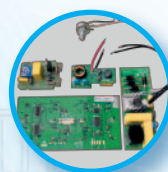


# KEEN OCEAN INTERNATIONAL HOLDING LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8070

## Placing



Sponsor

LY CAPITAL LIMITED  
絡繹資本有限公司

Bookrunner and Lead Manager



國泰君安國際  
GUOTAI JUNAN INTERNATIONAL

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## IMPORTANT

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*If you are in any doubt about this prospectus, you should obtain independent professional advice.*

### KEEN OCEAN INTERNATIONAL HOLDING LIMITED

僑洋國際控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

#### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

**Number of Placing Shares : 60,000,000 Shares**

**Maximum Placing Price : HK\$0.60 per Placing Share plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application subject to refund on final pricing)**

**Nominal value : HK\$0.01 per Share**

**Stock code : 8070**

**Sponsor**



LY CAPITAL LIMITED  
絡繹資本有限公司

**LY Capital Limited**

**Bookrunner and Lead Manager**



國泰君安國際  
GUOTAI JUNAN INTERNATIONAL

**Guotai Junan Securities (Hong Kong) Limited**

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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

The Placing Price is expected to be fixed by agreement between our Company and the Bookrunner and Lead Manager (for itself and on behalf of the Underwriter) on the Price Determination Date, which is expected to be on or around Thursday, 18 February 2016, and in any event, not later than Monday, 22 February 2016. The Placing Price will not be more than HK\$0.60 per Placing Share and is expected to be not less than HK\$0.50 per Placing Share. If our Company and the Bookrunner and Lead Manager (for itself and on behalf of the Underwriter) are unable to reach an agreement on the Placing Price by the Price Determination Date, the Placing will not proceed and will lapse. The Bookrunner and Lead Manager (for itself and on behalf of the Underwriter) may, with the consent of our Company, reduce the Placing Price range below to that stated in this prospectus at any time prior to the Price Determination Date. If this occurs, notice of reduction of the indicative Placing Price range will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.keenocan.com.hk](http://www.keenocan.com.hk).

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus. Pursuant to the termination provisions contained in the Underwriting Agreement, the Bookrunner and Lead Manager (for itself or on behalf of the Underwriter) has the right in certain circumstances, in their sole and absolute discretion, to terminate the obligations of the Underwriter pursuant to the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for termination" in this prospectus. It is important that you refer to the said section for further details.

17 February 2016

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## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

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

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

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM-listed issuers.**

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## EXPECTED TIMETABLE

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Expected Price Determination Date<sup>(2)</sup> ..... Thursday, 18 February 2016

Announcement of the determination of the Placing Price,  
and the indication of the levels of interest in the Placing  
to be published on the Stock Exchange's website at  
**www.hkexnews.hk** and our Company's website at  
**www.keenocan.com.hk** from ..... Tuesday, 23 February 2016

Allotment of Placing Shares to placees on or before ..... Tuesday, 23 February 2016

Deposit of share certificate for the Placing Shares into  
CCASS on or before <sup>(3)</sup> ..... Tuesday, 23 February 2016

Dealings in Shares on GEM to commence at 9:00 a.m. on ..... Wednesday, 24 February 2016

*Notes:*

1. All times and dates refer to Hong Kong local times and dates. Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.
2. The Price Determination Date is expected to be on or around Thursday, 18 February 2016, and in any event, not later than Monday, 22 February 2016. If our Company and the Bookrunner and Lead Manager (for itself and on behalf of the Underwriter) are unable to reach an agreement on the Placing Price by the Price Determination Date, the Placing will not proceed and will lapse.
3. Share certificates for the Placing Shares allotted and issued to the placees are expected to be deposited directly into CCASS on or before Tuesday, 23 February 2016 for credit to the respective CCASS Participants' or the CCASS Investor Participants' stock accounts designated by the Underwriter, the placees or their agents (as the case may be). No temporary documents or evidence of title will be issued.
4. All share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms at any time prior to 8:00 a.m. Hong Kong time on the Listing Date.

Details of the structure of the Placing, including the conditions thereto, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.



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### IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Placing and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Placing Shares offered by this prospectus. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.

You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sponsor, the Bookrunner and Lead Manager and the Underwriter have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made or contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sponsor, the Bookrunner and Lead Manager and the Underwriter, any of their respective directors or affiliates or any other persons or parties involved in the Placing. The contents of our website at [www.keenoocean.com.hk](http://www.keenoocean.com.hk) does not form part of this prospectus

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## SUMMARY

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*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 the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in our Shares. There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares. Various expressions used in this section are defined or explained in the section headed “Definitions” in this prospectus.*

### BUSINESS OVERVIEW

We principally engage in the design, development and sale of (a) power supply products; and (b) other electronic parts and components. The power supply products we offered during the Track Record Period included transformers and switching mode power supply, and the other electronic parts and components we sold included PCB assembly, battery charger, cable assembly and musical instrument and equipment. The types of transformers we offered included toroidal transformer, EI transformer and ferrite transformer.

Our products are sold in the PRC and to overseas countries including, in terms of revenue contribution for the year ended 31 December 2014, the United States, Belgium, the United Kingdom, Denmark and Australia. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our non-PRC sales (including indirect export sales from the PRC) accounted for approximately 88.2%, 87.9% and 87.9%, respectively, of our total revenue.

### OUR BUSINESS MODEL

Our power supply products are sold under our own design and brand “Keen Ocean” while we produced other electronic parts and components on an OEM basis. For products sold under our own design and brand, our customers generally provide us with the product requirements. Our engineers will design and develop the product to meet our customers’ requirements. For OEM products, our customers provide us with the designs or sample products and we produce the product according to customers’ designs or the sample products.

## SUMMARY

Set out below is the breakdown of our revenue by products for the period indicated:

### Revenue

	For the year ended 31 December						For the eight months ended 31 August					
	2013			2014			2014			2015		
	Quantity	% of		Quantity	% of		Quantity	% of		Quantity	% of	
	sold	Revenue	revenue	sold	Revenue	revenue	sold	Revenue	revenue	sold	Revenue	revenue
	(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)
<b>Own products</b>												
<i>Transformers</i>												
Toroidal transformer	1,241,300	103,577	54.5	1,010,576	79,124	43.5	703,833	52,239	42.9	582,624	45,870	39.0
EI transformer	129,431	7,175	3.8	178,520	7,573	4.2	120,079	4,558	3.7	72,846	3,603	3.1
Ferrite transformer	175,238	2,630	1.4	173,165	2,220	1.2	66,693	1,249	1.0	324,668	1,935	1.6
<i>Sub-total:</i>	<u>1,545,969</u>	<u>113,382</u>	<u>59.7</u>	<u>1,362,261</u>	<u>88,917</u>	<u>48.9</u>	<u>890,605</u>	<u>58,046</u>	<u>47.6</u>	<u>980,138</u>	<u>51,408</u>	<u>43.7</u>
<i>Switching mode power supply</i>												
Switching Mode Power Supply	1,123,672	15,466	8.1	1,005,293	15,865	8.7	597,183	7,738	6.3	468,585	5,529	4.7
<b>OEM sales</b>												
<i>Other electronic parts and components</i>												
PCB assembly	665,517	33,212	17.5	809,044	35,517	19.5	519,532	21,776	17.9	731,179	30,080	25.6
Battery charger	174,930	19,812	10.5	216,922	24,226	13.3	140,436	16,651	13.7	176,870	19,709	16.7
Cable assembly	188,762	3,238	1.7	135,400	2,899	1.6	115,245	2,161	1.8	163,058	2,077	1.8
Musical instrument and equipment	4,987	2,899	1.5	25,570	12,845	7.1	16,215	8,590	7.0	6,107	3,943	3.3
Others ( <i>note</i> )	666,229	1,898	1.0	741,312	1,704	0.9	570,279	6,945	5.7	707,448	4,960	4.2
<i>Sub-total:</i>	<u>1,700,425</u>	<u>61,059</u>	<u>32.2</u>	<u>1,928,248</u>	<u>77,191</u>	<u>42.4</u>	<u>1,361,707</u>	<u>56,123</u>	<u>46.1</u>	<u>1,784,662</u>	<u>60,769</u>	<u>51.6</u>
<b>Total</b>	<u>4,370,066</u>	<u>189,907</u>	<u>100.0</u>	<u>4,295,802</u>	<u>181,973</u>	<u>100.0</u>	<u>2,849,495</u>	<u>121,907</u>	<u>100.0</u>	<u>3,233,385</u>	<u>117,706</u>	<u>100.0</u>

*Note:* Others represented sales of plastic parts and other accessories.

### Overall

Our overall decline in revenue in 2014 was primarily due to the decrease in revenue from the toroidal transformer product segment as a result of the non-recurring purchase orders from three customers who mainly purchased toroidal transformer in 2013. The revenue of other product segments (i.e. switching mode power supply and other electronic parts and components) in 2014 remained relatively stable and/or recorded an increase as compared to those in 2013. Our revenue decreased from approximately HK\$121.9 million for the eight months ended 31 August 2014 to approximately HK\$117.7 million for the eight months ended 31 August 2015. Such decrease was primarily due to our pricing policy of not merely to follow the general trend of the market prices to overall reducing the selling prices of our products for purpose of increasing our sales.



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## SUMMARY

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In case where a reduction in our selling prices is made, we reduce our selling prices to the extent which is less than the decrease in our material costs. One of our aims is to maintain an acceptable profit margin to achieve a higher net profit. For details of our pricing policy, please refer to the sub-section headed “Pricing strategy and policy” in the section headed “Business” on page 152 of this prospectus. Despite the decline in our revenue, we generally performed better for the eight months ended 31 August 2015. Our gross profit margin for the eight months ended 31 August 2015 has improved to approximately 21.0%, compared to approximately 19.0% for the eight months ended 31 August 2014. As a result of our effort in reducing our cost of sales, including but not limited to, the continuing implementation of the policy of rewarding our manufacture staff by number of pieces made rather than on a fixed salary basis, our cost of sales reduced as compared to that for the eight months ended 31 August 2014. Our net profit before taking into account the Listing expenses for the eight months ended 31 August 2015 amounted to approximately HK\$6.1 million, which was also improved when compared with net profit of approximately HK\$4.1 million for the eight months ended 31 August 2014.

As stated in the sub-section headed “Pricing strategy and policy” of the section headed “Business” on page 152 of this prospectus, despite that we have not followed the general market trend in reducing the selling prices of all our products for the eight months ended 31 August 2015, we have not experienced loss of any of our major customers during this period. We continue to receive instructions from these major customers on the production of new model of products.

During the Track Record Period and up to the Latest Practicable Date, save for the loss of two customers to follow our former employee, we have not experienced the loss of any of our major customers. In light of the above, our Directors are of the view that the decrease in our revenue for the eight months ended 31 August 2015 did not have an adverse material effect on our market position, operation and financial conditions taken as a whole.

### *Own products*

The revenue derived from sales of our own brand products (including transformers and switching mode power supply) decreased from approximately HK\$128.8 million in 2013 to HK\$104.8 million in 2014. The decrease was primarily due to the decrease in sales volume and revenue of our toroidal transformers as a result of non-recurring purchase order received from three major customers who principally purchased toroidal transformers in 2013. The revenue of our switching mode power supply increased from approximately HK\$15.5 million in 2013 to HK\$15.9 million in 2014 despite the sales volume of our switching mode power supply decreased from approximately 1.1 million units in 2013 to 1.0 million units in 2014. The reason for our increase in the revenue of our switching mode power supply in 2014 was primarily attributable to our sales of mid-power level switching mode power supply (i.e. power supply of 200W) which generally has a higher selling price. The revenue derived from sales of our own brand products decreased from approximately HK\$65.8 million for the eight months ended 31 August 2014 to HK\$56.9 million for the eight months ended 31 August 2015. The decrease was primarily due to the general decrease in customers’ orders as a result of our reluctance to reduce our selling prices.

### *OEM products*

The revenue derived from sales of OEM products increased from approximately HK\$61.1 million in 2013 to HK\$77.2 million in 2014. Such increase was primarily due to an increase in the sales of our musical instrument and equipment from approximately HK\$2.9 million in 2013 to HK\$12.8 million in 2014. Such increase was principally attributable to increase in sales volume to existing

## SUMMARY

customers and the addition of new customers for musical instrument and equipment, which was first launched in mid-2013. The revenue derived from sales of our OEM products increased to approximately HK\$60.8 million for the eight months ended 31 August 2015 from HK\$56.1 million for the eight months ended 31 August 2014 mainly attributable to the increase in revenue derived from sales of PCB assembly and battery charger.

### SALES AND CUSTOMERS

Our customers can be categorised into manufacturers and trading companies. We sold products under our brand and on an OEM basis both in the PRC and to overseas countries. The overseas customers for products under our brand include manufacturers and designers of audio equipment and medical devices. The overseas customers for our OEM products are mainly manufacturers and designers of battery charger, audio equipment and healthcare equipment. Our PRC customers include manufacturers of baby monitor device, network router and electronic devices. We understand our customers will use our products as parts and components for their own manufacturing or sell our products directly to their customers without any further processing.

During the Track Record Period, at the request of our customers, we delivered our products to the bonded zones (保稅區) located in the PRC and we understand these customers will arrange for exports custom clearance and the products will subsequently be exported to other countries, otherwise additional tax will be incurred if they are subsequently sold in the PRC. Hence, these transactions with PRC customers are settled in USD and we treat these sales as indirect export sales.

The table below sets out the geographic segment of our customers for the period indicated:

	For the year ended 31 December				For the eight months ended 31 August			
	2013		2014		2014		2015	
	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
<b>PRC sales (note 1)</b>								
PRC domestic sales	22,454	11.8	22,012	12.1	10,601	8.7	14,184	12.1
<b>HK sales</b>								
Hong Kong	25,447	13.4	27,370	15.0	17,859	14.6	31,477	26.7
<b>Export sales</b>								
<b>Direct export sales</b>								
Europe (note 2)	50,695	26.7	44,320	24.4	29,189	23.9	31,072	26.4
The United States	39,880	21.0	46,392	25.5	29,581	24.3	14,145	12.0
Others (note 3)	14,865	7.8	10,853	6.0	12,410	10.2	12,305	10.5
<b>Indirect export sales from the PRC (note 1)</b>								
	36,566	19.3	31,026	17.0	22,267	18.3	14,523	12.3
<b>Sub-total</b>	<u>142,006</u>	<u>74.8</u>	<u>132,591</u>	<u>72.9</u>	<u>93,447</u>	<u>76.7</u>	<u>72,045</u>	<u>61.2</u>
<b>Total:</b>	<u>189,907</u>	<u>100.0</u>	<u>181,973</u>	<u>100.0</u>	<u>121,907</u>	<u>100.0</u>	<u>117,706</u>	<u>100.0</u>

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## SUMMARY

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*Notes:*

1. During the Track Record Period, some of our finished products were delivered to locations in the bonded zone of the PRC as designated by our customers and we understand that these customers will arrange for exports custom clearance and are treated as our indirect export sales from the PRC, the remaining sales in the PRC are treated as our PRC domestic sales or direct PRC sales.
2. Europe includes Belgium, the United Kingdom, Denmark, Austria and Germany.
3. Others include Australia, Singapore, Turkey, Canada and South Africa.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our five largest customers accounted for approximately 52.2%, 51.8% and 51.1%, respectively, of our total revenue, and our largest customer accounted for approximately 17.4%, 15.9% and 16.5%, respectively, of our total revenue.

During the Track Record Period, we entered into factoring arrangements for some of our customers' invoice value with three commercial banks. As at 31 December 2013 and 2014 and the eight months ended 31 August 2015, the balance of our factoring loan amounted to approximately HK\$14.6 million, HK\$9.6 million and HK\$8.8 million, representing approximately 80.2%, 57.7% and 43.8% of our corresponding discounted trade receivables as at 31 December 2013 and 2014 and the eight months ended 31 August 2015, respectively. Please refer to the sub-section headed "Factoring arrangements" in the section headed "Business" on page 157 of this prospectus for details.

Our Directors consider the decrease in our export sales to Europe in 2014 was principally due to the general depreciation of foreign currency, such as Euro against our principal settlement currency, USD. As a result, our customers may source from suppliers in other countries with favourable exchange rate to minimise their costs.

Our direct PRC sales increased from approximately HK\$10.6 million for the eight months ended 31 August 2014 to HK\$14.2 million for the eight months ended 31 August 2015 primarily due to our effort in developing new customers. Our non-PRC sales (including indirect export sales from the PRC) decreased from approximately HK\$111.3 million for the eight months ended 31 August 2014 to HK\$103.5 million for the eight months ended 31 August 2015 primarily due to the decrease in our export sales to the United States and indirect export sales. Our sales to the United States decreased from approximately HK\$29.6 million for the eight months ended 31 August 2014 to HK\$14.1 million for the eight months ended 31 August 2015. Our Hong Kong sales increased from approximately HK\$17.9 million for the eight months ended 31 August 2014 to HK\$31.5 million for the eight months ended 31 August 2015. The primary reason for the decrease in our sales to the United States and the increase in our sales to Hong Kong for the eight months ended 31 August 2015 was one of our top five customers, who has a business relationship with our Group for more than 10 years, has established a company in Hong Kong and some of the sales orders used to be placed by the customer's company in the United States were placed by the newly established Hong Kong company, and such sales were categorised as sales to Hong Kong. Our indirect export sales from the PRC decreased from approximately HK\$22.3 million for the eight months ended 31 August 2014 to HK\$14.5 million for the eight months ended 31 August 2015 primarily as a result of less demand from overseas customers.

## SUMMARY

### OUR SUPPLIERS

The major raw materials used in our production include copper, DC motors, semi-conductors, cable and plastic components, etc. During the Track Record Period, we sourced our raw materials from suppliers in the PRC, the United States, Japan and Taiwan.

The following table sets out the breakdown of our total purchase of raw materials for the period indicated:

	For the year ended 31 December				For the eight months ended 31 August			
	2013		2014		2014		2015	
	% of total purchase of raw materials		% of total purchase of raw materials		% of total purchase of raw materials		% of total purchase of raw materials	
	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)
	(unaudited)							
Copper	38,871	35.2	28,317	27.4	18,868	27.3	11,867	22.7
DC motors	9,363	8.5	13,089	12.7	7,694	11.1	8,026	15.4
Semi-conductors	6,112	5.5	8,373	8.1	5,110	7.4	2,651	5.1
Cable	9,624	8.7	8,022	7.7	4,913	7.1	3,139	6.0
Plastic components	9,452	8.6	9,004	8.7	5,608	8.1	5,878	11.3
PCB	5,907	5.4	7,712	7.5	2,180	3.2	1,320	2.5
Metal components	3,927	3.5	5,362	5.2	4,269	6.2	3,419	6.6
Silicon steel	11,277	10.2	5,646	5.4	4,207	6.1	2,803	5.4
Others ( <i>note</i> )	15,861	14.4	17,884	17.3	16,246	23.5	13,075	25.0
<b>Total purchase of raw materials</b>	<b>110,394</b>	<b>100.0</b>	<b>103,409</b>	<b>100.0</b>	<b>69,095</b>	<b>100.0</b>	<b>52,178</b>	<b>100.0</b>

*Note:* Others comprise packaging materials, audio components, insulating varnish, industrial chemicals, electrical components and moulding.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our five largest suppliers accounted for approximately 48.3%, 47.3% and 49.6%, respectively, of our total purchase of raw materials, and our largest supplier accounted for approximately 32.4%, 26.1% and 21.1%, respectively, of our total purchase of raw materials.

### OUR PRODUCTION FACILITIES

As at the Latest Practicable Date, our production facilities were located in Heyuan City, Guangdong Province, the PRC and occupied a site area of approximately 52,041 square metres and a total gross floor area of approximately 35,774.65 square metres.

We lease the properties for our production facilities, warehouses and dormitory from an Independent Third Party and He Yuan T-Lab, a company ultimately owned by Mr. Chung Chi Hang, Larry and Mr. Chung Tin Shing, our executive Directors.

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## SUMMARY

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We have integrated our production process from production of parts and components to finished products. We have established the ancillary parts and components division, the plastic injection and molding division, the enamelled copper wire division and the steel core division to specifically produce the relevant parts and components required for our production use. These parts and components produced are primarily used to satisfy our own production demand and we may sell the excess amount to customers. In addition, we also produce the EI transformer for use in the production of our amplifiers for musical instrument and battery chargers, and the ferrite transformer for use in the production of our switching mode power supply. For details, please refer to the sub-section headed “Production facilities for parts and components for own use” of the section headed “Business” on page 134 of this prospectus.

### COMPETITIVE STRENGTHS

Our Directors believe the following strengths contribute to our success:

- We have production facilities integrating research and development, production of certain parts and components and production of our products, which allow us to produce a diversified range of products to satisfy our customers’ needs in a timely and cost-efficient manner
- We recorded a low product return rate during the Track Record Period as a result of our effort in striving for high quality of our products
- We have extensive manufacturing techniques which give us the capability to develop new products and enhance existing products, and experienced production personnel and technicians
- We have established relationships with our key customers and a relatively stable customer base

### BUSINESS STRATEGIES

Our Directors have formulated the following business strategies: (i) development and launch of new products through our own capability and/or collaboration with third parties; (ii) solidify established customer relationships, and widen our customer base and broaden our existing product portfolio; and (iii) improve our production technology and efficiency of our production. For details, please refer to the sub-section headed “Our business strategies” of the section headed “Business” from page 113 to page 115 of this prospectus, and the section headed “Statement of business objectives and use of proceeds” on page 265 to page 271 of this prospectus.

### SHAREHOLDERS’ INFORMATION

Immediately following completion of the Placing, Mr. Chung Chi Hang, Larry and Cyber Goodie will be interested in 63% of our issued share capital. Please refer to the section headed “Substantial shareholders” on page 182 to page 183 of this prospectus.

## SUMMARY

### SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table sets forth our summary consolidated statements of profit or loss and other comprehensive income derived from the Accountants' Report in Appendix I to this prospectus and should be read in conjunction with the Accountants' Report in Appendix I and the notes thereto:

	For the year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Revenue	189,907	181,973	121,907	117,706
Gross profit	36,114	34,450	23,223	24,697
Profit (loss) before tax	9,861	6,204	4,903	(128)
Profit (loss) and total comprehensive income for the year	8,065	5,026	4,082	(1,783)
Gross profit margin	19.0%	18.9%	19.0%	21.0%
- Transformer	20.4%	20.4%	20.7%	22.5%
- Switching mode power supply	14.8%	20.0%	20.3%	19.5%
- Electronic parts and components and others	17.5%	17.0%	17.1%	19.8%
Net profit margin	4.2%	2.8%	3.3%	N/A

During the Track Record Period, we entered into a total of 12 foreign currency non-delivery forward contracts for RMB to minimise our exchange rate risk exposure. We recorded a gain on change in fair value of financial derivatives amounted to approximately HK\$2.8 million for the year ended 31 December 2013 and a loss on change in fair value of approximately HK\$0.7 million for the year ended 31 December 2014. For the eight months ended 31 August 2015, we did not enter into any forward contracts. For details of these foreign currency forward contracts, please refer to the paragraph headed "Foreign exchange contracts and its financial impact" in the section headed "Financial information" on page 202 of this prospectus, and note 9 to Accountant's Report as set out in Appendix I to this prospectus.

