interest of our Company	100%
Scope of business	Retail of electronic products and office supplies (excluding colour copying machines) (Items subject to approval pursuant to laws can only be operated after obtaining the approval from the relevant authorities.)
Legal representative	Feng Ying

(c) Shanghai IH

Nature of the company	Limited liability company
Term of business operation	From 26 August 2009 to 25 August 2029
Registered capital	RMB2 million
Attributable interest of our Company	100%
Scope of business	Sales of electronics products, electronic components, industrial automation products, Internet equipment, communication equipment, energy-saving equipment, solar energy application products, wind power equipment, class I medical equipment, technical development, consultancy, services and transfer of computer hardware and software (Items subject to approval pursuant to laws can only be operated after obtaining the approval from the relevant authorities.)
Legal representative	Wang Kai

4. Further information about our Directors

a. Directors' service contracts and letters of appointment

Each of our executive Directors, namely, Mr. Lam, Mr. Qing and Mr. Mai Lu has entered into a service contract with our Company on 21 June 2019 for an initial term of three years commencing from the Listing Date, which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of our independent non-executive Directors, namely, Mr. Dan Kun Lei Raymond, Mr. Wong Kwun Ho and Mr. Lai Man Shun has entered into a letter of appointment with our Company on 21 June 2019 for an initial term of three years commencing from the Listing Date, which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of our Directors is entitled to the respective basic salary set out below (subject to an annual increment after consultation with the Remuneration Committee at the discretion of our Directors).

Name	**Annual basic salary**
Mr. Lam Keung	US$230,000
Mr. Qing Haodong	US$57,000
Mr. Mai Lu	US$55,000
Mr. Dan Kun Lei Raymond	US$7,700
Mr. Wong Kwun Ho	US$7,700
Mr. Lai Man Shun	US$7,700

All reasonable travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by our executive Directors in the process of discharging their duties on behalf of our Group will be borne by our Company.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

b. Directors' remuneration during the Track Record Period

Our Company's policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to our Company; and (ii) non-cash benefits may be provided to our Directors under their remuneration package.

For the Track Record Period, the aggregate of the remuneration paid and benefits in kind granted to our Directors by our Group was approximately US$322,000, US$273,000, US$400,000 and US$413,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable for the Track Record Period by our Company to our Directors.

Under the arrangements currently in force, our Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) by our Company for the year ending 31 December 2019 will be approximately US$380,000.

DISCLOSURE OF INTERESTS

1. Disclosure of interests

(a) *Interests and short positions of the Directors in the share capital of our Company and our associated corporations following the Capitalisation Issue and the Share Offer*

(i) Interest in our Company

Immediately following completion of the Capitalisation Issue and the Share Offer and taking no account of any Shares which may be allotted and issued pursuant to the share options to be granted under the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of our Company and our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Interests and short positions in the Shares, underlying shares and debentures of our Company and our associated corporations:

Long positions in our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr. Lam(1)(2)	Interest in a controlled corporation/Person acting in concert	600,000,000	75%
Mr. Qing(1)(3)	Interest of spouse/Person acting in concert	600,000,000	75%

Notes:

(1) Pursuant to the Confirmatory Deed, Mr. Lam, Mr. Qing and Mrs. Qing have acknowledged and confirmed, among other things, that they are acting in concert with each other. Accordingly, each of Mr. Lam, Mr. Qing and Mrs. Qing is deemed to be interested in all the Shares in which any of them is interested under the SFO.

(2) P.Grand is 100% owned by Mr. Lam and Mr. Lam is deemed to be interested in all the Shares held by P.Grand under the SFO.

(3) Mr. Qing is the spouse of Mrs. Qing.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Capitalisation Issue and the Share Offer and taking no account of any Shares which may be allotted and issued pursuant to the share options to be granted under the Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in the Shares or underlying shares of our Company which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

(i) Interests and short positions in the Shares and underlying shares of our Company:

Long positions in our Company

Name	**Capacity/Nature of interest**	**Number of Shares**	**Approximate percentage of shareholding**
P.Grand	Beneficial Owner	540,000,000	67.5%
Mrs. Qing(1)(2)	Interest in a controlled corporation/Person acting in concert	600,000,000	75%
Kingtech	Beneficial Owner	60,000,000	7.5%

Notes:

(1) Pursuant to the Confirmatory Deed, each Mr. Lam, Mr. Qing and Mrs. Qing have acknowledged and confirmed, among other things, that they are acting in concert with each other. Accordingly, each of Mr. Lam, Mr. Qing and Mrs. Qing is deemed to be interested in all the Shares in which any of them is interested under the SFO.

(2) Kingtech is 100% owned by Mrs. Qing and Mrs. Qing is deemed to be interested in all the Shares held by Kingtech under the SFO.