The adjusted net profit margin after excluding the gain/loss attributable to fair change in the foreign forward contracts is as follows:

	For the year ended 31 December	
	2013	2014
	(HK\$'000)	(HK\$'000)
Revenue	189,907	181,973
Net profit	8,065	5,026
Changes in fair value of the foreign forward contracts	2,810	(659)
Adjusted net profit after excluding the gain/loss attributable to fair change in the foreign forward contracts	5,255	5,685
Adjusted net profit margin after excluding the gain/loss attributable to fair change in the foreign forward contracts	2.8%	3.1%



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## SUMMARY

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### *Loss of major customers*

Our total revenue decreased from approximately HK\$189.9 million in 2013 to HK\$182.0 million in 2014 primarily due to the decrease of the sales volume of our toroidal transformer from 1.2 million pieces in 2013 to 1.0 million pieces in 2014 as a result of the non-recurring of purchase orders received from three of our major customers in 2014 who principally purchased toroidal transformer in 2013. The three customers had a business relationship with our Group of 2 to 12 years up to 2013 and the reasons for them not placing recurring purchase orders with our Group are (i) one of our engineers left our Group in 2013 and he solicited away 2 of these customers by offering more competitive price; and (ii) to the best knowledge of our Directors, the toroidal transformer business of one of these customers did not perform well and such customer did not place purchase orders with our Group in 2014. Our Directors confirm that the non-recurring of purchase orders from these three customers are not due to any disputes with these customers or their dissatisfaction with our products. We do not expect any further loss of customers/sales to the departure engineer nor aware that any of our customers will leave our Group to follow such former employee.

We have taken measures in promoting our sales revenue and preventing the loss of customers through departing engineer(s). In particular, we have provided an incentive program for our sales staff to expand our customer base and gradually launched new products (like reactor) to increase our sales amount. As a result of effort to increase sales, we are able to attract and retain new customers for our transformer products, especially in the PRC domestic market as the Company starts to receive orders and indicative orders from some sizable manufacturers in the PRC. As a result of our effort to increase sales, our Directors believe the losses of the above-mentioned three major customers would not affect our sustainability, business and financial performance and competitiveness taken as a whole.

As preventive measures, we have assigned senior employees, who are our executive Directors, senior engineers and senior sales staff (who have been with our Group for not less than five years) to follow up purchase orders with our customers. We have signed confidentiality, non-competition and non-solicitation agreements with the existing key employees which incorporated confidentiality obligations clauses and restrictive covenants on soliciting away business, customers and other employees. Additionally, we have implemented an internal policy where only designated personnel are allowed to contact customers, all customers information should be directed to the designated persons for handling and we will terminate the employment contracts if an employee fails to abide by the internal policy.

During the Track Record Period, the losses of major customers to follow our former employees only happened for one time and we had not encountered recurrence of similar incidents. As a result of our preventive measures, our Directors believe that the possibility of recurrence of losing major customers to follow departed employees is low.

### *Change in pricing policy*

Our total revenue decreased from approximately HK\$121.9 million for the eight months ended 31 August 2014 to HK\$117.7 million for the eight months ended 31 August 2015 primarily due to our pricing policy of not merely to follow the general trend of the market prices to overall reducing the selling prices of our products for purpose of increasing our sales as one of our aims is to maintain an acceptable profit margin to achieve higher net profit.

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## SUMMARY

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Our net profit margin decreased from 4.2% in 2013 to 2.8% in 2014 was mainly due to payment of Listing expenses, recognition of a loss on the change of fair value of the foreign currency forward contracts and the decrease in revenue in 2014.

For each of the years ended 31 December 2013 and 2014, we recorded a low level of adjusted net profits of approximately HK\$5.3 million and HK\$5.7 million (net profit after the adjustment of fair value gain/loss attributable to changes in the foreign currency forward contracts), and a thin adjusted net profit margin of approximately 2.8% and 3.1% (after the adjustment of fair value gain/loss attributable to changes in the foreign currency forward contracts), respectively. The reasons for our thin net profit margin are primarily due to (i) the highly competitive landscape in the market prices of our products; (ii) our customers are very cost conscious and we are unable to fix a selling price with high profit margin; (iii) our production process is labour intensive and we would be affected by the general increasing trend of labour costs; and (iv) the general increase in our utilities and rental, etc.

To improve our net profit margin, one of our business strategies is to further automate our production process in order to (a) further enhance our production capacity and product quality; (b) mitigate the impact of the increasing labour costs in the PRC; and (c) develop and launch products with higher selling prices. With an aim to provide more initiatives and increase our production efficiency as a whole, around 2013, we have commenced to pay certain of our manufacturing staff based on the number of pieces made instead of on a fixed salary basis. We launched mid-level power switching mode power supply in 2014. We also develop and launch new products including (i) high power switching mode power supply of 500W and 1000W; (ii) amplifier board of 500W and 1000W; and (iii) digital signal processing board for use in musical equipment for broadcasting.

We recorded a loss for the eight months ended 31 August 2015 which was mainly attributable to the Listing expenses incurred. On the assumption that no Listing expenses were incurred, we would have recorded a profit of approximately HK\$6.1 million for the eight months ended 31 August 2015.

After adjusting for the income and expenses items of (i) commission income, (ii) professional fees, audit fees and setup cost in relation to Listing and deducting the unprovided amount of social insurance fund and housing provident fund contributions as if they had been paid during the Track Record Period, the adjusted net profit and adjusted net profit margin were approximately HK\$5.1 million and 2.7% respectively for 2013, and approximately HK\$3.7 million and 2.0% respectively for 2014. And, the total adjusted operating cash flow before changes in working capital for the two years ended 31 December 2014 was approximately HK\$20.2 million.

<i>HKD'000</i>	<b>2013</b>	<b>2014</b>	<i>HKD'000</i>	<b>2013</b>	<b>2014</b>
Net profit per Accountants' Report	8,065	5,026	Operating cash flows before movements in working capital per Accountants' Report	12,690	11,826
Adjustment Items:- <i>(note 1)</i>			Adjustment Items:- <i>(note 1)</i>		
Social insurance and housing provident fund <i>(note 2)</i>	(3,483)	(2,791)	Social insurance and housing provident fund <i>(note 2)</i>	(3,483)	(2,791)

## SUMMARY

<i>HKD'000</i>	<b>2013</b>	<b>2014</b>	<i>HKD'000</i>	<b>2013</b>	<b>2014</b>
Commission income (note 3)	(11)	—	Commission income (note 3)	(11)	—
Professional fee in relation to listing (note 4)	—	913	Professional fee in relation to listing (note 4)	—	913
Audit fees in relation to listing (note 4)	559	525	Audit fees in relation to listing (note 4)	559	525
Setup cost in relation to listing (note 4)	—	6	Setup cost in relation to listing (note 4)	—	6
Adjusted net profit	5,130	3,679	Adjusted operating cash flow	9,755	10,479

*Note 1:* The Directors believe that these items (excluding the unprovided amount of social insurance fund and housing provident fund) arose outside the Company's ordinary and usual course of businesses.

*Note 2:* The Company paid approximately HK\$1.1 million in 2013 and HK\$2.0 million in 2014 for social insurance fund and housing provident fund (please refer to item staff retirement benefit contributions in Note 12 of Appendix I of this prospectus) and the unprovided amount of social insurance fund and housing provident fund was not actually incurred but determined on a theoretical basis (for the purpose of analysis). Please refer to the paragraph headed "Non-compliance incidents" in the section headed "Business" on page 165 of this prospectus for details.

*Note 3:* The commission income, which refers to the commission received from a supplier for introducing a customer to the supplier, was another income which is non-recurring in nature.

*Note 4:* The professional fee, audit fees and setup cost were one-off expenses and were directly attributable to listing application.

The following table sets forth our summary consolidated statements of financial position:

	<b>As at 31 December</b>		<b>As at 31 August</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	10,946	9,331	8,007
Current assets	117,382	88,501	79,219
Current liabilities	84,797	49,975	41,431
Net current assets	32,585	38,526	37,788
Non-current liabilities	1,531	831	552
Total equity	42,000	47,026	45,243

The table sets below the selected consolidated statements of cash flows for the period indicated:

	<b>For the year ended 31 December</b>		<b>Eight months ended 31 August</b>	
	<b>2013</b>	<b>2014</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Net cash from (used in) operating activities	19,201	13,707	1,716	(1,331)
Net cash (used in) from investing activities	(16,120)	30,766	19,370	4,179
Net cash from (used in) financing activities	813	(44,922)	(23,856)	(5,032)

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## SUMMARY

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The net operating cash outflow for the eight months ended 31 August 2015 was mainly attributable to the increase in trade and other receivables and prepayments by HK\$6.6 million and the decrease in trade and other payables and accruals by HK\$5.6 million.

The increase in trade and other receivables and prepayments for the eight months ended 31 August 2015 was primarily due to (i) the increase in trade receivables by approximately HK\$3.4 million due to normal fluctuation of customers' payment leadtime; and (ii) the increase in prepayments by approximately HK\$3.2 million mainly because of the increase in prepayment for the Listing expenses. For further information on our trade and other receivables and prepayments, please refer to the paragraph headed "Trade and other receivables and prepayments" in the section headed "Financial Information" on page 238 in this prospectus.

The increase in trade and other payable and accruals as at 31 December 2014 was mainly due to (i) increase in purchase of raw materials near the 2014 year end to cope with the production plan up to Chinese New Year Holiday in February 2015; and (ii) the extension of the credit period in 2014 after negotiation with certain major suppliers because additional time was required to verify the accuracy of such payments in preparation for the audit for the Listing. The decrease in trade and other payables and accruals as at 31 August 2015 was primarily due to (i) decrease in trade payables from approximately HK\$23.5 million as at 31 December 2014 to approximately HK\$14.8 million as at 31 August 2015 (given the aforesaid extension of the credit period in 2014); and (ii) the increase in accrued expenses. For further information on our trade and other payables and accruals, please refer to the paragraph headed "Trade and other payables and accruals" in the section headed "Financial Information" on page 242 in this prospectus.

Below sets out our key financial ratios for the period indicated:

	Year ended 31 December		Eight months ended
	2013	2014	31 August 2015
Current ratio	1.4	1.8	1.9
Quick ratio	1.0	1.0	1.2
Gearing ratio	0.7	0.5	0.5
Debt to equity ratio	2.1	1.1	0.9
Interest Coverage ratio	3.9	3.4	0.9
Return on total assets	6.3%	5.1%	N/A
Return on equity ratio	19.2%	10.7%	N/A

Our Directors confirm that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including internally generated funds and the estimated net proceeds of the Placing, our Group has sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

### RECENT DEVELOPMENT SUBSEQUENT TO THE TRACK RECORD PERIOD

We confirmed that there have not been any material adverse changes in the financial or trading or prospects of our Group subsequent to the Track Record Period and up to the date of this prospectus.

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## SUMMARY

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Our revenue decreased slightly from approximately HK\$166.7 million for the eleven months ended 30 November 2014 to approximately HK\$160.9 million for the eleven months ended 30 November 2015. Such decrease was primarily due to our pricing policy of not merely to follow the general trend of the market prices to overall reducing the selling prices of its products for purpose of increasing its sales.

Despite the slight decrease in our revenue, we have generally performed better and our gross profit margin for the eleven months ended 30 November 2015 was improved from approximately 19.0% for the eleven months ended 30 November 2014 to approximately 20.4% for the eleven months ended 30 November 2015. In addition, our net profit, without taking into account the Listing expenses, for the eleven months ended 30 November 2015 has improved from that for the eleven months ended 30 November 2014.

The financial information disclosed above is derived from our Company's unaudited consolidated interim financial information for the eleven months ended 30 November 2015, which has been reviewed by our reporting accountant in accordance with the Hong Kong Accounting Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

## SUSTAINABILITY OF BUSINESS

During the Track Record Period, it is noted that our Company experienced a decline in sales of its major product of toroidal transformer, generated a low level of net profit and recorded a decline in average selling prices of some of its products. The following analysis demonstrates that the business operation of our Group was not unsatisfactory and its business is able to sustain for the coming years.

### *Decline in sales*

The decrease in the revenue of toroidal transformer in 2014 was due to the loss of three major customers and the losses of major customers to follow our former employees only happened for one time and we had not encountered recurrence similar incidents. Our revenue decreased from approximately HK\$121.9 million for the eight months ended 31 August 2014 to approximately HK\$117.7 million for the eight months ended 31 August 2015. Such decrease was primarily due to our pricing policy of not merely to follow the general trend of the market prices to overall reducing the selling prices of our products for purpose of increasing our sales. Nevertheless, the revenue of other product segments (i.e., switching mode power supply and other electronic parts and components) in 2014 remained relatively stable and/or recorded an increase compared to those in 2013. Besides, we have already taken some measures in promoting our sales revenue and preventing loss of customers through departing engineer(s). In particular, we have provided an incentive program for our sales officers to expand our customer base and will gradually launch new products (like reactor) to increase our sales amount.

We have also adopted the following new marketing strategies in 2015 to increase our sales:

- encourage our sales teams to conduct on-site visits to potential customers and proactively contact potential new customers by sending e-mails and making cold calls;

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## SUMMARY

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- exhibit its new products (high power switching mode power supply) in trade show in November 2015 in the United States; and
- re-visit enquires made by potential customers in the past and follow-up such enquiries.

As a result of the effort to increase our sales,

- we expect to have a stable flow of orders from our existing customers and receive purchase orders from customers for its new products;
- we have received indications from various existing and new customers to place orders (i.e. intentional orders);
- we have explored and developed close contacts with new and potential customers for our existing and new products;
- we have further solidified relationship with its existing customers; and
- we expect to maintain a stable revenue level for the coming months.

We consider that the sales revenue for the first eight months of 2015 was acceptable since we were not willing to cut the price of our different types of products in return for an increase in our sales volume. But, if the global market unexpectedly deteriorates, the product demand becomes sluggish and/or the price pressure becomes more apparent in the coming months, we may have to re-consider our business strategy to accommodate to the unexpected changes and take more vigorous measures so as to prevent from a further decline in our sales.

### ***Low profit and thin profit margin***

During the Track Record Period, we generated a low level of net profit. However, if the listing related expenses were added back and the effect of the change in fair value of financial derivatives was taken out, our net profit was actually increasing and its net profit margin was improving despite of a decline in sales.

We experienced a thin net profit margin during the Track Record Period. The reasons for the thin net profit margin are primarily due to (i) the highly competitive landscape in the market prices of our products; (ii) our customers are very cost conscious and we were unable to fix a selling price with high profit margin; (iii) our production process is labour intensive and we would be affected by the general increasing trend of labour costs; and (iv) the general increase in its utilities and rental.

Our production process is labour intensive. Around 2013, we commenced to pay certain of our manufacturing staff based on the number of pieces made instead of on a fixed salary basis. After about two years of adopting such reward structure, despite the general increase in labour cost and our contribution to social insurance and housing provident fund, we have successfully controlled the overall labour cost and maintained its gross profit margin. To enhance the production efficiency and reduce the impact on increasing labour cost, we will continue to enhance its production technology and upgrade its production facilities.



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## SUMMARY

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Leveraging on our past experience, we continue to develop and launch new products with higher profit margin than our existing products. We have commenced in 2013 to develop and launch mid-level power switching mode power supply, which generally has a higher selling price. The design of (i) high power switching mode power supply of 500W and 1000W; (ii) amplifier board of 500W and 1000W; and (iii) digital signal processing board for use in musical equipment for broadcasting were completed and we launched these products in the fourth quarter of 2015. We launched a new product, i.e. reactor, to the market in 2015. As at the Latest Practicable Date, sample reactors have been sent to customers and quotations on high power switching mode power supply of 500W and 1000W and amplifier board of 500W and 1000W have been made to some existing customers.

### *Decline in average selling price*

Since we offered a diversified range of products and the lowest and highest selling prices of our products fall within a wide range, the average selling prices of our products do not provide a meaningful presentation on the selling prices of our products. Please refer to the note in the paragraph headed “Pricing” in the section headed “Financial information” on page 217 of this prospectus.

In addition, as set out in the paragraph headed “Historical prices of major raw materials” in the section headed “Industry overview” on page 81 of this prospectus, the price of copper decreased from RMB51,511.6 per tonne at the first quarter of 2013 to RMB46,008.4 per tonne at the fourth quarter of 2013, which further decreased to RMB43,543.0 per tonne at the fourth quarter of 2014. And, the unit price of silicon steel decreased from RMB7,015 per tonne in the first quarter of 2013 to RMB6,325 per tonne in the fourth quarter of 2014. Our Directors consider that in light of the drop in price of major raw materials, some products are being offered to customers at a lower selling price than that of 2013, yet we would still capture a larger part of the drop in price of the major raw material. Nevertheless, our gross profit margin was similar to the industry average, in line with the overall sector performance in both 2013 and 2014.

### *Our business*

We have engaged in the design, development, production and sales of this product sector for more than a decade. We have developed into a player with an acceptable scale of operation in this product segment comparable to other market players. We have a good client base and our products are sold worldwide. Taking into account our long history, the current scale of operation and the worldwide customer base, our Directors believe that we can create more/new business to compensate for the recent loss of some customers in toroidal transformer area and its transformer business can be sustained for a long period.

### **LOSS ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2015**

Estimated consolidated loss attributable to the owners of the Company (note 1)	not more than HK\$0.8 million
Unaudited pro forma estimated loss per Share (note 2)	not more than HK\$0.4 cents

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## SUMMARY

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*Notes:*

- (1) The estimated consolidated loss attributable to owners of the Company for the year ended 31 December 2015, which has taken into account of the expected listing expenses to be incurred during the year ended 31 December 2015 of approximately HK\$8.2 million, is extracted from Appendix III to this prospectus. The bases on which the above estimated for the year ended 31 December 2015 has been prepared are summarised in Appendix III to this prospectus.
- (2) The calculation of the unaudited pro forma estimated loss per share is based on the estimated consolidated loss attributable to owners of our Company for year ended 31 December 2015 which has taken into account of the expected listing expenses to be incurred during the year ended 31 December 2015 of approximately HK\$8.2 million and on the assumptions that a total of 200,000,000 Shares were in issue during the year ended 31 December 2015 assuming that the Placing and the Capitalisation Issue had been completed on 1 January 2015 and does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the sub-section headed “General mandate to issue Shares” or the sub-section headed “General mandate to repurchase Shares” of the section headed “Share capital” on page 192 of this prospectus.

The estimate is presented on the bases consistent in all material respects with the accounting policies currently adopted by us as set out in the Accountant’s Report as set out in Appendix I to this prospectus.

### PLACING STATISTICS

We have prepared the following offer statistics on the basis of indicative Placing Prices without taking into account the 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee.

	<b>Based on Placing Price per Share of HK\$0.50</b>	<b>Based on Placing Price per Share of HK\$0.60</b>
Market capitalisation of our Shares ( <i>note 1</i> )	HK\$100 million	HK\$120 million
Unaudited pro forma adjusted net tangible asset value per Share ( <i>note 2</i> )	HK\$0.34	HK\$0.36

*Notes:*

- (1) The calculation of our market capitalisation upon completion of the Placing is based on the assumption that 200,000,000 Shares will be in issue and outstanding immediately following the completion of the Placing.
- (2) The unaudited pro forma adjusted net tangible asset value per Share is calculated after the adjustments referred to in the section headed “Unaudited Pro Forma Financial Information — Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets” set out in Appendix II from pages II-1 to II-2 in this prospectus and on the basis of a total of 200,000,000 Shares in issue immediately following the Placing.

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## SUMMARY

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### DIVIDEND AND DIVIDEND POLICY

During the Track Record Period, we declared nil dividends. The Company intends to distribute not less than 20% of the Group's net profit for a given year as dividends after Listing but subject to, among other things, our operation needs, earnings, financial condition and any other factors our Directors may consider relevant. Currently, in light of the non-recurring Listing expenses and increase in administrative expenses, we estimated a loss for the year ended 31 December 2015 and we did not declare dividend for the year ended 31 December 2015.

Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Any future declarations of dividends after the year ended 31 December 2015 may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. For additional details regarding dividends paid by us and the factors taken into account for declarations of dividends, please refer to the sub-section headed "Dividend and dividend policy" in the section headed "Financial Information" on page 262 of this prospectus.

### BUSINESS OBJECTIVES AND USE OF PROCEEDS

We estimate that the net proceeds from the Placing (after deduction of underwriting fees and estimated expenses payable by us in relation to the Placing, and assuming a Placing Price of HK\$0.55 per Placing Share, being the mid-point of the indicative Placing Price range of HK\$0.5 to HK\$0.6) are approximately HK\$16.0 million (to be received upon the Listing). Our Directors intend to apply the net proceeds from the Placing for the following purposes:

<b>Approximately amount of proceeds</b>	<b>Use of proceeds</b>
HK\$11.6 million (72%)	For the investment cost for the design and development of new product, namely high power switching mode power supply for audio equipment and reactors
HK\$1.4 million (9%)	For promotion of existing products and solidifying relationship with existing customer
HK\$1.4 million (9%)	For increasing the automation level of existing production facilities
HK\$1.6 million (10%)	As general working capital of our Group

Please refer to the section headed "Statement of business objectives and use of proceeds" from page 265 to page 271 of this prospectus for detailed information of the implementation plan of business objectives.

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## SUMMARY

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### RISK FACTORS

There are risks associated with our business and investment in the Placing. These risks include (i) risks relating to our business and the industry in which we operate; (ii) risks relating to conducting business in China; and (iii) risks relating to the Placing. Some of the particular risks are set out in the section headed “Risk factors” from page 31 in this prospectus. You should read that entire section carefully before you decide to invest in the Placing Shares.

### NON-COMPLIANCES

During the Track Record Period, we did not fully comply with the laws and regulations in respect of social insurance contributions and housing provident fund contributions in the PRC. Please refer to the sub-section headed “Non-compliance incidents” of the section headed “Business” from page 165 to page 170 of this prospectus.

### LISTING EXPENSES

All incremental costs that are directly attributable to the issue of new shares are recognised and directly deducted from equity while any expenses attributable to listing of existing Shares are charged to the profit and loss accounts in which the expenses are incurred. The total expenses for the Listing (including underwriting commission) are estimated to be approximately HK\$17.0 million (assuming a Placing price of HK\$0.55 per Placing Share, being the mid-point of the indicative Placing Price range of HK\$0.50 to HK\$0.60), of which approximately HK\$4.8 million is directly deductible to the issue of new Shares in the Placing and to be accounted for as a deduction from equity and approximately HK\$12.2 million is to be charged as administrative expenses to our profit and loss accounts in the period in which the expenses are incurred. The Listing expenses of approximately HK\$0.9 million were charged to our profit and loss account for the year ended 31 December 2014, and approximately HK\$11.3 million are expected to be charged to our profit and loss account after 31 December 2014, which would be reflected in our administrative expenses for the year ended 31 December 2015 (estimated to be around HK\$8.2 million) and for the year ending 31 December 2016 (forecasted to be around HK\$3.1 million). In light of the above Listing expenses and increase in administrative expenses, we estimated a loss for the year ended 31 December 2015. Please refer to the risk factor headed “Profit warning — the financial results of the Group for the year ended 31 December 2015 and for the year ending 31 December 2016 will be materially adversely affected by one-off listing expenses and expected increase in administrative expenses of the Group” on page 31 to this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.*

“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on 2 February 2016 to take effect on the Listing Date and as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Audit Committee”	the audit committee of our Board
“Board”	the board of Directors
“Bookrunner and Lead Manager”	Guotai Junan Securities (Hong Kong) Limited
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in the paragraph headed “Resolutions in writing of all our Shareholders passed on 2 February 2016” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant

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## DEFINITIONS

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“China” or “PRC”	the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Chinese Government” or “PRC Government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meeting or are in a position to control the composition of a majority of our Board, which as at the date of this prospectus consist of Cyber Goodie and Mr. Chung Chi Hang, Larry
“CSRC”	China Securities Regulatory Commission (中華人民共和國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Cyber Goodie”	Cyber Goodie Limited, a company incorporated in the BVI on 2 May 2000 and is wholly-owned by Mr. Chung Chi Hang, Larry, a Controlling Shareholder and our executive Director



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## DEFINITIONS

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“Deed of Non-competition”	a deed of non-competition dated 2 February 2016 given by each of the Controlling Shareholders in favour of our Company as set out in the sub-section headed “Non-competition undertakings” in the section headed “Relationship with our Controlling Shareholders” of this prospectus
“Director(s)”	the director(s) of our Company as at the date of this prospectus
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GFA”	gross floor area
“He Yuan Sky Wealth”	河源天裕電子塑膠有限公司 (He Yuan Sky Wealth Electronic and Plastic Company Limited), a wholly foreign-owned enterprise established in the PRC on 24 November 2010, which is our indirect wholly-owned subsidiary
“He Yuan T-Lab”	天工電子塑膠 (河源) 有限公司 (T-Lab Electronic and Plastic (He Yuan) Co. Ltd.), a limited liability company established in the PRC on 12 January 2005, which is ultimately owned by Mr. Chung Chi Hang, Larry as to 90% and Mr. Chung Tin Shing as to 10%
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards, which include the Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Hong Kong T-Lab”	T-Lab Industrial (Holdings) Ltd. 天工業控股有限公司, a company incorporated in Hong Kong on 15 August 1996, which is our indirect wholly-owned subsidiary
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any directors, chief executive or substantial shareholders of our Company, our subsidiaries or any of their respective associates
“Keen Ocean Electronics”	Keen Ocean Electronics Co., Ltd. (僑洋電子有限公司), a company incorporated in the BVI on 5 December 2014, which is our direct wholly-owned subsidiary
“Keen Ocean Industrial”	Keen Ocean Industrial Limited (僑洋實業有限公司), a company incorporated in Hong Kong on 17 May 2000, which is our indirect wholly-owned subsidiary
“Latest Practicable Date”	7 February 2016, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date expected to be on or about Wednesday, 24 February 2016, on which the Shares are listed and from which dealings therein are permitted to take place on GEM
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, as supplemented, amended or otherwise modified from time to time
“Ministry of Finance” or “MOF”	the PRC Ministry of Finance (中華人民共和國財政部)
“MOFCOM”	the PRC Ministry of Commerce (中華人民共和國商務部)
“NDRC”	the National Development and Reform Commission of the PRC* (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of our Board
“NPC” or “National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會) and its Standing Committee
“Placing”	the conditional placing of the Placing Shares at the Placing Price with institutional professional and private investors, details of which are described in the section headed “Structure and conditions of the Placing” in this prospectus

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## DEFINITIONS

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“Placing Price”	the final price per Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) of no more than HK\$0.60 at which the Placing Shares are to be subscribed for and issued pursuant to the Placing, to be determined as further described in the section headed “Structure and conditions of the Placing” in this prospectus
“Placing Shares”	60,000,000 new Shares being offered by our Company pursuant to the Placing, subject to terms and conditions as described in the section headed “Structure and conditions of the Placing” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Legal Advisers”	Zhong Lun Law Firm, our legal advisers as to the laws of the PRC
“Price Determination Date”	the date, expected to be on or around Thursday, 18 February 2016, and in any event, not later than Monday, 22 February 2016, on which the Placing Price is to be fixed by agreement between our Company and the Bookrunner and Lead Manager (for itself and on behalf of the Underwriter) for the purposes of the Placing
“Properties”	the industry complex with site area of 29,607.70 square metres and a gross floor area of 24,821.51 square metres situated on the east of Xingong Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City, Guangdong Province, the PRC, details of which are set out as property no.2 in the property valuation report as set out in Appendix IV of this prospectus
“Remuneration Committee”	the remuneration committee of our Board
“Reorganisation”	the reorganisation arrangements we have undergone in preparation for the listing of Shares on the Stock Exchange which are more particularly described in the section headed “Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to our Directors by the Shareholders, particulars of which are set out in the paragraph headed “Repurchase of Shares by our Company” in Appendix VI to this prospectus
“Risk Management Committee”	the risk management committee of our Board
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC

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## DEFINITIONS

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“SAFE”	PRC State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches where applicable
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“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
“Share Option Scheme”	the share option scheme our Company conditionally adopted on 2 February 2016, the principal terms of which are summarized in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus
“Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of Share(s)
“Sponsor”	LY Capital Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Track Record Period”	the period comprising the two financial years ended 31 December 2014 and the eight months ended 31 August 2015
“Underwriter”	the Underwriter to the Placing whose name is set out in the sub-section headed “Underwriter” in the section headed “Underwriting” of this prospectus

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## DEFINITIONS

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“Underwriting Agreement”	the underwriting agreement dated 16 February 2016 made between our Company, our executive Directors, our Controlling Shareholders, the Sponsor, the Bookrunner and Lead Manager and the Underwriter relating to the Placing, brief particulars of which are summarised in the section headed “Underwriting” in this prospectus
“United States” or “U.S.”	the United States of America
“United States or Canadian Person”	any national or resident of the United States or Canada, or any corporation, pension, profit-sharing or other trust or other entity organized under the laws of the United States or Canada or of any political subdivision thereof (other than a branch located outside the United States and Canada of any United States or Canadian Person), and shall include any United States or Canadian branch of a person who is otherwise not a United States or Canadian Person
“U.S. dollars” or “US\$” or “USD”	United States dollars, the lawful currency of the United States
“we,” “us,” “our,” “our Company,” and “our Group”	Keen Ocean International Holding Limited (僑洋國際控股有限公司), incorporated as an exempted company with limited liability in the Cayman Islands on 19 December 2014 and, unless the context otherwise requires, all of its subsidiaries, or where the context refers to any time prior to its incorporation, the business in which the predecessors of its present subsidiaries were engaged and which were subsequently assumed by such subsidiaries pursuant to the Reorganisation
“Yubozhiye”	Beijing Yubozhiye Market Consulting Co., Ltd. (北京宇博智業市場諮詢有限公司), an Independent Third Party, a PRC based professional market research and consulting firm
“Yubozhiye Report”	the Report on the Market and Business Models of the PRC Electronic Components Industry dated 12 February 2016 compiled by Yubozhiye
“%”	per cent

*Unless expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date.*

*Certain amounts and percentage figures included in this prospectus 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.*

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## DEFINITIONS

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*In this prospectus, unless otherwise stated, certain amounts denominated in U.S. dollars or Renminbi have been translated into Hong Kong dollars at the then prevailing exchange rates. The exchange rates used in this prospectus is for illustration purposes only. Such conversions shall not be construed as representations that amounts in U.S. dollars or Renminbi were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.*

*The English names of PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are for identification purposes only.*



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## GLOSSARY

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*This glossary contains an explanation of certain technical terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.*

“Amplifier”	an amplifier is a device that increases an applied signal. An amplifier takes a low input and provides a greater output signal
“Alternating current (AC)”	current that periodically reverses direction
“Battery charger”	a battery charger recharges wet, ni-cad, and renewable batteries from the power line. The circuit may consist of a step-down transformer, rectifier, and filter capacitor
“Choke”	a choke coil provides high impedance to alternating current (ac) while passing direct current with practically no opposition
“Circuit” or “Electrical circuit”	a combination of elements or components that are connected to provide paths for current flow to perform some useful function
“Digital signal processing (DSP)”	the manipulation and modification of signals in the digital domain (after having undergone analog-to-digital conversion). A great many electronic music instruments use DSP, as do certain test equipment types such as the FFT Analyzer. DSP devices have a microprocessor inside them to do most of the work
“Direct current (DC)”	direct current (dc) flows in one direction through the circuit
“EI transformer”	transformers are devices that transfer energy from one circuit to another by electromagnetic induction. The iron core is usually constructed of thin sheets of metal for lower loss and thus higher efficiency
“Ferrite transformer”	ferrites that are powdered and compressed materials with high permeabilities but high electrical resistance that minimizes $I^2R$ or eddy current losses when used in high frequency application
“Flux leakage loss”	flux leakage is a transformer loss that is caused when some of the flux that is created by current flow through the transformer windings does not cut across the transformer core or windings. The amount of flux leakage depends on transformer core and coil design and is relatively constant
“Load”	the amount of current or power drain required from the source by a component, device, or circuit

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## GLOSSARY

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“No-Load Loss”	power loss of a device that is operated at rated voltage and frequency but is not supplying power to a load
“ODM”	in the case of ODM (Original Design Manufacturing), the suppliers design and manufacture a product which is specified by the buyers and eventually sold under the brand name of the buyers or under no specific brand
“OEM”	in the case of OEM (Original Equipment Manufacturing), the suppliers only focus on the manufacturing work, while the buyers are responsible for the product design and specification
“Power supply”	the power supply provides a voltage source to the electronic product. A power supply might consist of a halfwave, fullwave, or bridge rectifier circuit receiving voltage from a power transformer or power line
“Printed circuit board (PCB)”	a printed circuit board is used for both the electronic circuits interconnecting medium and mechanical mounting substrate
“Switching mode power supply”	the switching mode power supply operates at a much higher frequency, typically 30-300kHz. This greatly reduces the power supply weight and volume. Linear power supplies are rarely more than efficient unless they can be matched to a narrow input voltage range, whereas switch mode power supplies can easily exceed 70% and with careful design can reach 90%
“Toroidal transformer”	the toroidal coil form resembles a doughnut and is made of soft iron, ferromagnetic, or other low-reluctance, high-permeability material. The key feature is this coil effectively confines the line of flux within itself; therefore, it is a very efficient carrier of flux lines
“Transformer”	devices that transfer energy from one circuit to another by electromagnetic induction
“Volt-Ampere(VA)”	the product of voltage times the current. In a resistive circuit, the VA will be equal to the wattage, for a watt is 1 volt x 1 ampere. In an inductive circuit, or device such as an electric motor, however, the current will not be precisely in phase with the voltage, and the average current times the average voltage will be greater than the actual power absorbed by the device.
“Watt (W)”	the basic unit of electrical power. The basic formula for electrical power is $P$ (in Watts) equals $V$ (in volts) times $I$ (in amperes)

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “expect”, “believe”, “plan”, “intend”, “project”, “anticipate”, “seek”, “may”, “will”, “would” and “could” or similar words or statements, in particular, in the sections headed “Business” 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 numerous 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 but not limited to the risk factors described in this prospectus, and the following:

- our business and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, business objectives and goals;
- general economic conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain statements in the section headed “Financial Information” in this prospectus with respect to trend in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

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## **FORWARD-LOOKING STATEMENTS**

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We caution you that, subject to the requirements of applicable laws, rules and regulations, 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.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

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## RISK FACTORS

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*Potential investors of the Placing Shares should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with an investment in our Company before making any investment decisions in relation to our Company. If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected, the market price of the Placing Shares could fall significantly and you may lose all or part of your investment.*

*This prospectus contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions which involve risks and uncertainties. Factors that could cause or contribute to such differences are set out below as well as in other parts in this prospectus.*

### RISKS RELATING TO OUR BUSINESS AND THE INDUSTRY IN WHICH WE OPERATE

**PROFIT WARNING — The financial results of our Group for the year ended 31 December 2015 and for the year ending 31 December 2016 will be materially adversely affected by one-off Listing expenses and expected increase in administrative expenses of the Group**

The financial results of our Group will be affected by the one-off expenses relating to the Listing, the possible increase in administrative expenses after the Listing (including increase in Directors' remuneration and other administrative expenses) and the exceptionally high research and development expenses when our Company applies the Listing proceeds.

The "research and development" expenses mainly relate to the expenses in the research and development of new products including reactor, high power switching mode power supply, amplifier board and digital signal processing board for use in musical equipment for broadcasting. The "others" administrative expenses include environmental expense, certification and testing charges, postage and courier, insurance, printing, copier and stationery, business registration fees, etc..

The research and development expenses which are expected to increase are principally due to additional expenses in the research and development and testing expenses in relation to the product development process of the existing and new products when our Company applies the Listing proceeds. In addition, other administrative expenses are also expected to increase. In particular, general printing expenses due to the preparation of due diligence and other documents in relation to the Listing application and will be expected to increase after our Company becomes a listed company.

The estimated expenses in relation to the Listing (including underwriting commission) are approximately HK\$17.0 million (assuming a Placing Price of HK\$0.55 per Placing Share, being the mid-point of the indicative Placing Price range), of which approximately HK\$4.8 million is directly attributable to the issue of the Placing Shares which is to be accounted for as a deduction from equity and approximately HK\$12.2 million is to be charged to profit and loss in the period in which the expenses are incurred. The Listing expenses of approximately HK\$8.2 million and HK\$3.1 million are expected to be reflected in our administrative expenses for the year ended 31 December 2015 and for the year ending 31 December 2016.

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## RISK FACTORS

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Accordingly, the Shareholders and potential investors should be informed that the financial results of the Group for the financial year ended 31 December 2015 and for the financial year ending 31 December 2016 will be materially adversely affected by the non-recurring expenses in relation to the Listing and expected increases in administrative expenses (including the exceptionally high research and development expenses when our Company applies the Listing proceeds), and investors are specifically warned that given the expected increase in listing expenses and administrative expenses after the Listing, our Group's financial performance for the year ended 31 December 2015 will significantly decline as compared with the prior corresponding period and may be in a loss position after including the listing expenses, and our Company may issue a profit warning shortly after the Listing in light of such decline in net profit.

**We have relatively thin net profit margin and is highly sensitive to any unfavourable change in our cost of sales, selling price and sales volume**

Our Group has relatively thin net profit margins. For each of the years ended 31 December 2013 and 2014, our net profit margin was of approximately 4.2% and 2.8% and 2.8% and 3.1% (after the adjustment of fair value gain/loss attributable to changes in the foreign currency forward contracts), respectively. For the eight months ended 31 August 2014, our net profit margin was of approximately 3.3% and for the eight months ended 31 August 2015, we recorded a net loss. The selling prices of our products are affected by a variety of factors and vary with the types of products, series and specifications and technology level requirement. Our pricing strategy and policy may not be effective in maintaining our financial performance including our profit margin and profitability or we may fail to adjust our pricing policy to ensure we are responsive timely to market price changes and customers' responses. We may also be subject to fluctuation in the prices of the major raw materials used in our production and we may continue to experience an increase in labour costs. Any unfavourable changes of the above and the market conditions could have a material adverse effect on our sales, operation, financial condition, profitability or cash flows and we will suffer a net loss.

**We may not be successful in maintaining our current market position or implementing our market expansion plan and such failure may affect our business and financial performance**

Our expansion may be hindered by risks including but not limited to cultural differences, instability or changes in the political, regulatory or economic environment, lack of understanding of the local business environment, financial and management system or legal system, differences in legal burdens in complying with local laws and regulations, differences in the licensing regime, the tendering regime, payment practices, stringent product liability and warranty requirements, potentially adverse tax consequences, competition within the local market and volatility in currency exchange rates.

Implementing our expansion plan has resulted in, and will continue to result in, substantial demands on our resources. Managing our expansion will require, among other things:

- continued enhancement of our design and development capabilities;
- successful hiring and training of personnel;
- increased marketing and service activities;

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## RISK FACTORS

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- management of our sales network;
- sufficient cash liquidity;
- effective and efficient financial and management control; and
- effective cost and quality control.

There is no assurance that we will be able to successfully maintain or expand our market coverage or grow our business after deploying our management and financial resources, particularly in the overseas markets. Any failure in maintaining our current market position or implementing our market expansion plan could materially and adversely affect our business, financial condition and operating results.

**Our new products under development may not achieve a wide market acceptance or receive a positive market response**

During the Track Record Period, we have invested and placed effort in the research and development of new products, such as reactor and high power switching mode power supply. We cannot assure you that new products will be launched to the market according to our anticipated time frame or budget, or that our new products will achieve a wide market acceptance or receive a positive market response. There is no guarantee that these new products will be accepted by our customers and achieve anticipated sales target or profit margin.

In addition, we cannot assure you that our competitors will not develop similar products as our new products. If the products under development cannot be successfully commercialised or fail to attract sufficient customers' demand and market response to generate sufficient revenue to cover the research and development costs and resources invested this could adversely affect our market share, profitability and financial conditions.

**We face increasing competition in the power supply industry and failure to compete efficiently could materially and adversely affect our business**

We operate in a competitive industry in which our competitors include a number of international and China-based companies that provide products and services similar to ours. Some of our China-based and international competitors may have greater access to capital, longer operating histories, longer or more established relationships with their customers, and greater marketing and other resources than we do. Additional competitors with significant market presence and financial resources may enter those markets and thereby intensify the competition. The entry of these competitors may reduce our market share by adopting more aggressive pricing policies than we can or by developing technology and services that gain wider market acceptance than our products do. Existing and potential competitors may also develop relationships with our customers in a manner that could significantly harm our ability to sell and market. If we fail to maintain or improve our market position or fail to respond successfully to changes in the competitive landscape, our business, profit margins, financial condition and operating results may be materially and adversely affected.



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## RISK FACTORS

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### **We may experience shortage of labour, high turnover-rate of our manufacturing staff and our labour costs may continue to increase which may affect our operations and financial condition**

Certain of our production processes are to be carried out manually. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our employee benefit expenses (excluding Directors' emoluments) amounted to approximately HK\$42.0 million, HK\$44.9 million and HK\$23.0 million, respectively. Labour costs have generally increased in the PRC in the recent years. In addition, due to the competitive labour market, we have experienced a relatively high turnover rate of our manufacturing staff, in particular, during their probation period. We cannot assure you that we will not experience any shortage of labour for our production needs or that the costs of labour in the PRC will not continue to increase in the future. If we experience a shortage of labour or we are unable to recruit labour with appropriate experience in time, we may not be able to maintain our production volume. If labour costs continue to increase in the PRC, our production costs will increase and we may not be able to pass these increases to our customers due to competitive pricing pressures. Accordingly, if we experience a shortage of labour or our labour costs continue to increase, our business prospects, financial condition and results of operations may be adversely affected.

### **Increases in the prices of the principal raw materials may have a negative effect on our business**

Significant changes in the markets in which we purchase principal materials, parts, components and other supplies for the production of our products may adversely affect our profitability, particularly in the event of significant increases in demand where there is not a corresponding increase in supply, inflation or other pricing increases. Our raw material cost represents a substantial portion of our total cost of sales. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the total material cost included in total cost of manufacturing accounted for approximately 70.0%, 68.7% and 62.5% of our cost of sale, respectively, out of which purchase cost of copper, DC motors, semi-conductors, cable, plastic components, PCB, metal components and silicon steel together accounted for approximately 85.6%, 82.7% and 75.0% of our total purchase of raw materials for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, respectively.

The prices of our principal materials and parts and components generally follow the price trends of, and vary with, market conditions. Supplies of these principal materials and parts and components may also be subject to a variety of factors that are beyond our control, including but not limited to suppliers' business interruptions, government control and overall economic conditions, all of which may have an impact on their respective market prices from time to time.

Notwithstanding that the general price of those aforesaid major components being acquired gradually fall during the Track Record Period, we will make our efforts to pass on any cost increase in principal materials, parts and components and supply to our customers. However, we may not be always be able to pass on the cost increase to our customers. Even when we are able to pass price increases on to our customers, in some cases there is a delay before we are able to do so effectively because it takes time as new prices can only be adjusted when new orders are placed. Our failure to pass on or a delay in passing on price increases to our customers could adversely affect our operating

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margins and cash flow, resulting in lower operating income and profitability. We cannot assure you that fluctuations in our supply prices will not have a material adverse effect on our business, results of operations and financial condition, or cause significant fluctuations in our results of operations from period to period.

**We derive a significant portion of revenue from our five largest customers and any loss of our major customers would have a material adverse effect on our operating results and financial conditions**

Our ability to maintain close and mutually beneficial relationship with our customers is important to our ongoing growth and profitability. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, sales to our five largest customers in aggregate accounted for approximately 52.2%, 51.8% and 51.1% of our revenue, and sales to our largest customer, accounted for approximately 17.4%, 15.9% and 16.5% of our revenue, respectively. We have not entered into any long term sales contracts with any of our customers and instead the terms of each transaction are negotiated on a deal by deal basis. For the year of 31 December 2014, we did not receive recurring purchase orders from three of our major customers, who principally purchased our toroidal transformers in 2013, due to the following reasons: (i) one of our engineers left our Group in 2013 and he solicited away two of these customers by offering more competitive prices; and (ii) to the best knowledge of our Directors, the toroidal transformer business of one of these customers did not perform well and such customer did not place purchase orders with our Group in 2014, 2015 and up to the Latest Practicable Date. Our Directors confirm that the non-recurrence of purchase orders from these three customers were not due to any disputes or their dissatisfaction with our products. We do not expect any further loss of customers or sales to the departed engineer as such former employee was mainly responsible for serving the two lost customers during the course of his employment with our Group nor are we aware that any of our customers will leave our Group to follow such former employee. The revenue derived from our sales to the two lost customers in 2013 was approximately HK\$10.9 million, representing approximately 5.8% of our total revenue for the year ended 31 December 2013. The gross profit derived from our sales to the two lost customers was approximately HK\$2.2 million, representing approximately 6.2% of our total gross profit for the year ended 31 December 2013. If we are unable to maintain our business relationships with any of our major customers or, if any of them encounter difficulties in their operations and reduce or cease their business relationships with us, our business, financial condition, results of operations and prospects could be materially and adversely affected.

**We depend heavily upon sales of our transformers, especially the toroidal transformer, and a decline in the growth of demand of these products would have a material adverse effect on our operating results and growth prospects**

We depend heavily upon sales of transformers, especially the toroidal transformer. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, we generated approximately 59.7%, 48.9% and 43.7% of our revenue from sales of transformers, respectively, and approximately 54.5%, 43.5% and 39.0% of our revenue from sales of toroidal transformer, respectively. We expect to continue to depend upon sales of transformers to generate the majority of our revenue in the foreseeable future. Because we are dependent on a single line of products, factors such as changes in consumer preferences may have a disproportionately greater

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impact on us than if we derive significant revenue from multiple lines of products. There can be no assurance that any of our transformers will hold long-term consumer appeal. If consumer interest in transformers, especially the toroidal transformers, declines, we may experience a significant loss of sales, cancellation of orders from customers, loss of customers, excess inventories, inventory markdowns and deterioration of our brand image, and lower revenues and gross and operating margins as a result of price reductions and may be forced to liquidate excess inventories at a discount, any or all of which would have a material adverse impact on our operating results and growth prospects.

**We may not be able to meet regulatory requirements imposed by the Chinese Government or our export destinations**

We export certain amount of our products from Hong Kong and China to our PRC and foreign customers. Certain countries to which we export our products may impose technical, safety, environmental or other requirements on the export, distribution and sales of our products, which may be different from or more stringent than the standards imposed by the PRC Government. In addition to requirements imposed by the PRC Government, other countries (like US and some European countries) may also require us to obtain various approvals, certificates, registrations or other documentation to conduct our export sales.

Although during the Track Record Period and up to the Latest Practicable Date, we had in all material respects complied with all laws and regulations applicable to us and relevant to our export sales in the PRC and in the destination countries to which we export our products by completing all necessary procedures to obtain all relevant safety approvals, certificates, registrations or any other legally required documentation from the relevant government authorities in the PRC and in the destination countries (like US and some European countries) with respect to the relevant exported products, we depend on our customers to complete our export sales, and they are responsible for complying with other aspects of the relevant PRC and foreign laws and regulations. As such, we cannot assure you that all of our customers are in compliance with all other aspects of PRC or foreign laws and regulations relevant to our export sales, or that they can meet the relevant standards or obtain the approvals, certificates, registrations or other documentation necessary to our export sales. If we or other entities with which we collaborate with to export our products fail to satisfy the relevant standards adopted by the PRC or the destination countries (like US and some European countries) or obtain the requisite approvals, certificates, registrations or other documentation now or in the future, our ability to export to these markets could be materially and adversely affected. We may also face regulatory actions or claims for significant damages, and there may be a material adverse effect on our business, results of operations and financial position.