2. Disclaimers

Save as disclosed in this prospectus:

(a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the Capitalisation Issue and the Share Offer (taking no account of the Over-allotment Option or any Shares which may be issued upon exercise of share options to be granted under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group;

(b) none of our Directors has any interest or short position in any of the Shares, underlying Shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed in "Other information – 10. Consents of experts" in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

(d) none of our Directors nor any of the parties listed in "Other information – 10. Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company's business;

(e) save in connection with the Underwriting Agreements, none of the parties listed in "Other information – 10. Consents of experts" in this Appendix:

(i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;

(f) none of our Directors or their close associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of the Directors, owns more than 5% of our Company's issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the Shareholders passed on 21 June 2019 (the "**Adoption Date**"). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimise their future performance to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

(a) subject to (b) and (c) below, the approval of the shareholders of our Company for the adoption of the Share Option Scheme;

(b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 80,000,000 Shares to be allotted and issued pursuant to the exercise of the Options (as mentioned in the following paragraph) in accordance with the terms and conditions of the Share Option Scheme; and

(c) the commencement of dealing of the Shares on the Main Board of the Stock Exchange on the Listing Date.

3. Who may join

The Board may, at its absolute discretion, offer options ("**Options**") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("**Executive**"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("**Employee**");

(b) a director or proposed director (including an independent non-executive director) of any member of our Group;

(c) a direct or indirect shareholder of any member of our Group;

(d) a supplier of goods or services to any member of our Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group;

(g) an associate of any of the persons referred to in paragraphs (a) to (f) above; and

(h) any person involved in the business affairs of our Company whom our Board determines to be appropriate to participate in the Share Option Scheme.

(the persons referred above are the "**Eligible Persons**").

4. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10 per cent of the total number of Shares in issue immediately following completion of the Share Offer, being 80,000,000 Shares, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the "**Scheme Mandate Limit**") provided that:

(a) Our Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10 per cent of the Shares in issue as at the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.

(b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.

(c) Notwithstanding paragraph (a) above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Company's issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

5. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12 month period exceeds 1% of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent of the Shares in issue, such further grant shall be separately approved by the shareholders of our Company in general meeting with such Eligible Person and his close associates (or his associates if such Eligible Person is a connected person) abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Company's shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

6. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

7. Granting Options to connected persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding our independent non-executive Director who or whose associate(s) is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the relevant class of securities in issue; and

(b) (where the securities are listed on the Stock Exchange,) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, such further grant of Options must be approved by shareholders of our Company (voting by way of a poll). Our Company shall send a circular to Shareholders containing the information required under the Listing Rules. The grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favour at such general meeting.

Approval from the shareholders of our Company is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

8. Offer period and number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date (the "**Acceptance Date**"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

9. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after inside information has come to its knowledge until such inside information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

10. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which needs to be achieved by the grantee before the Option can be exercised.

11. Amount payable for Options

The amount payable on acceptance of an Option is HK$1.00.

12. Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days (as defined in the Listing Rules) immediately preceding the offer date.

13. Exercise of Option

(i) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option Period in the manner as set out in this Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.

(ii) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.

(iii) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorised share capital of our Company.

(iv) Subject as hereinafter provided, among others:

(a) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;

(b) in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of, among others, serious misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

(c) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of shareholders of our Company (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;

(d) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:

(i) the Option Period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);

(ii) the period of two months from the date of such notice; or

(iii) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his Option;

(e) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

14. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the articles of association and the laws of the Cayman Islands from time to time and shall rank pari passu in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

15. Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years on the Adoption Date, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

16. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(a) the expiry of the option period;

(b) the expiry of any of the period referred to paragraphs related to exercise of Option;

(c) subject to the period mentioned in "13. Exercise of Option" in this Appendix, the date of the commencement of the winding-up of our Company;

(d) there is an unsatisfied judgment, order or award outstanding against the grantee or our Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;

(e) there are circumstances which entitle any person to take action, appoint any person, commence proceedings or obtain any order of the type mentioned in (d) above and in the paragraph headed "13. Exercise of Option"; or

(f) a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

17. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, open offer, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

(a) the maximum number of Shares subject to the Share Option Scheme; and/or

(b) the aggregate number of Shares subject to the Option so far as unexercised; and/or

(c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

(a) any such adjustments shall give the Eligible Persons the same proportion of equity capital as they were previously entitled to. In respect of any such adjustments, other than any made on a capitalisation issue, the auditors shall confirm to the Board in writing that the adjustments satisfy this requirement;

(b) any such adjustments shall be made on the basis that the aggregate Subscription Price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;

(c) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(d) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and

(e) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

18. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the "**Cancellation Date**"):

(a) the grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;

(b) the grantee makes a written request to the Board for the Option to be cancelled; or

(c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

19. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

20. Transferability

An Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

21. Amendment

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the shareholders of our Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of grantee; (iii) any change to the authority of the Board or any person or committee delegated by the Board pursuant to the terms of the Share Option Scheme to administer the day-to-day running of it; and (iv) any alteration to the aforesaid termination provisions.