**We face risks associated with the marketing, distribution and sale of our products internationally, and if we are unable to effectively manage these risks, our ability to conduct or expand our business could become impaired**

We face risks associated with the marketing, distribution and sale of our products internationally, and if we are unable to effectively manage these risks, our ability to conduct or expand our business abroad could become impaired. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, 88.2%, 87.9% and 87.9% of our revenue, respectively, was generated

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from non-PRC sales (including indirect export sales from the PRC). The marketing, distribution and sale of our products overseas exposes us to a number of risks, including:

- a downturn in the overall economy in the U.S., Europe and/or any other overseas markets;
- fluctuations in currency exchange rates of foreign currencies (particularly U.S. dollars and HK dollars against Renminbi);
- trade barriers, such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make our products less competitive in some countries;
- increased costs associated with maintaining marketing and sales activities in various countries;
- difficulty and costs relating to compliance with different commercial and legal requirements in the jurisdictions in which our products are offered;
- regulatory obstacles, including anti-dumping investigations or allegations that our products do not meet certain regulatory requirements; and
- inability to obtain, maintain or enforce intellectual property rights in multiple jurisdictions.

If we are unable to effectively manage these risks, our ability to conduct or expand our business abroad would be impaired, which may in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

### **We are exposed to foreign exchange rate fluctuations**

We conduct all of our operations in Hong Kong and the PRC and our functional currency is US\$. The sales of our Group are mainly denominated in US\$. However, our Group has certain foreign currency sales and purchases transactions denominated in Renminbi, Hong Kong dollars, Euro dollars and British Pound. Some of our raw materials and parts and components are sourced from the overseas and settled in US\$. As our production base is in the PRC, the lease payment and the related staff costs are paid in Renminbi. Therefore, we may be subject to risks associated with foreign exchange rate fluctuations particularly the U.S. dollars against the Renminbi.

The value of Renminbi is subject to changes in PRC governmental policies and to international economic and political developments. There can be no assurance that the exchange rate of Renminbi will remain stable against the U.S. dollar (or other foreign currencies) in the market. While the international reaction of Renminbi revaluation has been generally positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against U.S. dollar (or other foreign currencies). Further appreciation of Renminbi against these currencies may lead to an increase in our PRC costs.

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During the Track Record Period, we have entered into foreign currency forward contracts to minimise the said foreign currency risk. However, the foreign currency risk was not fully minimized and our net profit will be subject to the fair value gain/loss attributable to changes in the foreign currency forward contracts. Foreign exchange rate fluctuations in the currencies mentioned above may result in foreign exchange losses and hence may have a material adverse effect on our business, financial condition and results of operations.

### **We may face credit risks**

We have entered into factoring loan facilities with banks in Hong Kong to mitigate the risk of collection from customers as well as to maintain a cash inflow at a desired level of our business operation.

During the Track Record Period, we had engaged three commercial banks in Hong Kong. The balance of our factoring loans amounted to approximately HK\$14.6 million, HK\$9.6 million and HK\$8.8 million as at 31 December 2013 and 2014 and 31 August 2015, representing approximately 80.2%, 57.7% and 43.8%, respectively, of our corresponding discounted trade receivables as at 31 December 2013 and 2014 and 31 August 2015. For details of the factoring arrangements, please refer to the sub-section headed “Factoring arrangement” in the section headed “Business” of this prospectus.

A majority of our customers settled the amount payable to us by cash and bank transfers and we generally offer an average credit period of 15 to 90 days to them. There is also no assurance that our customers will pay to us on time or at all or whether any of them will fall into financial difficulties thereby affecting their ability to pay to us. Given that our bank balances and cash was at a thin level (or approximately HK\$6.7 million as at 31 December 2014) as compared to our trade receivables (being approximately HK\$27.3 million or 4 times of our bank balances and cash as at 31 December 2014), if any of our customers or factoring banks that we assign our debts to should fail to pay to us on time or at all, our financial condition will be materially adversely affected which will in turn affect our business operation.

### **Our success depends on our ability to retain our senior management and key personnel**

Our future success is dependent on the ongoing efforts of our senior management and key personnel. We rely on our management team comprising our executive Directors and senior management as set out in the section headed “Directors and senior management” of this prospectus, for their extensive knowledge of and experience in the transformers, electronic parts and components industry, business environment and regulatory regime. The loss of any of these key personnel could adversely affect our ability to sustain and grow our business.

We cannot assure you that we will be able to hire additional qualified employees to strengthen our management team or integrate new employment into our existing operations in order to keep pace with the proposed growth of our business. Furthermore, competitors may also seek to hire away our

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personnel. Competition for experienced individuals is fierce in the PRC, and we may not be able to attract or retain suitably qualified personnel. Our failure to attract and retain additional qualified personnel may hinder our ability to grow our business, which could materially and adversely affect our business, financial condition and operating results.

**We may be exposed to claims in respect of product quality and safety standard made by the end-consumers of our products and infringement of third party intellectual property rights**

We had not taken out any insurance to cover product liabilities. We face an inherent risk of exposure to product liability claims in the event that the use of our products results in safety issues or damages. The end-consumers of our products in the PRC and other countries may have the right to bring an action under tort and we may also be subject to tortious liabilities for any damages caused by defects of our products. According to the Tort 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 NPC on 26 December 2009 and became effective since 1 July 2010, manufacturers shall assume tort liability where the defects in relevant products cause damage to others. Sellers shall assume tort liability where the defects in relevant products causing damage to others are attributable to the sellers. The aggrieved party may claim for compensation from the manufacturer or the seller of the relevant product in which the defects have caused damage.

According to the terms of sales with our customers, there is no restriction on the overseas sales of our customers in relation to our products. As such, our trading entity customers may further sell our products overseas provided that they have the right to export and their compliance with the relevant PRC export laws and regulation, and we, as the manufacturer of the products, may be liable for infringement of third party intellectual property rights for those onward sales made by our trading entity customers.

Although as of the Latest Practicable Date, there had not been any product liability claim against us, there is no assurance that we would not be named as a defendant in a lawsuit or proceedings brought by end consumers in respect of our products. A successful claim against us in respect of our products or a material recall of our products may result in (i) legal costs incurred in connection with such claim or other adverse allegations or rectifying such defects; (ii) deterioration of our brand and corporate image; and (iii) material adverse effect our sales, operating results and financial condition.

**Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation expenses or licensing expenses or be prevented from selling certain of our products if these claims are successful**

We cannot rule out the possibility of third parties claiming that we are infringing or contributing to the infringement of their intellectual property rights. We may be required to obtain licenses for such patents and if we need to license any such patents, we could be required to pay royalties on certain of our products. There can be no assurances that if we are required to obtain patent licenses to develop and sell our products, we will be able to obtain such patent licenses on commercially reasonable terms or at all. Our inability to obtain these patent licenses on commercially reasonable terms or at all could have a material adverse impact on our business, operating results, financial condition or prospects.

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Any litigation regarding patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. In addition, any intellectual property litigation involves significant risks. If there is a successful claim of intellectual property infringement against us, we might be required to pay substantial damages to the party claiming infringement, refrain from further sale of our products, develop non-infringing technology or enter into costly license agreements on an on-going basis. However, we may not be able to obtain royalty or license agreements on terms acceptable to us or at all. Any intellectual property litigation or successful claim could have a material adverse effect on our business, operating results or financial condition.

**We may fail to adequately protect our proprietary technology, product designs and technical know-how**

Our principal intellectual property rights cover our proprietary technology, product designs and technical know-how and we have patents and trademarks. We are susceptible to infringement by third parties of our intellectual property rights and there is no assurance that third parties will not copy or otherwise obtain and use our intellectual property without authorization.

We have obtained patents for certain aspects of our proprietary technology and registered aspects of our trademarks. However, it is not possible for us to comply with, and seek every clearance under, the relevant laws of all possible jurisdictions for the protection and enforceability of our intellectual property rights and there is no assurance that such registrations can completely protect us against any infringement or keep us away from any challenge by our competitors or other third parties. When necessary, we may have to expend a significant amount of financial resources to assert, safeguard and/or maintain our intellectual property rights. In the event that our intellectual property rights cannot be enforced as against an infringement by our competitors or other third parties, our business, financial condition and results of operations could be adversely affected.

**Any failure to maintain an effective quality control system and any breakdown at our production facilities could have a material and adverse effect on our business, financial condition and operating results**

We focus on the consistency of the quality of our products and accessories as the product quality is essential to the success of our business. The quality of our products is dependent on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control training program, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in the production of defective or substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to replace defective or substandard products, which could have a material and adverse impact on our business, financial condition and operating results.

Furthermore, smooth and consistent daily operations of our production facilities are highly crucial to our business. Regular repair and maintenance programs of our production facilities are generally done on a monthly basis and are scheduled to rotate among different equipment to avoid complete shutdown of our operation. During the Track Record Period, there had been no material



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breakdown at our production facilities. Although we have implemented regular repair and maintenance programs, we cannot assure you that we will discover all the faults and defects whenever they exist or occur so as to execute repair works or take appropriate measures before any harm be caused to our plant, staff or production. Furthermore, we cannot assure you that there will be no sudden malfunction or stoppage of our production facilities during our daily operations and if any breakdown or malfunctions of machinery happened, our business, financial condition and operating results could be adversely impacted.

### **Our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties**

During the Track Record Period, He Yuan Sky Wealth did not make contribution to the social insurance fund for all of its employees. Our PRC Legal Advisers advised that He Yuan Sky Wealth was not in compliance with the Provisional Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which came into force on 1 July 2011. Please refer to the section headed “Business — Non-compliance incidents” in this prospectus for further details.

During the Track Record Period, He Yuan Sky Wealth had not made housing provident fund contributions for all of their employees. As advised by our PRC Legal Advisers, He Yuan Sky Wealth has been considered in breach of the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》). Please refer to the section headed “Business — Non-compliance incidents” in this prospectus for further details.

In the event that the relevant authority later strengthens the enforcement of the relevant laws and regulations on social insurance and housing provident fund in respect of the enterprises within its jurisdiction and accordingly considers it necessary to make retrospective contribution to social insurance fund and housing provident fund contributions, or if provisions are required to be made, the amount of which may be significant, our Group’s business, financial condition and results of operation may be materially and adversely affected. We cannot assure that employees of He Yuan Sky Wealth, who have consented not to make contribution to the social insurance fund and/or the housing provident fund, may within the statutory limitation period lodge complaints with the relevant authorities against He Yuan Sky Wealth in respect of our failure to make contribution to the social insurance fund and/or the housing provident fund, or initiate a claim against or disputes with He Yuan Sky Wealth.

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

During the Track Record Period, we produced our products through He Yuan Sky Wealth. When Keen Ocean Industrial received a purchase order, it would place a corresponding purchase order to He Yuan Sky Wealth for production. Finished goods were sold by He Yuan Sky Wealth to Keen Ocean Industrial on a cost-plus basis. During the Track Record Period, He Yuan Sky Wealth had not received a demand or challenge by any PRC authorities for additional tax payment.

There is no assurance that the tax authorities would not subsequently challenge the appropriateness of our Group’s transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. If a competent tax

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authority later finds that the transfer prices and the terms that our Group has applied are not appropriate, such authority may require our Company or its subsidiary to re-assess the transfer prices and re-allocate the income or adjust the taxable income. Any such reallocation or adjustment could result in a higher overall tax liability for our Group and may adversely affect the business, financial condition and results of operation of our Group.

**We are subject to stringent environmental and workplace safety laws and regulations and we may incur substantial costs in complying with such laws and regulations and may be subject to potential liability**

We are subject to various national and local PRC environmental laws and regulations which impose standards on the emission and treatment of pollutants created during our production process, and are required to obtain environmental protection assessment approval and acceptance from the relevant PRC Government authorities for the operation of production facilities periodically.

As China is experiencing substantial issues with environmental pollution, environmental laws and regulations may become more stringent over time. As a result, we may need to incur more costs and devote more resources to comply with these laws and regulations. Furthermore, future changes in the scope, application and interpretation of these laws, regulations and approvals may limit or restrict the production capacity or increase the costs in connection with the installation of additional pollution control or safety improvement equipment or other related expenses substantially, and thus adversely affect our business. In addition, failure to comply with these laws and regulations could result in fines, penalties, clean-up costs or liabilities arising out of third-party civil or criminal claims.

**We have limited insurance coverage and may incur significant losses resulting from product liability claims or business interruptions**

As the insurance industry in China is still in an early stage of development, as at the date of this prospectus, insurance companies in China offer limited business insurance products. We maintain various insurance covering our properties, including our cargoes, motor vehicles and fixed assets, but do not maintain product liability insurance or business interruption insurance. In the event that we suffer a loss to any of our property in an amount that exceeds our insurance coverage, we may not be able to recover such amount exceeding our insurance coverage. As a result, we may have to pay out of our own resources for any uninsured financial or other losses, damages and liabilities, litigation or business disruption. The occurrence of certain incidents, including earthquake, fire, severe weather, war, floods, power outages, terrorist attacks or other disruptive events and the consequences, damages and disruptions resulting from such events may not be fully covered by our insurance policy. If our business operations were disrupted or interrupted for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial condition and operating results.

**We rely on our major suppliers for our principal raw materials and their discontinuity to supply to us may affect our business and financial conditions**

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our five largest suppliers accounted for approximately 48.3%, 47.3% and 49.6% of our total

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purchase of raw materials, respectively, and purchases from our largest supplier accounted for approximately 32.4%, 26.1% and 21.1% of our total purchase of raw materials, respectively. We have not entered into long-term agreements with our suppliers. We procure the supply of raw materials that we require in accordance with our sales orders. The future relationship between us and our suppliers and the willingness and capability of our suppliers to supply raw materials to us will be critical to our business and operations. If our existing suppliers do not continue to supply us with the raw materials at favourable or similar prices or at all, our production could be interrupted, and our business, financial condition and operating results could also be adversely affected.

**We outsource the delivery of our products to logistics service providers and our customers may not be able to claim for loss or damage to our products during delivery**

During the Track Record Period, we engage logistics service providers, independent of our Company and our connected persons, to provide delivery services of our products. Our delivery cost in engaging third party logistic service providers accounted for approximately 1.6%, 1.6% and 1.5%, respectively, of our total revenue for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015.

The logistics service providers are responsible for any loss or damage to our products during delivery and are responsible for the insurance coverage in respect of our products delivered by them. There is no assurance that the logistics service providers have sufficient insurance coverage for our products delivered by them, if at all. As such, our customers may have liability claims against us if there is loss or damage to our products during delivery and the logistics service providers do not have any or sufficient insurance coverage. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. If any such claims are ultimately successful, we could be required to pay substantial damages, which could materially and adversely affect our business, financial condition and operating results.

**We lease certain land and factory premises from our connected person and an Independent Third Party**

We lease land and factory premises in the PRC from our connected persons. We have entered into a tenancy agreement in respect of the land and factory premises, the initial term of which is three years commencing from the Listing Date, with an option to renew every three years. Details of the tenancy agreement are set out in the section headed “Connected transactions” of this prospectus and property no.2 in the property valuation report is set out in Appendix IV to this prospectus.

We also lease land and premises in the PRC from an Independent Third Party for our production use. The tenancy agreement with such Independent Third Party is for a term of five years commencing from 1 January 2012. For details of such lease, please refer to property no. 3 in the property valuation report as set out in Appendix IV of this prospectus.

There is no assurance that the leases can be renewed upon expiry or can be renewed at terms and conditions which are favourable to us. Failure to renew the existing leases upon expiry may have an adverse effect on our performance and future development. Should we fail to renew tenancies for the

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land and factory premises, or if the tenancies are terminated and we are unable to relocate our production to the substitute premises, we will experience temporary suspension of operation and have to incur costs for re-location, which may in turn materially and adversely affect our business and prospects.

**The costs of share options to be granted under the Share Option Scheme may materially and adversely affect our results of operations and any further issuance of Shares may result in a dilution of Shareholders' percentage shareholdings**

Pursuant to the Share Option Scheme, options may be granted after completion of the Listing and share options may be granted to eligible participants to subscribe for an aggregate of up to 20,000,000 Shares. Such options, if exercised in full, represent 10% of our issued share capital immediately following completion of the Listing (without taking into account Shares to be issued upon exercise of the options granted under the Share Option Scheme).

Any issue of Shares upon exercise of the options granted under the Share Option Scheme in the future will result in a reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net assets per Share, as a result of the increase in the number of Shares in issue as a result of such exercise.

We may need to raise additional funds in the future to finance our new development and other funding needs. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro-rata basis to the existing shareholding, the percentage of ownership of the Shareholders may be diluted, and such securities may have preferred rights, options and pre-emptive rights senior to the Shares.

**A majority of sales are attributed to export sales. Any adverse change in the macro-economic situation in the countries in which we sell our products may have an adverse effect on our business, financial condition and operating results**

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our revenue derived from our non-PRC sales (including indirect export sales from the PRC) to our customers in countries in terms of revenue contribution for the year ended 31 December 2014 including Hong Kong and bonded zone of the PRC, the United States, Belgium, the United Kingdom, Denmark and Australia, etc., accounted for approximately 88.2%, 87.9% and 87.9%, respectively, of our total revenue. Going forward, we expect that a significant percentage of our revenue will continue to be generated from the overseas sales. Accordingly, our operating results are heavily dependent on the macro-economic situations of these countries. Macro-economic factors, such as changes in global and local economic and political conditions, general market sentiment, changes in the regulatory environment, fluctuations in interest rates, consumer preferences and spending patterns and employment levels, are prone to affecting the overall performance of their respective economy. Unforeseen circumstances such as economic downturn, natural disaster and significant changes in consumers' spending pattern which are beyond our control may affect our business. If there occurs any significant decline in the economy of the countries where we sell our products and we are unable to divert our business to other geographic locations, our revenue, profitability and business prospects will be materially affected.

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### RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

**Changes in political and economic policies of the Chinese government could have an adverse effect on the overall economic growth of China, which could reduce the demand for our service and adversely affect our competitive position**

Our business operations and our production process are conducted in Hong Kong as well as China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in both Hong Kong and China. While the economic, political and legal system in Hong Kong are relatively mature, the Chinese economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation of resources.

While the Chinese economy has grown significantly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The Chinese Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely and materially affected by government control over capital investments or changes in tax regulations that may be applicable to us.

The Chinese economy has been transitioning from a planned economy to a more market oriented economy. However, the Chinese Government still exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, as the Chinese economy has become increasingly linked with the global economy, China is affected in various respects by downturns and recessions of major economies around the world. Any adverse change in the economic conditions in China, in policies of the Chinese government or in laws and regulations in China, could have an adverse effect on the overall economic growth of China and market demand for our service and our competitive position.

**Chinese regulation of loans and direct investment by offshore holding companies to Chinese entities may delay or prevent us from using the proceeds of the Placing to make loans or additional capital contributions to our PRC subsidiary, which could adversely affect our liquidity and our ability to fund and expand our business**

To use the proceeds from the Placing or any future offerings, as an offshore holding company of our PRC subsidiary, we may make loans to our PRC subsidiary, or we may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary are subject to Chinese regulations, approvals and registration. For example, loans by us to our wholly-owned PRC subsidiary to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local counterparts. Any capital contributions to our PRC subsidiary must be approved by MOFCOM or its local counterparts.

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### **Uncertainties with respect to the Chinese legal system could have an adverse effect on our business**

The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the Chinese Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct part of our business and our production primarily through our subsidiary established in China. This subsidiary is generally subject to laws and regulations applicable to foreign investment in China. However, the Chinese legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us.

In addition, some regulatory requirements issued by certain Chinese Government authorities may not be consistently applied. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners and customers.

Such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of Chinese law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the more developed countries. We cannot predict the effect of future developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

### **Companies having business in China may have a chance to be classified as a “resident enterprise” for PRC enterprise income tax purposes, and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders**

The PRC CIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered PRC “tax resident enterprises” and will generally be subject to the uniform 25% PRC enterprise income rate on their global income. Under the implementation rules to the PRC CIT Law, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise, however, the circumstances under which an enterprise’s “de facto management body” would be considered to be located in China



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## RISK FACTORS

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are currently unclear. A tax circular, issued by the State Administration of Taxation on 22 April 2009 (“**Circular 82**”), provides that certain foreign enterprises controlled by a PRC company or a PRC company group will be classified as “resident enterprises” if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders’ meetings; and half or more of the senior management or directors having voting rights.

We may be deemed to be a PRC resident enterprise if the related criteria under Circular 82 are referred to and applied to us by the PRC tax authorities. If our company or any of our overseas subsidiaries is considered a PRC tax resident enterprise for PRC tax purposes, a number of unfavourable PRC tax consequences could follow. First, our company or our overseas subsidiary will be subject to the uniform 25% enterprise income tax rate as to our global income as well as tax reporting obligations. Secondly, we cannot assure you that such dividends, which would normally qualify as “tax-exempted income” under applicable rules, will not be subject to a 10% withholding tax, as the PRC taxation authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC tax purposes. Finally, dividends payable by us to our investors that are non-resident enterprises and gain on the sale of our Shares may become subject to PRC withholding tax, if such dividends and gains are regarded by PRC tax authorities to be sourced from China.

**PRC tax laws on dividend distribution may adversely affect our operating results and dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under PRC tax laws**

Due to the Arrangement between China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, signed on 21 August 2006 (the “**Hong Kong Tax Treaty**”), a company incorporated in Hong Kong will, subject to the PRC tax authority examination and approval, be subject to withholding income tax at a rate of 5.0% on dividends it receives from its PRC subsidiaries if it holds a 25.0% or more interest in that particular PRC subsidiary, or 10.0% if it holds less than a 25.0% interest in that subsidiary. In addition, the State Administration of Taxation promulgated a tax notice on 27 October 2009 (“**Circular 601**”), which provides that tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-the-form” principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiary paid to us through our Hong Kong subsidiary. It is possible however, that under Circular 601, the Hong Kong subsidiary would not be considered as the “beneficial owner” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10.0% rather than the favourable 5.0% rate applicable under the Hong Kong Tax Treaty.

In addition, due to ambiguities in the PRC CIT Law and its implementation rules, a withholding tax at the rate of 10.0% may also be applicable to dividends payable to investors (excluding individual natural persons) that are non-resident enterprises to the extent such dividends are sourced within



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## RISK FACTORS

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China. Similarly, any gain realised on the transfer of our Shares by such investors is also subject to a withholding tax at the rate of 10.0% if such gain is regarded as income derived from sources within China. If we are considered a resident enterprise in China, it is unclear whether the dividends we pay with respect to our Shares would be treated as income derived from sources within China and be subject to PRC income tax. If we are required under the PRC CIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of the Shares, the value of your investment in our Shares may be materially and adversely affected. Please see the section headed “Risk Factors — Companies having business in China may have a chance to be classified as a “resident enterprise” for PRC enterprise income tax purposes, and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders.” of this prospectus.

### **RISKS RELATING TO THE PLACING**

#### **There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile**

Prior to the Placing, there has been no public market for our Shares. The indicative range of the Placing Price was determined as a result of negotiations between the Bookrunner and Lead Manager and our Company. The Placing Price may differ significantly from the market price for the Shares following the Placing. We have applied for the listing of and permission to deal in our Shares on GEM. However, even if approved, being listed on GEM does not guarantee that an active trading market for our Shares will develop following the Placing or that our Shares will always be listed and traded on the GEM. We cannot assure you that an active trading market will develop or be maintained following the completion of the Placing, or that the market price of our Shares will not decline below the Placing Price.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

In addition, stock markets and the shares of companies listed on the GEM have experienced substantial price and volume fluctuations from time to time that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

#### **Investors for our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future**

As the Placing Price is higher than the net tangible asset value per Share of our Shares immediate prior to the Placing, investors of our Shares in the Placing will experience an immediate dilution in pro forma consolidated net tangible asset value of HK\$0.34 per Share (assuming an Placing Price of HK\$0.50, being low end of the indicative range of the Placing Price stated in this prospectus).