OTHER INFORMATION

1. The Deed of Indemnity

Our Controlling Shareholders (the "Indemnifiers") have, under the Deed of Indemnity referred to in "Further information about our Company's business – 1. Summary of the material contracts" in this Appendix, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things, (a) any taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or alleged to have, or which should have been earned or accrued or received on or before the Listing Date; (b) any taxation claim which might be payable by any member of our Group under or by reason of any transfer of any property to any member of our Group or to any other person, entity or company made or deemed to have been made on or before the Listing Date; and (c) all damages, losses and liabilities arising from or in connection with any property claim and/or any other liability claim to the extent that the events leading to such damages, losses and liabilities occurred prior to the Listing Date and any such damages, losses and liabilities are not paid by the insurer under any relevant insurance policy (if any).

The Indemnifiers will however, not be liable under the Deed of Indemnity for taxation claim or liability:

(a) to the extent that provision or allowance has been made for such liability, taxation or taxation claim in the audited accounts ("**Accounts**") of any member of our Group for the four years ended 31 December 2018;

(b) to any taxation claim or liability falling on any of the members of our Group in respect of their current accounting periods or any accounting period commencing on or after 31 December 2018 unless such liability or taxation claim or liability would not have arisen but for any act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:

   (1) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31 December 2018; or

   (2) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2018; or

   (3) consisting of any of the members of our Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or

(c) to the extent of any provision or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation claim or liability shall not be available in respect of any such liability arising thereafter.

The indemnity for taxation claim or liability does not cover any taxation claim or liability to the extent that the imposition of such taxation claim or liability arises or is incurred as a result of a retrospective change in law or practice coming into force after the Listing Date or to the extent the taxation claim or liability arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect.

Under the Deed of Indemnity, each of the Indemnifiers has also undertaken to each of the members of our Group that it/he/she will indemnify and at all times keep us fully indemnified, on a joint and several basis, on demand against any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), costs, expenses, damages, penalties, fines or other liabilities which any member of our Group may incur or suffer arising from the non-compliances as disclosed in the paragraphs headed "Business – Non-compliance" in this prospectus.

2. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition.

3. Preliminary expenses

Our Company's estimated preliminary expenses are approximately US$6,800 and have been paid by our Company.

4. Promoter

There are no promoters of our Company.

5. Sole Sponsor

The Sole Sponsor made an application on our Company's behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, the grant of Shares that may be granted under the Share Option Scheme and the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The aggregate Sole Sponsor's fees payable by us in respect of the Sole Sponsor's services for the Listing are approximately HK$7.8 million.

6. No material adverse change

The Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 31 December 2018 (being the date to which our Company's latest audited consolidated financial statements were made up).

7. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

8. Miscellaneous

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus,

(a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) neither our Company nor any of our subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares;

(d) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;

(e) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any Shares in or debentures of our Company;

(f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(g) our Company has no outstanding convertible debt securities; and

(h) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	**Qualification**
Alliance Capital Partners Limited	Licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Moore Stephens CPA Limited	Certified Public Accountants
Commerce & Finance Law Offices	PRC legal advisers to our Company
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
Mazars Tax Services Limited	Transfer Pricing Analyst
Mr. Jon K. H. Wong	Barrister-at-law in Hong Kong

10. Consents of experts

Each of Alliance Capital Partners Limited, Moore Stephens CPA Limited, Commerce & Finance Law Offices, Conyers Dill & Pearman, Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., Mazars Tax Services Limited and Mr. Jon K. H. Wong has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

Pursuant to Rule 11.14 of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in "Other information – 10. Consents of experts" in Appendix IV to this prospectus, and copies of the material contracts referred to in "Further information about our Company's business – 1. Summary of the material contracts" in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Luk & Partners in Association with Morgan, Lewis & Bockius at Suites 1902-09, 19th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date that is 14 days from the date of this prospectus:

(i) the Memorandum and the Articles of Association of our Company;

(ii) the Accountants' Report prepared by Moore Stephens CPA Limited, the text of which is set out in Appendix I to this prospectus;

(iii) the Assurance Report from Moore Stephens CPA Limited on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(iv) the audited consolidated financial statements of our Group for the Track Record Period;

(v) the material contracts referred to in "Further information about our Company's business – 1. Summary of the material contracts" in Appendix IV to this prospectus;

(vi) the service contracts and letters of appointment with each of the Directors, referred to in "Further information about our Company's business – 4. Further information about our Directors – a. Directors' service contracts and letters of appointment" in Appendix IV to this prospectus;

(vii) the written consents referred to in "Other information – 10. Consents of experts" in Appendix IV to this prospectus;

(viii) the PRC legal opinions prepared by Commerce & Finance Law Offices, our legal adviser as to PRC law, in respect of certain aspects of our Group and our property interests;

(ix) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Companies Law referred to in Appendix III to this prospectus;

(x) the Companies Law;

(xi) the F&S Report referred to in "Industry overview" in this prospectus;

(xii) the benchmarking analysis report prepared by Mazars Tax Services Limited, our Transfer Pricing Analyst, in respect of the Intercompany Transactions and the transfer pricing arrangements of our Group;

(xiii) the rules of the Share Option Scheme; and

(xiv) the counsel's opinion issued by Mr. Jon K. H. Wong, a barrister-at-law in Hong Kong, in relation to certain statements referred to in this prospectus.

Contel Technology Company Limited
康特隆科技有限公司