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## RISK FACTORS

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If we issue additional Shares in the future, investors of our Shares in the Placing may experience further dilution in their ownership percentage. We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by our Placing Shares.

### **Future offerings or sales could adversely affect the prevailing market price of our Shares**

Future offerings or sales of our Shares by us or our Controlling Shareholders, or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of our Shares to decline. Following the expiration of their respective lock-up periods, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares (including the issuance of new Shares pursuant to the exercise of share options granted by us) or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in the future at a time and at a price deemed appropriate. In addition, if we issue additional Shares or share options in the future, you may experience further dilution.

### **Future sales by our existing Shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares**

We cannot assure you that our existing Shareholders or our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after completion of the Placing. We cannot predict the effect, if any, that any future sales of Shares by any Substantial Shareholder or Controlling Shareholder, or the availability of Shares for sale by any Substantial Shareholder or Controlling Shareholder may have on the market price of our Shares. Sales of substantial amounts of Shares by any Substantial Shareholder or Controlling Shareholder or the market perception that such sales may occur, could materially and adversely affect the prevailing market price of the Shares.

### **Certain industry statistics contained in this prospectus are derived from various publicly available government or official sources and may not be accurate or reliable**

Certain facts and statistics in this prospectus related to Hong Kong and the PRC, the economy and the industries in which we operate within Hong Kong and the PRC are derived from official government publications generally believed to be reliable. We believe that the sources of these facts and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. These facts and statistics have not been independently verified by us, the Sponsor, the Bookrunner and Lead Manager, the Underwriter, any of our or their respective directors, officers or representatives or any other person involved in the Placing and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside Hong Kong and the PRC and

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## **RISK FACTORS**

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may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated with the same degree of accuracy as may exist elsewhere. In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.

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## **WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES (WUMP) ORDINANCE**

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In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the GEM Listing Rules and the Companies (WUMP) Ordinance:

### **CONTINUING CONNECTED TRANSACTIONS**

We have entered into transactions which would constitute continuing connected transactions for our Company under the GEM Listings Rules upon Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement set out in Chapter 20 of the GEM Listing Rules for such continuing connected transactions.

Further details of such continuing connected transactions and the waiver are set out in the section headed “Connected transactions” of this prospectus.

### **RULES 7.03(1) AND 11.10 OF GEM LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1)(B) IN RELATION TO PARAGRAPHS 27 AND 31 OF THE THIRD SCHEDULE OF THE COMPANIES (WUMP) ORDINANCE**

Section 342(1)(b) of the Companies (WUMP) Ordinance requires a prospectus issued, circulated, or distributed in Hong Kong offering for subscription or purchase shares in a company incorporated outside Hong Kong to state the matters specified in Part I of the Third Schedule to the Companies (WUMP) Ordinance and set out the reports specified in Part II of that schedule.

Pursuant to section 342A(1) of the Companies (WUMP) Ordinance, there may, subject to conditions as the SFC thinks fit, be issued by the SFC a certificate of exemption from the compliance with any or all of the requirements of section 342(1) of the Companies (WUMP) Ordinance, if the SFC considers that the exemption will not prejudice the interest of the investing public and compliance with requirements which would be irrelevant or unduly burdensome or is otherwise unnecessary or inappropriate.

Pursuant to Rules 7.03(1) and 11.10 of the GEM Listing Rules, the accountant’s report of our Company that is required to be included in this prospectus must contain the financial results of our Group covering at least the two financial years immediately preceding the issue of the listing document (or such shorter period as may be acceptable to the Stock Exchange).

Paragraph 27 under Part I of the Third Schedule to the Companies (WUMP) Ordinance requires a statement as to the gross trading income or sales turnover (as may be appropriate) of our Group during each of the three financial years immediately preceding the issue of this prospectus including an explanation of the method used for the computation of such income or turnover and a reasonable break-down between the more important trading activities to be specified in this prospectus.

Paragraph 31 under Part II of the Third Schedule to the Companies (WUMP) Ordinance requires the report by the auditors of our Company set out in the accountant’s report to include profits and losses and assets and liabilities of our Group for the three financial years immediately preceding the issue of this prospectus.

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## WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES (WUMP) ORDINANCE

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Pursuant to section 5(3) of the Companies (WUMP) Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), all references to “3 preceding years”, “3 financial years” and “3 years” in paragraphs 27 and 31 of the Third Schedule of the Companies (WUMP) Ordinance are substituted by a reference to “2 preceding years”, “2 financial years” and “2 years”, respectively, for a prospectus issued in relation to an application for the listing of securities on GEM.

The accountant’s report set out in Appendix I to this prospectus contains the combined results of our Group for the two financial years ended 31 December 2014 and the eight months ended 31 August 2015. Our Directors consider that the inclusion of the audited financial results for the year ended 31 December 2015 in the prospectus would be unduly burdensome, and the reporting accountants would have to undertake a considerable amount of work to prepare, update and finalise our accountant’s report for the year ended 31 December 2015 in such a short period of time after the year end date. In the circumstances, strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and paragraphs 27 and 31 of the Third Schedule of the Companies (WUMP) Ordinance would inevitably delay the listing timetable of our Company significantly. Moreover, our Directors consider that the benefits of such work to the existing and prospective shareholders of our Company may not justify the additional work and expenses involved and the delay of the timetable, given that there has been no material adverse change in the financial position of our Group since the expiry of the period reported by the reporting accountant.

Furthermore, our reporting accountant will disclose any material event which has arisen since 31 August 2015 under note C headed “Events after the reporting period” of the accountants’ report as set out in Appendix I to this prospectus and our Directors consider that all information that is reasonably necessary for the potential investors to make an informed assessment of the activities or financial position of our Group is included in this prospectus.

An application was made to the Stock Exchange to grant to our Company a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules in relation to the inclusion of the accountant’s report for the full financial year ended 31 December 2015, and such waiver was granted by the Stock Exchange on the following conditions:

- (a) the Shares are listed on the Stock Exchange on or before 29 February 2016;
- (b) our Company obtains a certificate of exemption from the SFC under section 342A of the Companies (WUMP) Ordinance from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies (WUMP) Ordinance;
- (c) this prospectus contains a statement from our Directors that, other than the Listing expenses incurred or to be incurred after 31 August 2015, there is no material adverse change to our Group’s financial and trading positions or prospect taken as a whole with reference to the results from 1 September 2015 to 31 December 2015; and
- (d) this prospectus includes a loss estimate for the year ended 31 December 2015 which complies with Rules 14.29 to 14.31 of the GEM Listing Rules.

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## **WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES (WUMP) ORDINANCE**

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An application was also made to the SFC to grant to our Company a certificate of exemption pursuant to section 342A of the Companies (WUMP) Ordinance from strict compliance with section 342(1)(b) in relation to paragraphs 27 and 31 of the Third Schedule to the Companies (WUMP) Ordinance in relation to the inclusion of our financial results for the full financial year ended 31 December 2015 in this prospectus. A certificate of exemption was granted by the SFC under section 342A of the Companies (WUMP) Ordinance on the conditions that the particulars of the exemption are set out in this prospectus.

Our Directors and the Sponsor confirm that after having performed sufficient due diligence, other than the Listing expenses incurred or to be incurred after 31 August 2015, there is no material adverse change in the financial and trading positions or prospects of our Group taken as a whole with reference to the results from 1 September 2015 to 31 December 2015.

In addition, our Directors and the Sponsor consider that the above exemption and waiver granted by the SFC and the Stock Exchange respectively will not prejudice the interests of the investing public, as the information relating to our financial results that is reasonably necessary for potential investors to make an informed assessment of the activities or financial position of our Group has already been included in this prospectus.

In accordance with Guidance Letter HKEx-GL25-11, a loss estimate of our Group for the year ended 31 December 2015 has been included in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm 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, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

Copies of this prospectus are available, for information purposes only, at the respective offices of the Sponsor, the Bookrunner and Lead Manager and the Underwriter during normal office hours from 9:00 a.m. to 5:00 p.m. from Wednesday, 17 February 2016 to Tuesday, 23 February 2016 (both dates inclusive).

### **PLACING SHARES ARE FULLY UNDERWRITTEN**

This prospectus sets out the terms and conditions of the Placing.

This prospectus is published solely in connection with the Placing, which is sponsored by the Sponsor and managed by the Bookrunner and Lead Manager and to be fully underwritten by the Underwriter (subject to the terms and conditions of the Underwriting Agreement). Further information about the Underwriter and the underwriting arrangements is contained in the section headed "Underwriting" in this prospectus.

### **DETERMINATION OF THE PLACING PRICE**

The Placing Shares are being offered at the Placing Price which will be determined in Hong Kong dollars by our Company and the Bookrunner and Lead Manager (for itself and on behalf of the Underwriter) on the Price Determination Date. If, for whatever reason, our Company and the Bookrunner and Lead Manager (for itself and on behalf of the Underwriter) are unable to reach agreement on the Placing Price by the Price Determination Date, the Placing will not proceed and will lapse. For full information relating to the determination of the Placing Price, please refer to the section headed "Structure and conditions of the Placing" in this prospectus.

### **RESTRICTIONS ON SALE OF PLACING SHARES**

Each person acquiring the Placing Shares will be required to confirm or by his/her/its acquisition of the Placing Shares will be deemed to confirm that he/she/it is aware of the restrictions on the placing of the Placing Shares described in this prospectus. Save as mentioned above, no action has been taken in any jurisdiction other than Hong Kong to permit a placing or the general distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the Placing in any jurisdiction or, in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make



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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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such an offer or invitation. The distribution of this prospectus and the offering of the Placing Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under any applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom.

Prospective investors for the Placing Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe the applicable laws, rules and regulations of any relevant jurisdictions.

The Placing Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein shall not be relied upon as having been authorised by our Company, the Sponsor, the Bookrunner and Lead Manager and the Underwriter, any of their respective directors, officers, employees, agents, representatives or any other person or party involved in the Placing.

### STRUCTURE OF THE PLACING

Further details of the structure and conditions of the Placing are set out in the section headed “Structure and conditions of the Placing” in this prospectus.

### APPLICATION FOR LISTING ON GEM

Application has been made to the GEM Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. Under section 44B(1) of the Companies (WUMP) Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the GEM Listing Division, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at all times after the Listing, our Company must maintain the “minimum prescribed percentage” of 25% or such applicable percentage of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

No part of the Shares or the loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

### PROFESSIONAL TAX ADVICE RECOMMENDED

If investors are unsure about the taxation implications of the subscription or, purchase, holding or disposal of, dealings in, or exercise of any rights in relation to the Placing Shares, they should consult an expert. It is emphasized that none of our Company, our Directors, the Sponsor, the Bookrunner and Lead Manager, the Underwriter, any of their respective directors, officers,

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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employees, agents, representatives or any other person or party involved in the Placing accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to the Placing Shares.

### REGISTRATION AND STAMP DUTY

Our fully-paid Shares are freely transferable. The Shares may be registered on the principal register of members in the Cayman Islands or on the branch register of members of our Company in Hong Kong.

Our Company's principal register of members will be maintained in the Cayman Islands by our Company's principal share registrar, Codan Trust Company (Cayman) Limited, and our Company's branch register of members will be maintained in Hong Kong by our Hong Kong branch share registrar, Union Registrars Limited.

All the Placing Shares will be registered on the branch register of members of our Company in Hong Kong. Only Shares registered on our branch register of members maintained in Hong Kong may be traded on GEM, unless the Stock Exchange otherwise agrees. Dealings in the Placing Shares registered on the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless our Company determines otherwise, dividends payable in HK\$ in respect of the Shares will be paid by cheque sent at the Shareholder's risk to the registered address of each Shareholder or, in the case of joint holders, the first-named holder.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance 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 Listing Date 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 investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional advisers.

### COMMENCEMENT OF DEALING IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Wednesday, 24 February 2016. Shares will be traded in board lots of 5,000 each. The stock code for the Shares is 8070.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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Our Company will not issue any temporary documents of title. Dealings in the Shares on GEM will be effected by participants of GEM whose bid and offer quotations will be available on the GEM's teletext page information system. Delivery and payment for Shares dealt on GEM will be effected on the second Business Day following the transaction date. Only certificates for Shares registered on the branch register of members of our Company maintained in Hong Kong will be valid for delivery in respect of transactions effected on GEM. If you are unsure about the procedures for dealings and settlement arrangement on GEM on which the Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

### ROUNDING

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding. Unless otherwise stated, the conversion of RMB into HK\$ in this prospectus is based on the approximate exchange rate of HK\$1.00 to RMB0.80 and the conversion of US\$ into HK\$ in this prospectus is based on the approximate exchange rate of HK\$7.75 to US\$1.00.

Such conversions shall not be construed as representations that amounts in HK\$ will be or may have been converted into RMB or US\$ at such rates or any other exchange rates, or vice versa.

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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### DIRECTORS

Name	Residential address	Nationality
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#### *Executive Directors*

Mr. Chung Chi Hang, Larry (鍾志恆) (Chairman)	Flat F, 5/F, Block 4 Oak Mansions Site 5, Whampoa Garden 7 Tak Fung Street Hung Hom Kowloon Hong Kong	Chinese
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Mr. Chung Tin Shing (鍾天成) (Chief executive officer)	Flat B, 23/F Block 20, Hong Kong Garden Tsing Lung Tau Sham Tseng New Territories Hong Kong	Chinese
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Mr. Wong Shek Fai, Johnson (黃石輝)	Flat 1106, Block 2 Hong Lee Court 22 Hong Lee Road Kwun Tong Kowloon Hong Kong	Chinese
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#### *Independent non-executive Directors*

Mr. Wong Choi Chak (黃在澤)	A-7, 1/F New Fortune House 4-8 North Street Western District Hong Kong	Chinese
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Mr. Li Chung Pong, Stephen (李仲邦)	Flat A, 1/F Tower 3, Parc Oasis 39 Tat Chee Avenue Kowloon Hong Kong	Chinese
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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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Name	Residential address	Nationality
Mr. Tang Sze Wo (鄧仕和)	Flat C, 30/F Tower 2, South Court 1 Mei Tin Road Festival City, Phase 1 Tai Wai, Sha Tin New Territories Hong Kong	Chinese

For further information regarding our Directors, please refer to the section headed “Directors and senior management” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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### PARTIES INVOLVED IN THE PLACING

<b>Sponsor</b>	<b>LY Capital Limited</b> Rooms 1901-02 China Insurance Group Building 141 Des Voeux Road Central Hong Kong
<b>Bookrunner and Lead Manager</b>	<b>Guotai Junan Securities (Hong Kong) Limited</b> 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
<b>Auditors and Reporting Accountants</b>	<b>Deloitte Touche Tohmatsu</b> 35/F, One Pacific Place 88 Queensway Hong Kong
<b>Legal advisers to our Company</b>	<i>as to Hong Kong law:</i> <b>Squire Patton Boggs</b> 29th Floor Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong  <b>Watson Farley &amp; Williams</b> Units 1703-07 One Pacific Place 88 Queensway Hong Kong  <i>as to PRC law:</i> <b>Zhong Lun Law Firm</b> 10/F, Tower A Rongchao Center 6003 Yitian Road Futian District Shenzhen 518026 PRC  <i>as to Cayman law:</i> <b>Conyers Dill &amp; Pearman</b> Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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<b>Legal advisers to the Sponsor, the Bookrunner and Lead Manager and the Underwriter</b>	<i>as to Hong Kong law:</i> <b>YTL &amp; Co.</b> Units F&G, 12th Floor Golden Sun Centre 59-67 Bonham Strand West Hong Kong
<b>Property valuer</b>	<b>Asset Appraisal Limited</b> Rm 901, 9/F On Hong Commercial Building No. 145 Hennessy Road Wanchai Hong Kong
<b>Compliance adviser</b>	<b>LY Capital Limited</b> Rooms 1901-02 China Insurance Group Building 141 Des Voeux Road Central Hong Kong
<b>Industry Consultant</b>	<b>Beijing Yubozhiye Market Consulting Co., Ltd.</b> 18th Floor, Zhong An Sheng Ye Building No. 168 Beiyuan Road Chaoyang District Beijing PRC



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## CORPORATE INFORMATION

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<b>Registered office in the Cayman Islands</b>	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Principal place of business in China</b>	East of Xinggong Avenue and South of Keqi Road High-tech Development Zone Heyuan City Guangdong Province the PRC
<b>Principal place of business in Hong Kong</b>	Unit 5, 34th Floor Cable TV Tower 9 Hoi Shing Road Tsuen Wan New Territories Hong Kong
<b>Company's website</b>	<a href="http://www.keenoocean.com.hk">www.keenoocean.com.hk</a> ( <i>the information contained in this website does not form part of this prospectus</i> )
<b>Company secretary</b>	Ms. Chau Hing Ling (周慶齡) (LLM, FCIS, FCS) Suite 5501, 55/F Central Plaza 18 Harbour Road Wanchai Hong Kong
<b>Authorised representatives (for the purpose of the GEM Listing Rules)</b>	Mr. Chung Chi Hang, Larry Flat F, 5/F, Block 4 Oak Mansions Site 5, Whampoa Garden 7 Tak Fung Street Hung Hom Kowloon Hong Kong  Mr. Chung Tin Shing Flat B, 23/F Block 20, Hong Kong Garden Tsing Lung Tau Sham Tseng New Territories Hong Kong

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## CORPORATE INFORMATION

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<b>Compliance officer</b>	Mr. Wong Shek Fai, Johnson
<b>Audit committee of our Board</b>	Mr. Wong Choi Chak ( <i>Chairman</i> ) Mr. Li Chung Pong, Stephen Mr. Tang Sze Wo
<b>Remuneration committee of our Board</b>	Mr. Tang Sze Wo ( <i>Chairman</i> ) Mr. Wong Choi Chak Mr. Chung Chi Hang, Larry
<b>Nomination committee of our Board</b>	Mr. Li Chung Pong, Stephen ( <i>Chairman</i> ) Mr. Tang Sze Wo Mr. Chung Tin Shing
<b>Risk management committee of our Board</b>	Mr. Chung Tin Shing ( <i>Chairman</i> ) Mr. Wong Shek Fai, Johnson Mr. Tang Sze Wo
<b>Principal share registrar and transfer office in the Cayman Islands</b>	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong branch share registrar</b>	Union Registrars Limited A18/F., Asia Orient Tower Town Place 33 Lockhart Road Wanchai Hong Kong
<b>Principal bankers</b>	Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong  DBS Bank (Hong Kong) Limited 11th Floor The Center 99 Queen's Road Central Hong Kong

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## INDUSTRY OVERVIEW

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*We have extracted and derived the information in the section below, in part, from various government or official sources that are publicly available and the commissioned report from Yubozhiye. Unless otherwise specified, information concerning the electronic components industry is derived from the Yubozhiye Report. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sponsor, the Bookrunner and Lead Manager, the Underwriter, any of their respective directors, agents, employees or advisers, or any party involved in the Placing and no representation is given as to its accuracy.*

### SOURCES OF INFORMATION

In connection with the Placing, we commissioned a research report from Yubozhiye, an independent PRC consulting company, for use in part in this prospectus to provide prospective investors with necessary information on the relevant industry. The research report titled “Report on the Market and Business Models of the PRC Electronic Components Industry” was commissioned by us for the purpose of preparing this prospectus. We paid a total of RMB95,000 to Yubozhiye for the preparation and use of the Yubozhiye Report.

### ABOUT YUBOZHIYE

Yubozhiye is a market research firm providing corporate strategic solutions in China founded in 2002. It principally engages in services of industrial research, investment consulting, market research and initial public offering advisory in China.

### RESEARCH METHODOLOGY

The methodology used in the Yubozhiye Report is summarised as below:

- Analyse the market to identify past problems faced by industry participants competing in the market, the key challenges they confront now and the opportunities that may arise.
- Conduct primary research obtained from various sources including data obtained directly from industry participants and secondary research.
- Calculate market forecasts and market sizes by interviewing industry competitors and deriving each company’s annual shipments or revenues from the defined market.

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## INDUSTRY OVERVIEW

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### OVERVIEW OF THE ELECTRONIC COMPONENTS INDUSTRY

#### Introduction

Electronic components are the basic building blocks in all kinds of electronic devices and appliances. They form parts of electronic circuitry and are used or manufactured in the field of electronics for the purpose of controlling the flow of electrons to execute any electrical operation. Electronic components have been the major backbone of industries such as computers, telecommunications and consumer electronics. They are also increasingly used in industries such as automotive, medical electronics, aerospace and defence. The electronic components industry supplies various components needed for the electronic industry to build various electronic products. These complementary industries form a major segment in national economies around the world.

By definition, electronic components are basic electronic elements usually packaged in a discrete form with two or more connecting leads or metallic pads. These components are intended to be connected together, usually by soldering to a printed circuit board, to create an electronic circuit.

#### Overview of the PRC electronic components industry

After 50 years of development, the PRC industrial system for the production of electronic components has been fully formed. There are comprehensive and rapid developments in the electronic components industry. The product type, specification, capacity and production volume, and technical standard have been greatly improved.

The production volume of electronic components in China has accounted for more than 39% of the total production volume in the world. The products whose production volumes have topped the world include: capacitors, resistors, electro-acoustic devices, magnetic materials, piezoelectric quartz crystals, micro motors, transformers and printed circuit boards.

Despite the above, PRC electronic components industry is currently facing a number of issues, mainly due to the oversupply of middle-to-low-end products, the overreliance on the import of high-end products, the lack of core technological skills, the low profit margin, the underdevelopment of corporate size and the inadequate investment in technological development.

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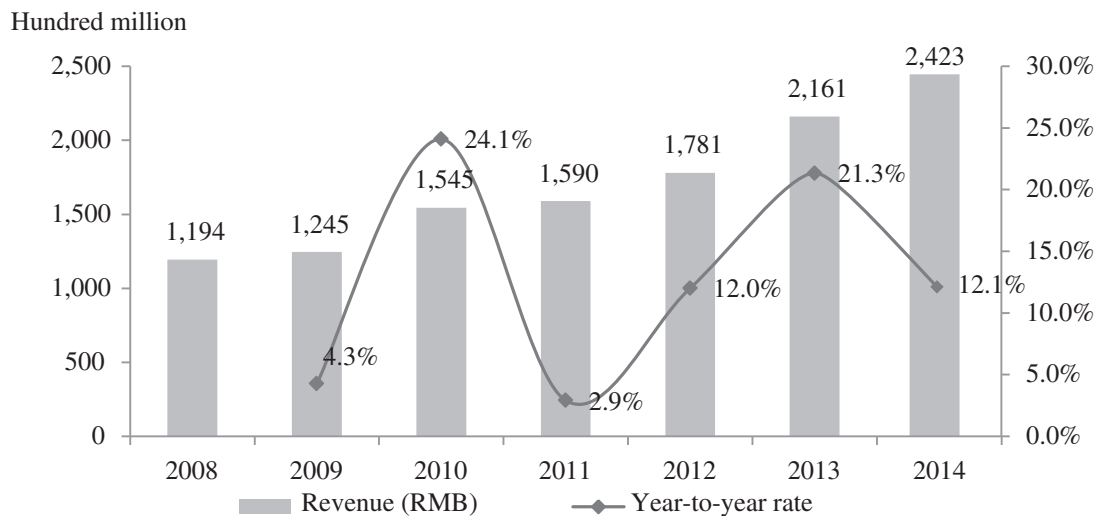
## INDUSTRY OVERVIEW

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The future trend for technological development in the PRC electronic components industry is to manufacture modern components in small, intelligence-based, and environmentally friendly chips with high-performance. With the commercialisation of the Internet, mobile communications and digital televisions, the advancement in the electronic machine industry will result in huge market opportunities for the development of the electronic components industry.

In 2014, although the electronic components industry was adversely affected by the increase in production costs (including costs of raw material, fuel, transportation and labour) and the decrease in prices of other products, the overall revenue of the electronic components industry increased due to the improvements in operation, management and transportation flow. According to the “中國電子元件百強企業分析 (Analysis of the Top 100 Enterprises in the PRC Electronic Components Industry)” jointly published by the Ministry of Industry and Information Technology of the RPC and 中國電子元件行業協會 (The China Electronic Components Association) in 2014, the overall business revenue of the top 100 enterprises in the PRC electronic components industry in 2013 was around RMB216.1 billion, with an annual increase of 21.3%; the overall profit was RMB17.6 billion, with an annual increase of 23.1%; and the overall export value was US\$9.03 billion, with an annual increase of 16.4%.

The following diagram sets forth the total business revenue of the top 100 enterprises in the PRC electronic components industry from 2008 to 2014:



Source: 中國電子元件行業協會 (China Electronic Components Association)

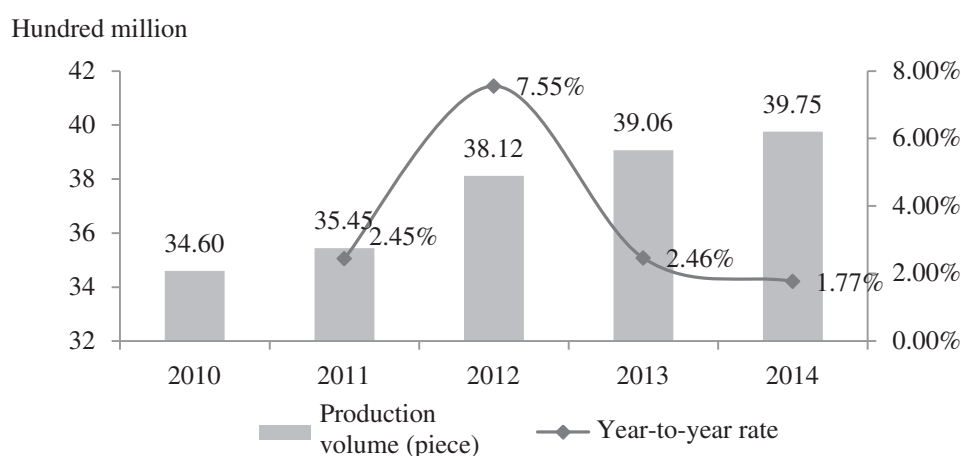
## INDUSTRY OVERVIEW

### PRODUCTION VOLUME OF ELECTRONIC COMPONENTS IN CHINA

#### Transformer

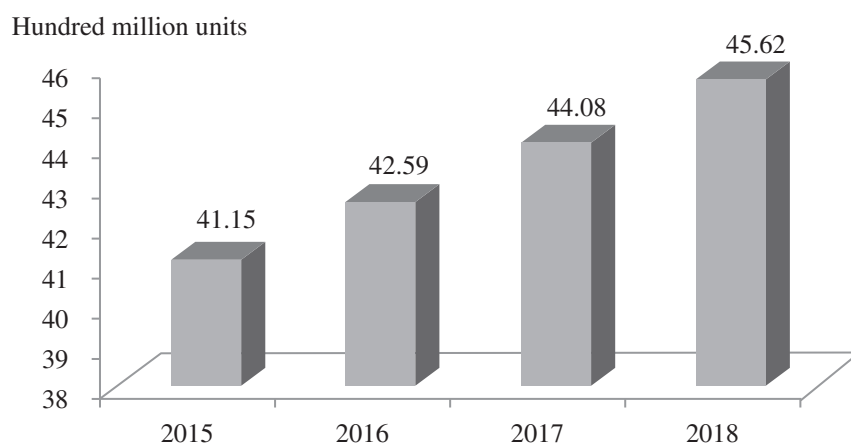
According to the information displayed in 大比特資訊網 (Big-Bit.com), 65% of the transformers manufactured in China is for export purpose.

The following diagram sets forth the production volume of transformer in China from approximately 3,460 million units in 2010 to approximately 3,975 million units in 2014, representing a CAGR of approximately 2.8%, which shows a moderate growth during the period:



Source: Customs of the PRC, 大比特資訊網 (Big-Bit.com) and as compiled and estimated by Yubozhiye

The following diagram sets forth the forecast production volume of transformer in China from 4,115 million units in 2015 to 4,562 million units in 2018, representing a CAGR of approximately 2.6%, which forecasts a moderate growth trend:



Source: as forecasted by Yubozhiye

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## INDUSTRY OVERVIEW

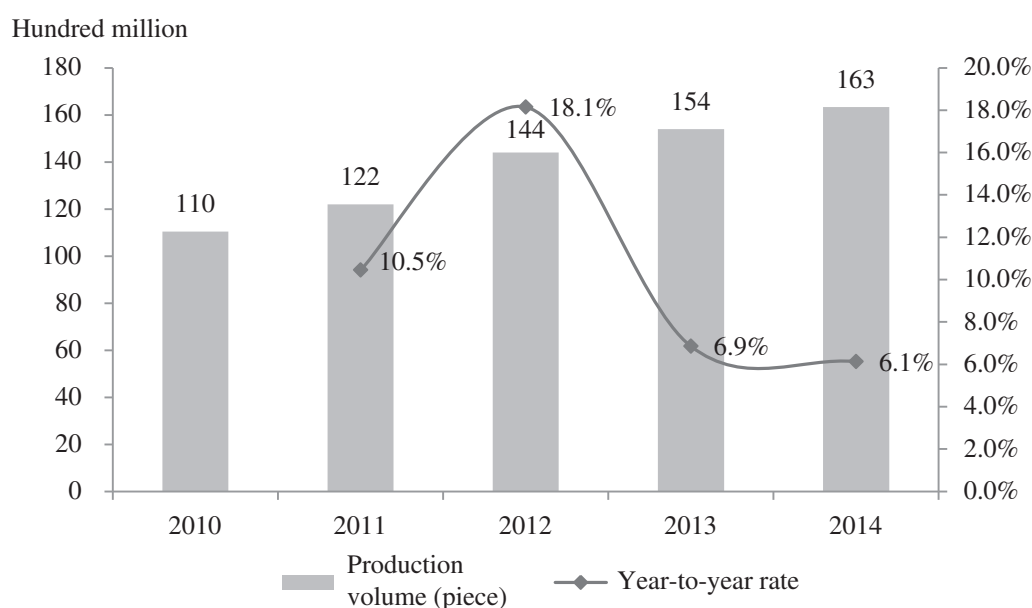
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### PCB products

According to a journal article titled “全球PCB產業和頂尖PCB企業現狀分析 (Situation Analysis of the Global PCB Assembly Industry and Top PCB Assembly Enterprises)” published in 印製電路信息 (Printed Circuit Board Information), the production value of the PCB product industry in China was around RMB164 billion in 2013, accounting for about 44% of the total production value in the world. It is expected that the production value will increase up to RMB187.9 billion in 2014, which will then account for about 45% of the total production value in the world.

According to the statistics offered by the Customs of the PRC, the production volume of PCB products in China was 16.3 billion pieces, with an annual increase of 6.1%. On the other hand, the annual growth rate from 2010 to 2014 was 10.3%.

The following diagram sets forth the production volume of PCB products in China from 2010 to 2014, which represents a moderate growth during the period:



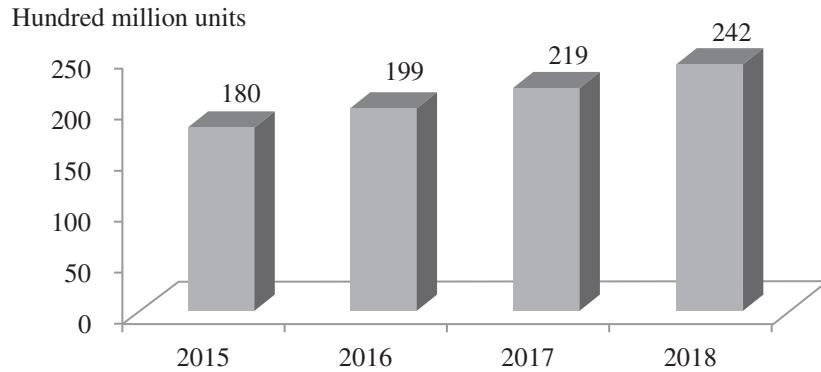
Source: 《印製電路信息》(Printed Circuit Board Information), Customs of the PRC and as compiled and estimated by Yubozhiye

With reference to the growth rate of the production volume of PCB products, it is expected that the production volume will rise to 24.2 billion units in 2018.



## INDUSTRY OVERVIEW

The following diagram sets forth the forecast production volume of PCB products in China from 18 billion units in 2015 to 24 billion units in 2018, representing a CAGR of approximately 7.7%, which forecasts a moderate growth trend:

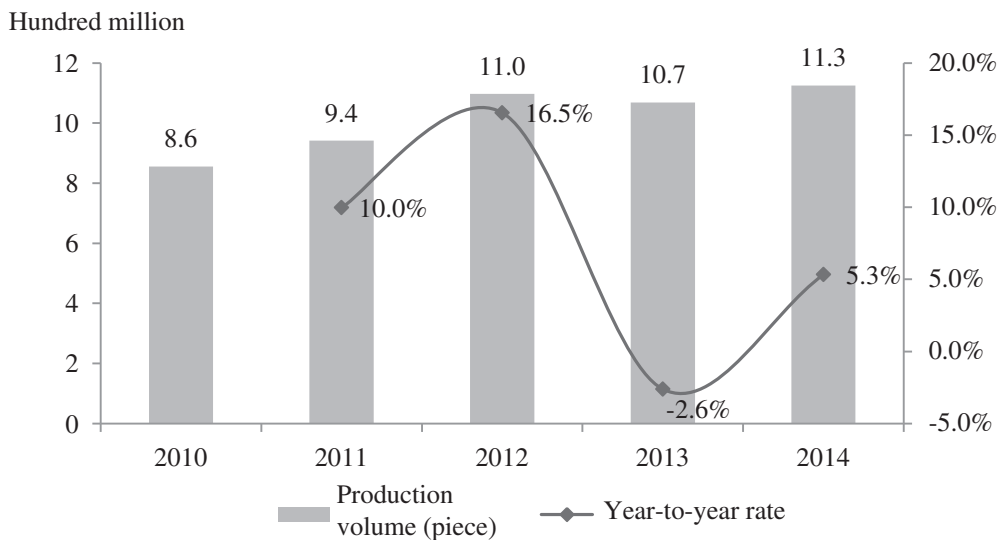


Source: as forecasted by Yubozhiye

### Switching mode power supply product

The production volume of switch mode power supply product was 1.13 billion units in 2014, with an annual increase of 5.3%. The average annual growth rate of the production volume of switch mode power supply product in China between the year of 2010 and 2014 was 7.1%.

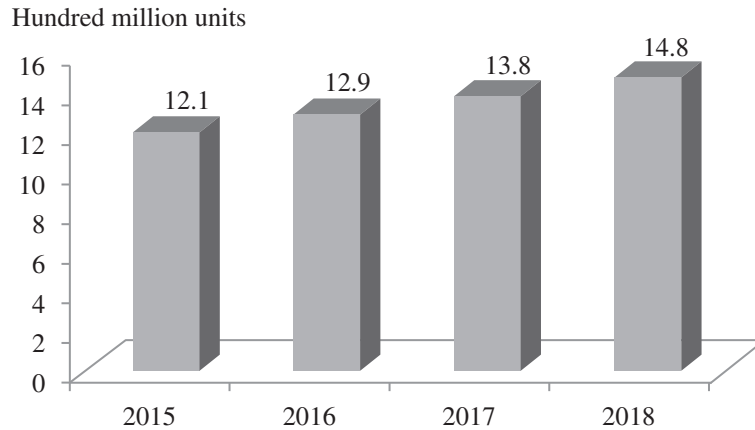
The following diagram sets forth the production volume of switch mode power supply product in China from 860 million units in 2010 to 1,130 million units in 2014, representing a CAGR of approximately 5.6%, which shows a fluctuation in growth during the period:



Source: 中國電源學會 (China Power Supply Society) and as compiled and estimated by Yubozhiye

## INDUSTRY OVERVIEW

The following diagram sets forth the forecast production volume of switch mode power supply product in China from 1,210 million units in 2015 to 1,480 million units in 2018, representing a CAGR of approximately 5.2%, which forecasts a moderate growth trend:

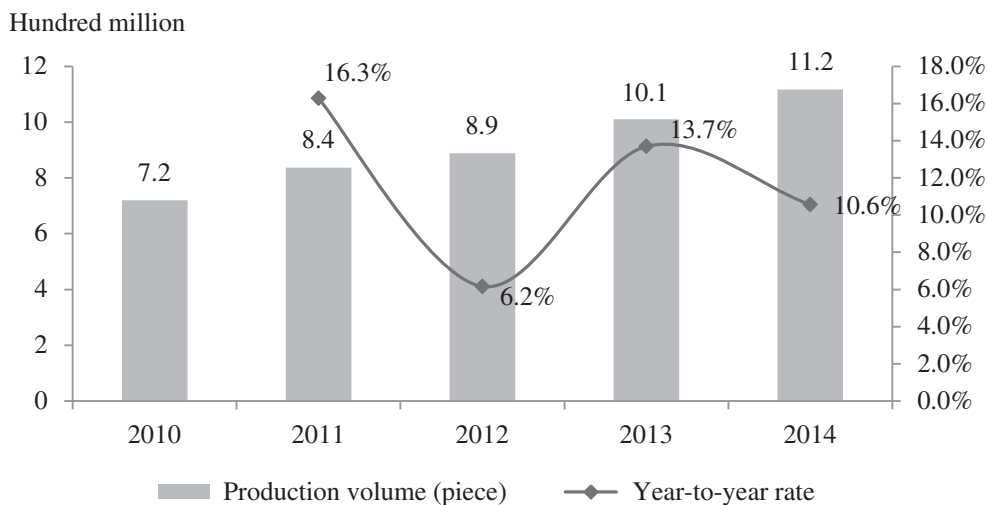


Source: as forecasted by Yubozhiye

### Battery charger

According to the research of Yubozhiye, the production volume of the PRC battery charge industry accounted for 49% of the overall production volume in the world in 2014, with an annual increase of 2%, reaching 1.12 billion units, with an annual increase of 10.6%. The average growth rate of the production volume of battery chargers in China between the year of 2010 and 2014 was 11.7%.

The following diagram sets forth the production volume of battery charger in China from 720 million units in 2010 to 1,120 million units in 2014, representing a CAGR of approximately 9.2%, which reveals a moderate growth during the period:



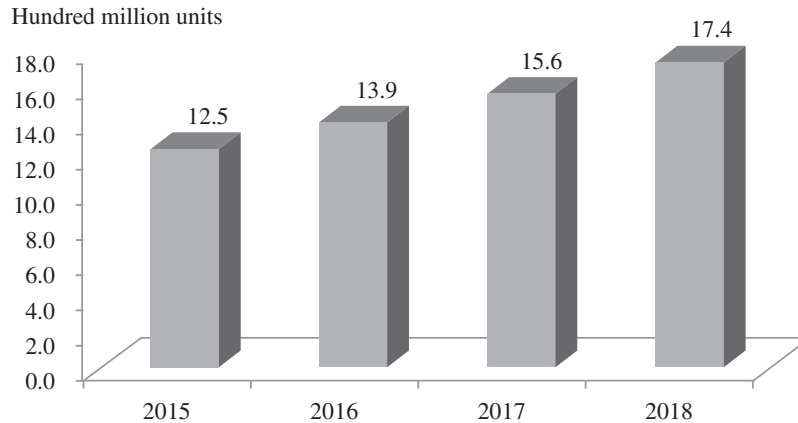
Source: 中國電源學會 (China Power Supply Society) and as compiled and estimated by Yubozhiye

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## INDUSTRY OVERVIEW

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The following diagram sets forth the forecast production volume of battery charge in China from 1,250 million units in 2015 to 1,740 million units in 2018, representing a CAGR of approximately 8.6%, which forecasts a moderate growth trend:



Source: as forecasted by Yubozhiye

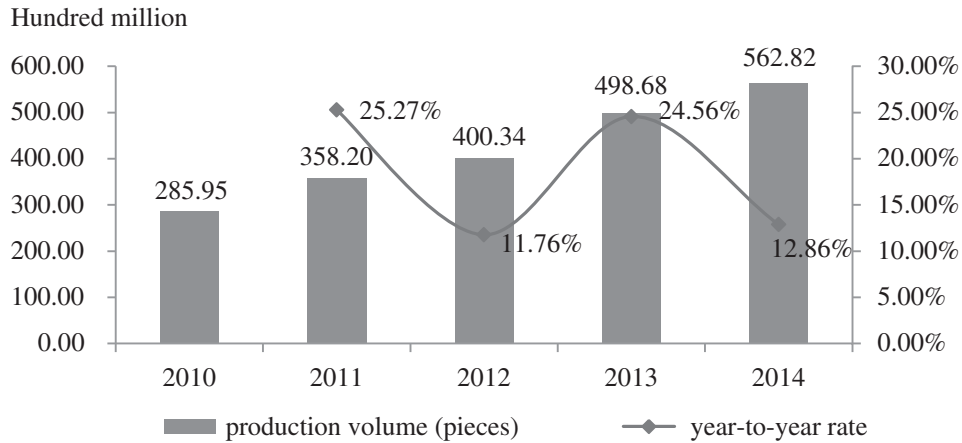
### Reactor

Currently, the number of manufacturers specialising in the production of reactors in the PRC has reached more than 400, within which around 100 manufacturers are considered sizable. Due to favourable investment environment and huge market in the PRC, a number of foreign reactor manufacturers have relocated their production lines to the PRC. The products composed by those manufacturers are mainly middle-to-high-graded, having a great advantage especially in the aspect of high-performance surface mounted device reactor.

By analysing the distribution date of the reactor manufacturers, the origins of the reactor products can be clearly observed. According to the information displayed in 大比特資訊網 (Big-Bit.com), reactor manufacturers are mainly concentrated in Zhejiang, Guangdong, Shanghai and Jiangsu, accounting for nearly 70% of the total number of reactor manufacturers in the PRC.

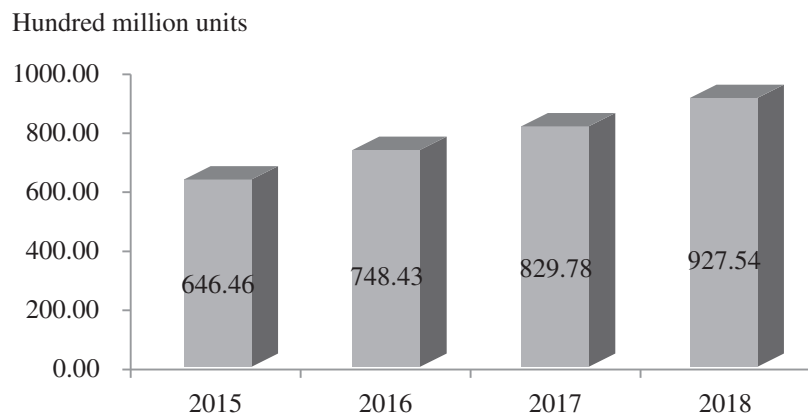
## INDUSTRY OVERVIEW

The following diagram sets forth the production volume of reactor in China from 28,595 million units in 2010 to 56,282 million units in 2014, representing a CAGR of approximately 14.5%, which reveals a decent growth during the period.



Source: Customs of the PRC, 大比特資訊網 (Big-Bit.com) and as compiled and estimated by Yubozhiye

The following diagram sets forth the forecast production volume of reactors in China from 64,646 million units in 2015 to 92,754 million units in 2018, representing a CAGR of approximately 9.5%, which forecasts a moderate growth trend:



Source: as forecasted by 大比特資訊網 (Big-Bit.com) and Yubozhiye

## THE COMPETITIVE LANDSCAPE OF DISTRIBUTORSHIP

### Analysis of market concentration in the PRC electronic components industry

The PRC electronic components industry has a low degree of market concentration and no significant dominant market players are identified, allowing further competition to take place. According to the “百強企業名單 (List of Top 100 Enterprises)” and “中國電子元件“十二五”規劃 (The Twelve Five-year Plan of the PRC Electronic Components Industry)” published by 中國電子元件行業協會 (China Electronic Components Association), the total sales revenue of the top 100 enterprises in the PRC electronic components industry in 2010 was RMB119.4 billion, accounting for 14% of the entire industry, whose sales revenue was RMB1.1 trillion.

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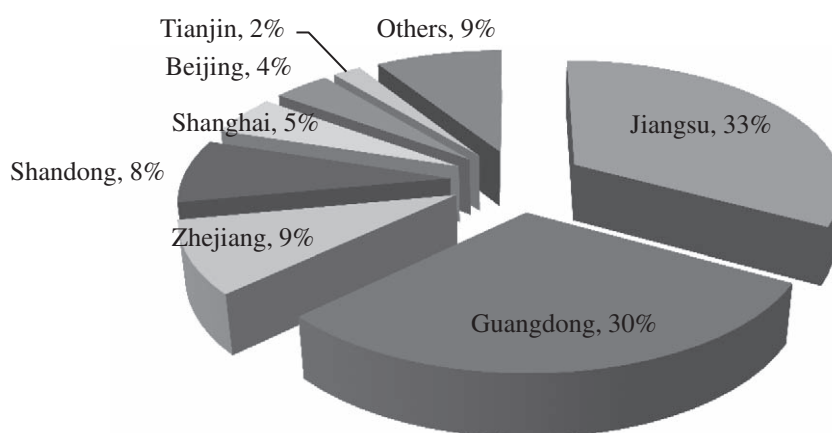
## INDUSTRY OVERVIEW

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### Analysis of regional concentration in the PRC electronic components industry

The distribution of the electronic components industry has long maintained its regional characteristics. It scatters along the eastern coast of the Pearl River Delta, the Yangtze River Delta and the Bohai Rim. This is mainly because the economies of these regions are relatively more developed with a larger share of foreign trade economy in terms of electronic components, which would enhance the industrial standards especially in the Guangdong, Jiangsu and Shanghai Provinces. Within these regions, while the business revenue of the electronic components industry in the Jiangsu Province accounts for around 33% of the total national revenue, with Guangdong accounting for around 30%, the business revenues of the remaining provinces account for less than 10%. As a result, it can be observed that the PRC electronic components industry mostly scatters in the Jiangsu and Guangdong Provinces.

The following pie chart sets forth the regional concentration of the PRC electronic components industry in accordance with the sales revenue in 2014:



Source: 中國電子元件行業協會 (China Electronic Components Association) and as compiled and estimated by Yubozhiye

### Key market players in the PRC electronic components industry in accordance with their sales revenues

Electronic components industry is a large industry and covers many types of product. The electronic components industry has a large number of dispersed product market segments and each market participant is only able to manufacture few types of products. Therefore the market concentration is low.

Among the product market segments, the required skill level in the production of some products is relatively low. Some core components such as silicon steel, wire, and plastic could be outsourced and then be assembled internally, which leads to the development of a large number of small to medium sized companies, and market concentration is also low. Even well-known market players only manufacture few types of products, and their market shares in a specific product market segment are also small.

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## INDUSTRY OVERVIEW

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According to Yubozhiye, the five selected companies are relatively well-known among the market and are at the forefront of the market given their brand recognition, production automation, scale of operation and reputation. They manufacture transformer, switching mode power supply, battery charger or PCB products or a combination of them. Products of the selected top market players were sold to various countries in the world and have obtained various countries' product safety and environmental certifications such as CE, CCC, CQC, GS, TUV and etc.

In 2014, the PRC transformer market recorded sales of about RMB45.1 billion, switching mode power supply market recorded sales of about RMB137.3 billion, battery charger market recorded sales of about RMB44.1 billion, and PCB products market recorded sales of about RMB 174.7 billion. These markets recorded a total sales of about RMB401.2 billion.

The following table sets forth the selected top market players in the PRC electronic components industry in accordance with their sales revenues in 2014:

Market player	Sales revenue (RMB100 million)	Market share of the identified 4 specific markets (%)
Company A	14.0	0.35
Company B	13.5	0.34
Company C	10.0	0.25
Company D	8.3	0.21
Company E	7.2	0.18
He Yuan Sky Wealth	1.3	0.03

*Source: as compiled and estimated by Yubozhiye*

According to Yubozhiye, the toroidal transformer market is estimated to account for a market share of about 25% of the entire transformer market. As such, considering the sales of transformers in the PRC was about RMB45.1 billion in 2014, the sales of toroidal transformer would be approximately RMB11.3 billion.

## INDUSTRY OVERVIEW

The following table sets forth the selected top market players in the PRC electronic components industry in accordance with their sales revenues of toroidal transformer in 2014:

Market player	Sales revenue (RMB100 million)	Market share of specific product market segment (%)
Company D	1.3	1.15
He Yuan Sky Wealth	0.6	0.50
Company B	0.5	0.44
Company E	0.5	0.44
Company A	0.4	0.35
Company C	0.3	0.27

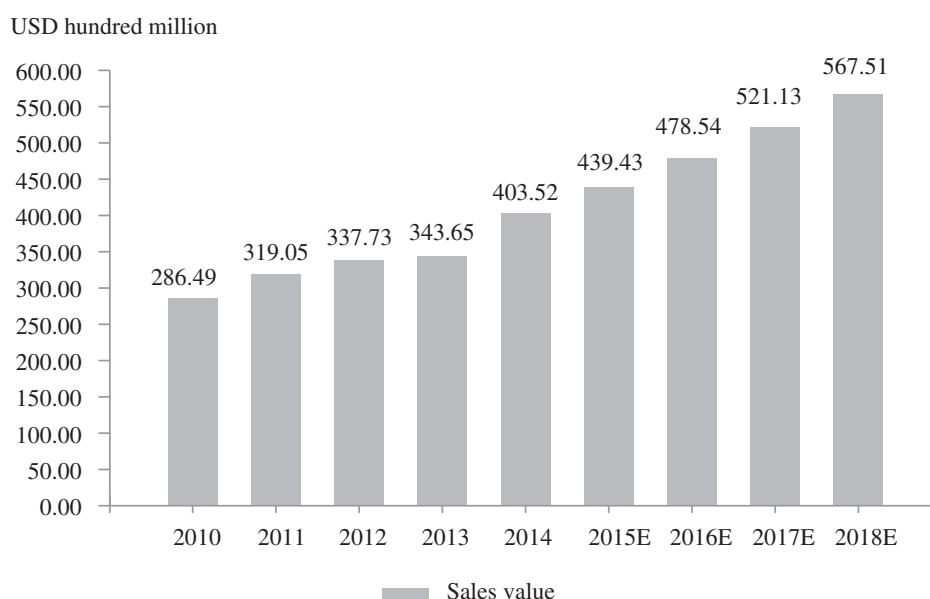
Source: as compiled and estimated by Yubozhiye

## OVERVIEW OF THE GLOBAL ELECTRONIC COMPONENTS

### Transformer

The total sales value of transformer globally increased from USD28.6 billion in 2010 to USD40.4 billion in 2014, representing a CAGR of 8.9% over the period. It is forecasted that the total sales value will further increase to USD56.8 billion in 2018, showing a CAGR of 8.9% from 2015 to 2018.

The following diagram sets forth the actual and forecast sales value of electronic transformer globally from 2010 to 2018, which forecasts a moderate growth trend. The forecast growth is based on the historical growth from 2010 to 2014 and on assumption that there will not be substantial change in the technical aspects of the products and/or drastic fluctuation in the industry.



Source: 大比特資訊網 (Big-Bit.com) and as compiled and estimated by Yubozhiye



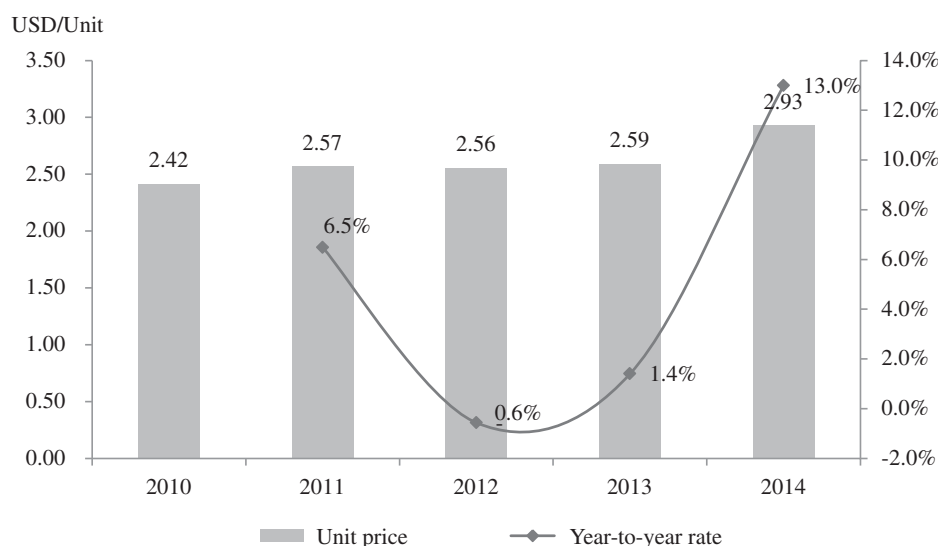
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## INDUSTRY OVERVIEW

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Along with the development of society and rising living standards of mankind, there is a continuous increase of demand for electrical and electronic products which fosters a greater demand for transformers as well. Transformers are also applicable in medical, energy, automation equipment and professional audio industries. Because of our aging population and rising reliance on automatic equipment in workplaces and daily life, it is anticipated those relevant downstream industries will continue to grow. As such, the demand for transformers is growing steadily. Sales of transformer products are expected to increase continuously in the future if there is no material change in the structure of electronic components industry, primarily as a result of growing demand and economic development.

The following diagram sets forth the trend of the export price of the transformer of the PRC from 2010 to 2014, which shows a growth during the period mainly attributable to appreciation in RMB exchange rate and increases in labour costs.



Source: Customs of the PRC and as compiled and estimated by Yubozhiye

### PCB products

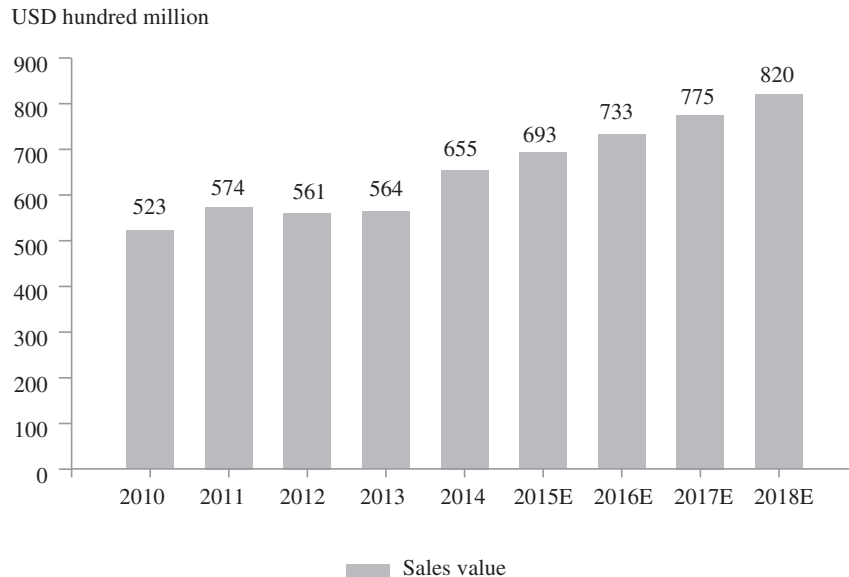
The total sales value of PCB products globally increased from USD52.3 billion in 2010 to USD65.5 billion in 2014, representing a CAGR of 5.8% over the period. The total sales value is expected to increase to USD82.0 billion in 2018, representing a CAGR of 5.8% from 2015 to 2018.

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## INDUSTRY OVERVIEW

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The following diagram sets forth the actual and forecast sales value of PCB products globally from 2010 to 2018, which forecasts a moderate growth trend. The forecast growth is based on the historical growth from 2010 to 2014 and on assumption that there will not be substantial change in the technical aspects of the products and/or drastic fluctuation in the industry.

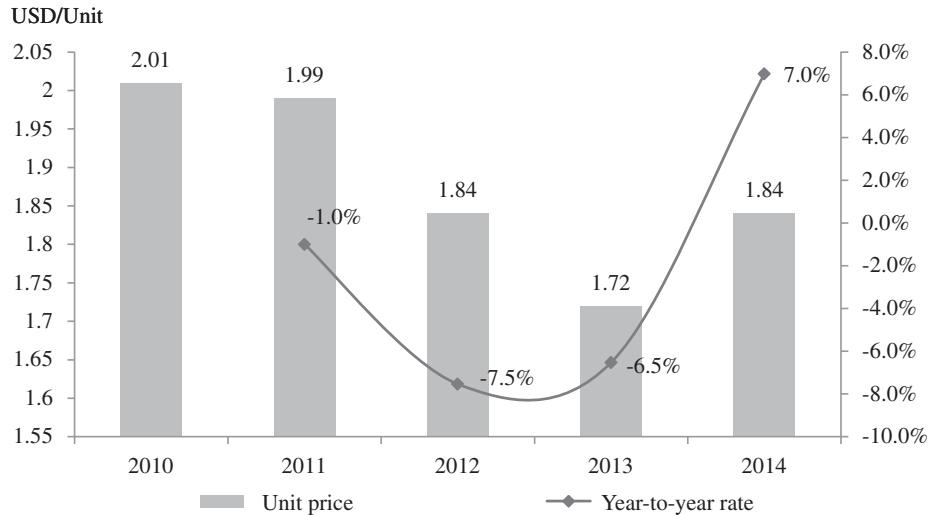


Source: 《印製電路信息》(Printed Circuit Board Information), Customs of the PRC and as compiled and estimated by Yubozhiye

As everyone pursuits for comfort and enjoyment, there is a constantly requirement for additional electronic products each year. Further, we are more and more reliant on automatic equipment in workplaces and daily life, so demand for PCB products also increases. Progress in electronic technology goes on and new innovative products continue to roll out. Accordingly, demand for PCB products continues to grow. On the other hand, application of PCB products can be found in industries such as medical, healthcare and automation equipment. With an aging population, requirement for electrical and electronic products in medical and healthcare sectors will definitely increase further. Sales of PCB products are expected to increase continuously in the future if there is no material change in the structure of the electronic industry, primarily as a favourable result of growing demand and economic development.

## INDUSTRY OVERVIEW

The following diagram sets forth the trend of the export price of the PCB products of the PRC from 2010 to 2014, which shows a fluctuation in growth during the period. This is primarily a reflection of initial price declines as a result of fierce competition within PCB products segment in the earlier years followed by the product price increases driven by appreciation in RMB exchange rate and increases in labor costs.



Source: Customs of the PRC and as compiled and estimated by Yubozhiye

### Switching mode power supply product

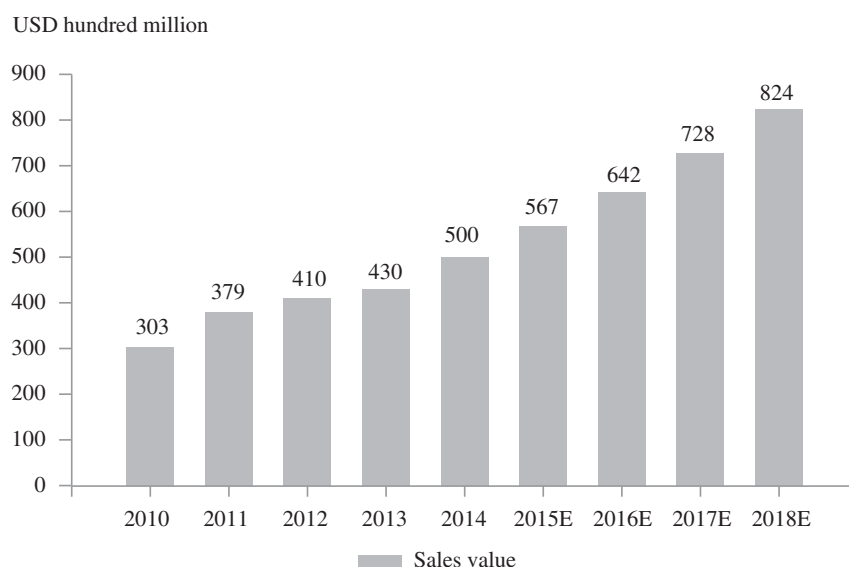
The total sales value of switching mode power supply product globally increased from USD30.3 billion in 2010 to USD50.0 billion in 2014, representing a CAGR of 13.3% over the period. It is expected that the total sales value of switching mode power supply product will further increase to USD82.4 billion by 2018, showing a CAGR of 13.3% from 2015 to 2018.

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## INDUSTRY OVERVIEW

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The following diagram sets forth the actual and forecast sales value of switching mode power supply globally from 2010 to 2018, which forecasts a decent growth trend. The forecast growth is based on the historical growth from 2010 to 2014 and on assumption that there will not be substantial change in the technical aspects of the products and/or drastic fluctuation in the industry.

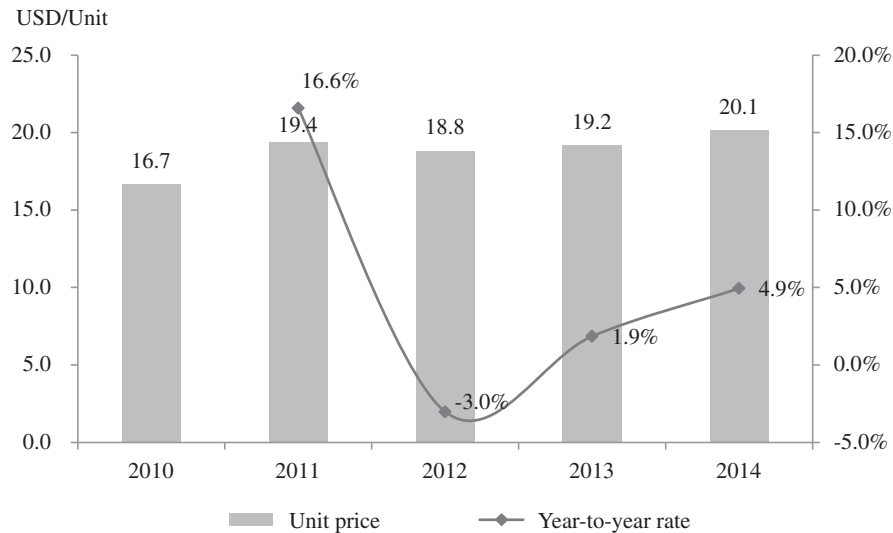


Source: 中國電源學會 (China Power Supply Society) and as compiled and estimated by Yubozhiye

Switching mode power supply products are generally designed for applications in medium and small size electronic products such as mobile phones and laptops. In response to human pursuit for comfort and enjoyment, there is a constantly growing demand for consumer electronic products fostered by acceleration of technology upgrade in electronic products. The development gives a boost to the demand for switching mode power supply products. Sales of switching mode power supply products are expected to increase continuously in the future if there is no material change in the structure of the electronic industry, primarily as a favourable result of growing demand and economic development.

## INDUSTRY OVERVIEW

The following diagram sets forth the trend of the export price of the switching mode power supply products of the PRC from 2010 to 2014, which shows a growth during the period mainly attributable to appreciation in RMB exchange rate and increases in labor costs.

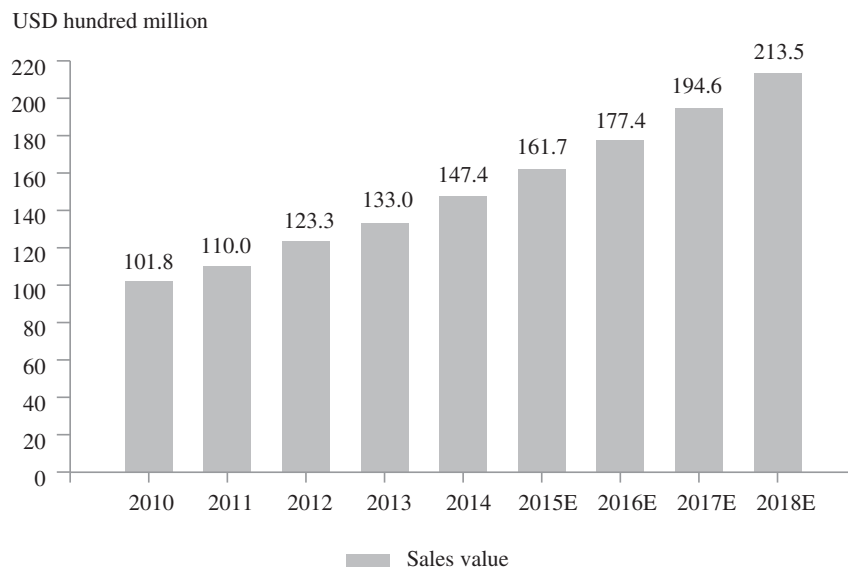


Source: Customs of the PRC and as compiled and estimated by Yubozhiye

### Battery Charger

The total sales value of battery charger globally increased from USD10.2 billion in 2010 to USD14.7 billion in 2014, representing a CAGR of 9.7% over the period. The total sales value is expected to increase to USD21.4 billion in 2018, demonstrating a CAGR of 9.7% from 2015 to 2018.

The following diagram sets forth the actual and forecast sales value of battery charger globally from 2010 to 2018, which forecast a moderate growth trend. The forecast growth is based on the historical growth from 2010 to 2014 and on assumption that there will not be substantial change in the technical aspects of the products and/or drastic fluctuation in the industry.



Source: Customs of the PRC, 阿里巴巴(中国)网络技术有限公司 (Alibaba.com), as compiled and estimated by Yubozhiye

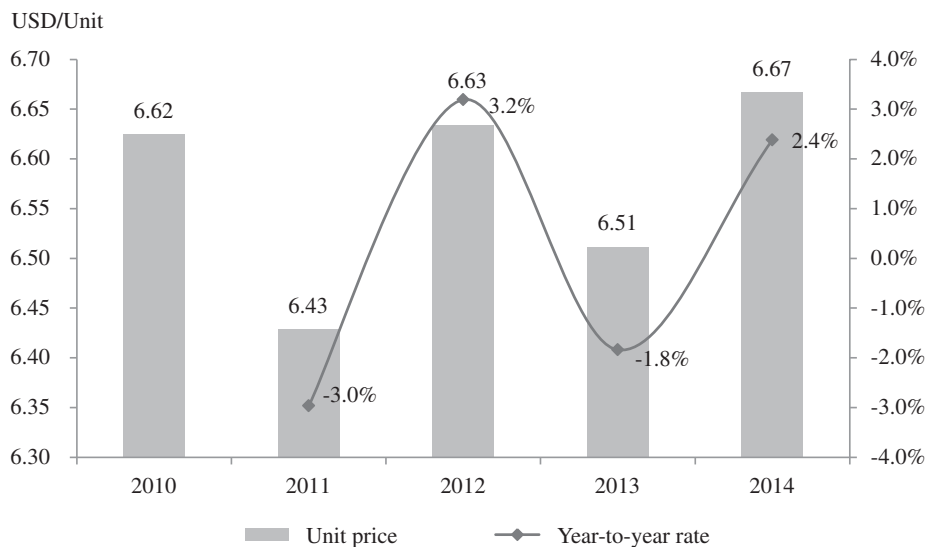
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## INDUSTRY OVERVIEW

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Battery chargers are generally categorized into household or machine applications. Battery chargers for household usages are for charging mobile devices and household appliances. Battery chargers for machines are for charging lead-acid batteries. Lead-acid batteries are widely used in cars, motorcycles, golf carts and other small electric vehicles with power generated from internal combustion engines. Because of the widespread usage of mobile devices, the increase in demand for batteries also boosts demand for battery chargers. Battery chargers for machine applications are more sophisticated in terms of technology, and this sector has relatively less competition and steadily growing demand. Sales of battery chargers are expected to increase continuously in the future if there is no material change in the structure of the electronic industry, primarily as a favourable result of growing demand and economic development.

The following diagram sets forth the trend of the export price of the battery charger of the PRC from 2010 to 2014, which shows a fluctuation in growth during the period mainly attributable to many factors, including but not limited to the short term fluctuation in raw material prices and increases in labor costs.



Source: Customs of the PRC and as compiled and estimated by Yubozhiye

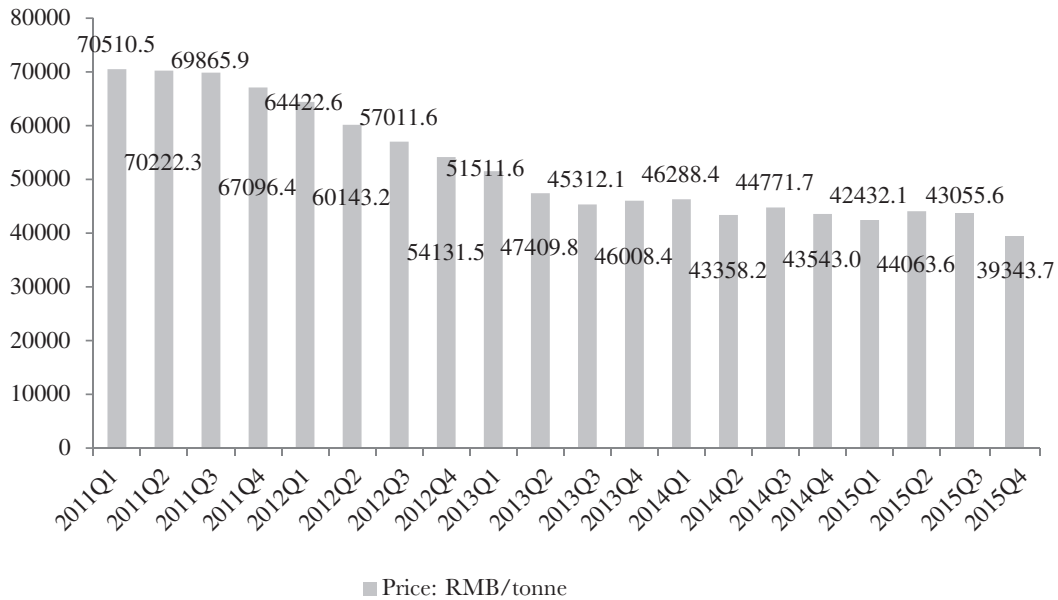
## RAW MATERIALS

### Historical prices of major raw materials

Copper is the major raw material in manufacturing of electronic wire products. The price of copper decreased from RMB70,510.5 per tonne at the first quarter of 2011 to RMB46,008.4 per tonne at the fourth quarter of 2013, which further decreased to RMB39,343.7 per tonne at the fourth quarter

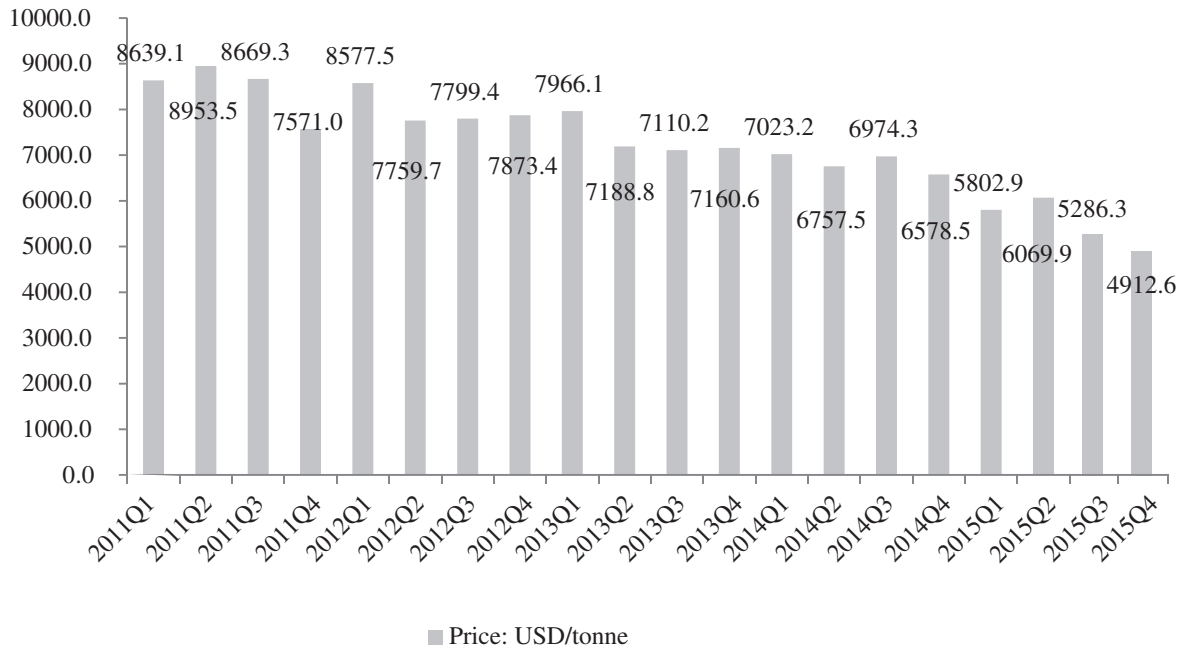
## INDUSTRY OVERVIEW

of 2015. The decrease in the price of copper is mainly due to the economy slowdown of the “BRIC” countries, the reduction of copper inventory, the US hold off of the Quantitative Easing (QE) policy and slow economic recovery of the EU. The following diagram sets forth the historical price of copper in the PRC from 2011 to 2015:



Source: 長江有色金屬網 ([www.ccmn.cn](http://www.ccmn.cn)), Yubozhiye

The chart below shows the LME price of copper from 2011 to 2015:



Source: 銅之家 ([copperhome.net](http://copperhome.net)), Yubozhiye



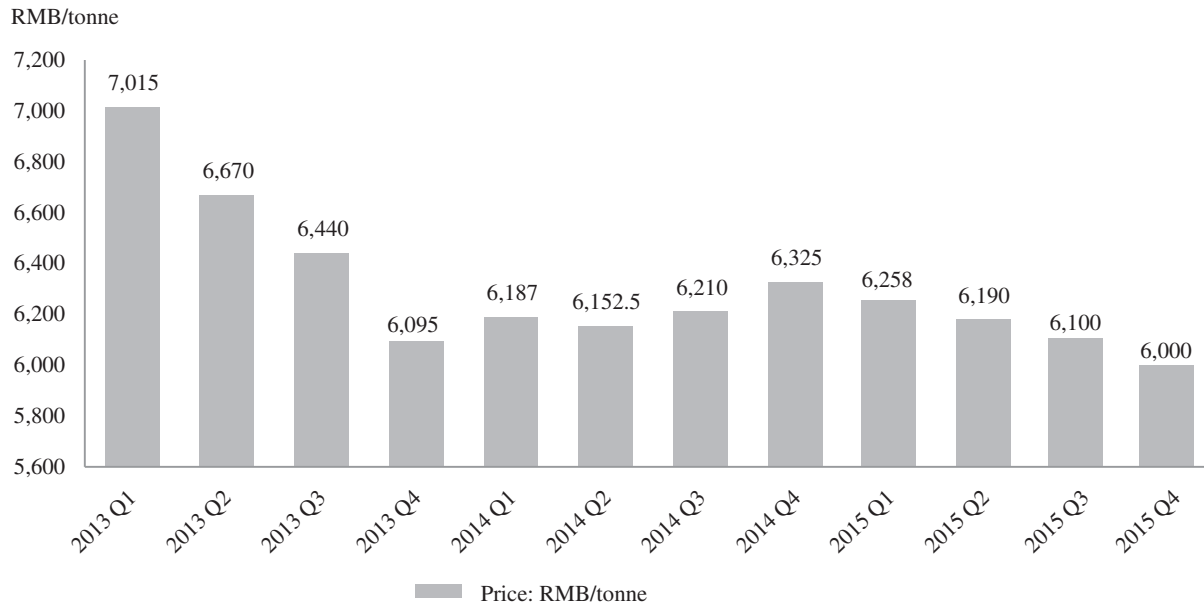
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## INDUSTRY OVERVIEW

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The unit price of silicon steel decreased from RMB7,015 per tonne in the first quarter of 2013 to RMB6,325 per tonne in the fourth quarter of 2014 and to RMB6,000 per tonne in the fourth quarter of 2015. The decrease is mainly due to overproduction in steel industry in recent years.

The following diagram sets forth the prices of silicon steel sheets in the PRC from 2013 to 2015:



### BARRIERS OF ENTRY

#### Barrier of entry to the electronic components industry

The application scope of products with magnetic and electronic components is complex and sophisticated. Accordingly, the relevant products are not only expected to be designed rationally but the use of high-quality raw materials and advanced processes and equipment in manufacturing those products is required.

Accordingly, huge customers have stringent requirements when it comes to choosing their desirable suppliers. Their expectation remains high in the research and development capability, responsiveness, product testing standards and the after-sales service of the suppliers. Once those customers establish a stable business relationship with the suppliers, their connections will usually last long, creating a barrier to entry to other market participants to the electronic components industry.

#### Certification barrier

Countries have more stringent requirements over electronic products in terms of product safety and environment friendliness as consumers have placed increasing emphasis on these aspects. The European Union, the US, China etc. have required manufacturers of electronic products to obtain relevant environmental and safety certifications for their export products. Considerable resources and time need to be devoted and a high standard of research and development and manufacturing capability need to be achieved in order to obtain such environmental and safety certifications. Hence, new market entrants will be confronted with entry barrier in relation to certifications.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### APPLICATION LAWS AND REGULATIONS IN THE PRC

This section summarises the PRC laws and regulations pertaining to our group's operation and business.

#### Establishment, Operation and Management of a Wholly Foreign-owned Enterprise

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the “Company Law”), which was promulgated by the Standing Committee of the National People's Congress on 29 December 1993 and was effective as of 1 July 1994, which was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively. The Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. The Company Law also applies to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of wholly foreign-owned enterprises are governed by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “Wholly Foreign-owned Enterprise Law”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulation under the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which was promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014, respectively.

Foreign investors and foreign-owned enterprises that conduct any investments in the PRC must comply with the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “Catalogue”), which was amended and promulgated by MOFCOM and NDRC on 10 March 2015. The Catalogue, as amended, became effective on 10 April 2015 and contains in detail categories of industries in which foreign investment is encouraged, restricted or prohibited. Any industry that is not listed in the Catalogue is a permitted industry. The Catalogue is subject to review and update by the Chinese Government from time to time.

#### Laws and Regulations in relation to Import and Export of Goods

Pursuant to the Regulations of the PRC on the Administration of Import and Export of Goods (中華人民共和國貨物進出口管理條例) promulgated on 10 December 2001, the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) amended on 6 April 2004, the Customs Law of the PRC (中華人民共和國海關法) amended on 28 December 2013, the Measures for Record Filing and Registration by Foreign Trade Dealer (對外貿易經營者備案登記辦法) promulgated on 25 June 2004 by the MOFCOM, and the Administrative Provisions of the Customs of the PRC Registration of Declaring Entities (中華人民共和國海關報關單位註冊登記管理規定) promulgated on 13 March 2014 by General Administration of Customs of the PRC, foreign trade business operators engaging in the import or export of goods or technology must go through the record filing and registration formalities

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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with the MOFCOM or the agency entrusted by the MOFCOM. Unless otherwise provided by laws and regulations, the PRC government allows free export and import of goods and technologies, and protects the intellectual property rights associated with international trade. Unless otherwise provided for, the declaration of import or export goods and the payment of duties may be made by the consignees or consigners themselves, or by entrusted customs brokers that have been registered with the customs. The consignor and consignee refer to the legal person, any other organizations or individuals that are directly engaged in the import or export of goods within the territory of the PRC. A consignee or consignor of imported or exported goods must handle registration as a declaring entity at the local customs. After registration, they may make a customs declaration for themselves at all ports within the territory of the PRC.

The Interim Measures on the Administration of Examination and Approval of Processing Trade (加工貿易審批管理暫行辦法) were issued by the then PRC Ministry of Foreign Trade and Economic Cooperation on 27 May 1999 and became effective on 1 June 1999, pursuant to which, foreign invested enterprises must obtain the approval from the competent authorities in charge of foreign investment and trade so as to undertake the processing trade business. For the purpose of applying for such approval, foreign invested enterprises are required to first obtain the Certificate for Production Capacity of Processing Enterprise in Processing Trade (加工貿易加工企業生產能力證明) issued by the local authorities in charge of foreign investment and trade, and then submit the certificate, processing agreement and other related documents to the competent authorities. The competent authorities will assess the applications in accordance with the aforesaid measures and other relevant laws and regulations, and issue the Processing Trade Approval Certificate (加工貿易業務批准證) to the qualified enterprises.

Pursuant to the Measures of the Customs of the PRC on the Control of Processing Trade Goods (中華人民共和國海關加工貿易貨物監管辦法) promulgated by the General Administration of Customs, effective on 12 March 2014, the operating enterprises engaged in processing trade and processing enterprises shall accept the supervision and administration by the customs and go through the procedures for establishment of processing trade goods brochure, import and export declaration, processing, regulation, and verification procedures.

Pursuant to the Measures on Customs Supervision and Control over Bonded Zones (保稅區海關監管辦法) promulgated by the General Administration of Customs on 1 August 1997 and revised on 8 January 2011, the Customs shall carry out supervision and control over goods moving between a bonded zone and non-bonded areas in accordance with the relevant provisions of the State concerning administration of import and export. Goods entering non-bonded areas from a bonded zone shall have Customs formalities processed as import goods; goods entering a bonded zone from non-bonded areas shall have Customs formalities processed as export goods and export tax refunds shall be dealt with in accordance with the relevant provisions of the State.

Pursuant to the Interim Measures on Taxation Administration of the Export-processing Zone (出口加工區稅收管理暫行辦法) promulgated by SAT on 26 October 2000 and amended on 14 June 2012, the goods from enterprises outside of the export-processing zone to the export-processing zone shall be regarded as export goods, and the customs shall transact export customs declaration procedures on them, and sign and issue export customs declaration bill for the drawback.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### **Taxation**

#### ***Enterprise Income Tax***

On 16 March 2007, the NPC passed the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “Enterprise Income Tax Law”), and on 6 December 2007, the State Council issued the Implementation Rules of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (the “Implementation Rules of the Enterprise Income Tax Law”), both of which became effective on 1 January 2008, and apply a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises.

The Enterprise Income Tax Law provides that enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” of the PRC. Under the Implementation Rules of the Enterprise Income Tax Law, “de facto management body” is defined as a body that has material and overall management and control over the business operations, personnel, accounts and properties.

Under the Enterprise Income Tax Law and the Implementation Rules of the Enterprise Income Tax Law, PRC income tax at the rate of 10% is generally applicable to dividends payable to investors that are “non-resident enterprises”. Non-resident enterprises refer to enterprises which are established according to the law of a foreign country (region) and whose de facto management body is not in China, but which have established agencies or offices in China, or which haven’t established agencies or offices in China but have income earned in China. Any gain realized on the transfer of ordinary shares by such investors is also subject to 10% PRC income tax if such gain is considered as income derived from sources within the PRC. Under the Implementation Rules of the Enterprise Income Tax Law, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income.

Moreover, non-resident individual investors could be required to pay PRC individual income tax on interests or dividends payable to the investors or any capital gains realized from the transfer of ordinary shares if such gains are deemed income derived from sources within the PRC. Under the Individual Income Tax Law (2011 amendment) of the PRC (中華人民共和國個人所得稅法), non-resident individual refers to an individual who has no domicile in the PRC and does not stay in the territory of the PRC or who has no domicile in the PRC and has stayed in the territory of the PRC for less than one year. Pursuant to the Individual Income Tax Law of the PRC and its implementation rules, for purposes of the PRC capital gains tax, the taxable income will be the balance of the total income obtained from the transfer of ordinary shares minus all the costs and expenses that are permitted under PRC tax laws to be deducted from the income.

#### ***Value-added Tax***

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) (the “Provisional Regulations on VAT”), which became effective from 1 January 1994 and were amended on 5 November 2008 and its implementation rules, which were promulgated on 25 December 1993 and amended in 2008 and 2011, all entities or individuals in the PRC engaged in the

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is generally 17% or in certain limited circumstances, 13%, depending on the product nature.

### Market Competition

Competitions among the business operators in the PRC are generally governed by the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) (the “Anti-Unfair Competition Law”), which was promulgated on 2 September 1993 and came into effect on 1 December 1993. According to the Anti-Unfair Competition Law, corporations, other economic organizations and individuals who are engaging in the trading of goods or profit-making services shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Business operators shall not conduct acts that damage the lawful rights and interests of other operators or that disturb the socio-economic order. Such acts include, but do not limit to counterfeit, libel, malicious exclusion, commercial bribery and trade secret infringement.

### Product Liability

The quality of the products manufactured by the Chinese companies is subject to the PRC Product Quality Law (中華人民共和國產品質量法) which was promulgated on 22 February 1993 and amended on 8 July 2000. According to this law, manufacturers shall be liable for the quality of products produced by them and sellers shall take measures to ensure the quality of the products sold by them. A manufacturer shall be liable to compensate for any bodily injuries or damage to property other than the defective product itself resulting from the defects in the product unless the manufacturer is able to prove that: (1) the product has never been circulated; (2) the defects causing injuries or damage did not exist at the time when the product was circulated; or (3) the science and technology at the time when the product was circulated were at a level incapable of detecting the defects. A seller shall be liable to compensate for any bodily injuries or damage to property of others caused by the defects in the product if such defects are attributable to the seller. A seller shall pay compensation if it fails to indicate neither the manufacturer nor the supplier of the defective product. A person who is injured or whose property is damaged by the defects in the product may claim for compensation from the manufacturer or the seller.

Pursuant to the General Principles of the Civil Law of the PRC (中華人民共和國民法通則), promulgated by the National People’s Congress on 12 April 1986, amended and became effective on 27 August 2009, both manufacturers and sellers shall be held liable where relevant substandard products result in damage to property of others or bodily injuries.

Pursuant to the Tort Liability Law of the PRC (中華人民共和國侵權責任法), promulgated by the Standing Committee of the NPC on 26 December 2009 and became effective on 1 July 2010, manufacturers shall assume tort liability where the defects in relevant products cause damage to others. Sellers shall assume tort liability where the defects in relevant products causing damage to others are attributable to the sellers. The aggrieved party may claim for compensation from the manufacturer or the seller of the relevant product in which the defects have caused damage.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### Consumer Protection

The principal legal provisions for the protection of consumer interests are set out in the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法) (the "Consumers Protection Law"), which was promulgated on 31 October 1993 and came into effect on 1 January 1994. It was subsequently revised on 27 August 2009 and 25 October 2013 respectively. According to the Consumers Protection Law, the rights and interests of the consumers who buy or use commodities or receive services for the purposes of daily consumption are protected and all producers, service providers and distributors involved must ensure that the products and services will not cause damage to persons and properties. Violations of the Consumer Protection Law may result in the imposition of fines. In addition, if the circumstances are serious, the operator will be ordered to suspend operations and its business license will be revoked. Criminal liability may be incurred in some serious cases in accordance with the relevant PRC law.

### Laws and Regulations in relation to Labor Law and Social Security

PRC companies are mainly subject to the following labor laws and regulations: the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the PRC Social Insurance Law (中華人民共和國社會保險法), the Regulations of Insurance for Employment Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulations on the Collection of Social Insurance Premium (社會保險費徵繳暫行條例), Regulations on Management of Housing Provident Fund (住房公積金管理條例) and other relevant regulations, rules and circulars issued by the competent governmental authorities.

Pursuant to the PRC Labor Law and the PRC Labor Contract Law, when an employer hires an employee, it should sign a written labor contract with the employee, and the employees' salary must not be lower than the local minimum wage standard.

As required under the PRC Social Insurance Law, the Regulations of Insurance for Employment Injury, Regulations on Unemployment Insurance, the Provisional Measures on Insurance for Maternity of Employees the Interim Provisions on Registration of Social Insurance, the Interim Regulations on the Collection of Social Insurance Premium, employers in the PRC are obligated to contribute to pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance for its employees.

In accordance with the Regulations on Management of Housing Provident Fund promulgated on 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the relevant Housing Provident Fund Management Center, open a special housing provident fund account at a commissioned bank and pay housing provident fund contributions for their employees.



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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### Work safety

The Law of the PRC on the Work Safety (中華人民共和國安全生產法) was promulgated by the Standing Committee of the National People's Congress on 29 June 2002 and amended for the first time on 27 August 2009 and for the second time 31 August 2014. Pursuant to the law, enterprises shall meet with the conditions for work safety as required by relevant laws and regulations, and national standards or industrial specifications. Enterprises having more than 100 employees shall establish a department to carry out work safety management or have personnel solely responsible for work safety management. Enterprises shall provide their employees with education and training on the work safety so as to ensure that the employees have necessary knowledge regarding work safety, are familiar with the relevant work safety rules and operating procedures, possess safe operation skills required for their respective positions, understand the emergency handling measures for accidents and are aware of their rights and obligations in respect of work safety. The employees performing special functions as defined by the work safety supervision department of the State Council must receive special training on the work safety and hold the relevant qualification certificate for performing the special functions.

### Environmental Protection

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the "Environmental Protection Law"), which was promulgated on 26 December 1989, amended on 24 April 2014 and became effective on 1 January 2015:

- environmental assessment must be conducted on a construction project and such environmental impact statement must be approved by the environmental authority before the construction project can be approved;
- any entity that discharges pollutants must establish a responsibility system for environmental protection to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- in a construction project, environmental pollution prevention and treatment facilities must be designed, constructed and put into operation at the same time with the principal part of the construction project; facilities for the prevention and control of pollution shall conform to the requirements of the approved document of environment impact assessment and shall not be dismantled or left idle without permission;
- a construction project can only be put into operation after the related environmental pollution prevention and treatment facilities have been approved and accepted by the environmental protection authorities;
- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities, and shall discharge pollutants according to pollutant emission license and shall not discharge pollutants without obtaining the pollutant emission license; and

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee for the excessive discharge.

Violation of the Environmental Protection Law may result in fines, suspension of operations, closure of operations or even criminal liabilities.

Enterprises in the PRC must comply with the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) effective from 1 June 2008, the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) effective from 1 January 2016 and the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法) effective from 1 March 1997. These laws regulate extensive issues in relation to the environment protection including waste water discharge, air pollution control and noise emission. Pursuant to these laws, all the enterprises that may cause environmental pollution in the course of their production and business operation shall introduce environmental protection measures in their plants and establish a reliable system for environmental protection. Enterprises are required to adopt effective measures to prevent and control the level of environmental pollution and hazards produced during the process of production, construction or other activities. Enterprises must obtain the license for discharge of waste water and atmospheric pollutants and the discharged waste water and atmospheric pollutants shall meet with the applicable State and local standards.

### **Environmental Protection Regulations for Construction Projects**

The Administrative Regulations on the Environmental Protection of Construction Projects (建設項目環境保護管理條例) were promulgated by the State Council and became effective on 29 November 1998. The Law of the PRC on Environmental Impact Assessment (中華人民共和國環境影響評價法) was adopted by the Standing Committee of National People's Congress and became effective on 1 September 2003. The law and regulations require an environmental impact assessment to be completed prior to the construction of a project and establish a three-tier system for the environmental impact assessments. In the case of a construction project that may cause significant environmental impacts, a report of environmental impacts shall be completed by a qualified institution and includes a full assessment of environmental impacts. In the case of a construction project that may cause gentle environmental impacts, a report form shall be completed by a qualified institution and includes an analysis or special assessment of environmental impacts. In the case of a construction project that may cause little environmental impacts, where an environmental impact assessment is unnecessary, a registration form shall be filled in. The catalogue for the classified management of environmental impact assessments for construction projects is formulated and issued by the environmental protection administration department of the State Council. The environmental impact assessment documents shall be submitted to the competent administrative department responsible for environmental protection for review and approval. In absence of such approval, the permission for construction of the project will not be granted and the construction shall not be started.

Pursuant to the Administrative Regulations on the Environmental Protection of Construction Projects and the Administrative Measures on Environmental Protection Inspection and Acceptance for Completion of Construction Projects (建設項目竣工環境保護驗收管理辦法) issued by the Ministry of Environmental Protection of the PRC on 27 December 2001 and effective from 1 February 2002 and



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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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revised on 22 December 2010, once a construction project is completed, the entity responsible for the construction shall apply to the competent environmental protection administration authority for the inspection and acceptance of the project. The entity is required to provide the authority with an application report, application form or registration form, together with the applicable environmental protection monitoring or investigation document, depending upon the type of the environmental impact assessment document applicable to it. The authority will carry out the inspection and acceptance within the prescribed time limit and grant its approval on the construction project that satisfies the conditions for acceptance set forth in the aforesaid rules. In the absence of such approval, the construction project shall not be put into production or operation.

### **Law on hazardous waste management**

The Law of the PRC on Prevention and Control of Environmental Pollution from Solid Waste (中華人民共和國固體廢物污染環境防治法) was adopted by the Standing Committee of the National People's Congress on 30 October 1995, revised on 29 December 2004, amended for the first time on 29 June 2013 and amended for the second time on 24 April 2015. As authorized by the law, the Ministry of Environmental Protection and National Development and Reform Commission jointly issued the National Catalogue of Hazardous Wastes (國家危險廢物名錄) (2008), which took effect as of 1 August 2008.

Pursuant to the law, the enterprises generating hazardous waste must formulate hazardous waste management plans. The plans shall set forth the measures for mitigating the quantity and level of hazard of the generated hazardous waste and be filed with the competent environmental protection administration department for record. The enterprises shall also report to the competent environmental protection administration department in respect of the type, quantity, flow direction, storage and treatment of the hazardous waste and other relevant information. The enterprise shall not dump or pile up the hazardous waste without authorization, and may entrust an enterprise which holds a business license for collection, storage, utilization and treatment of hazardous waste to dispose of the hazardous waste. The enterprises that intend to transfer hazardous waste to another place shall fill in duplicate forms for transfer of hazardous waste and submit an application to the local environmental protection administration department at the place where the hazardous waste is to be moved out. The hazardous waste may be transferred only with such authority's approval.

### **Foreign Currency Exchange and Dividend Distribution**

#### ***Foreign Currency Exchange***

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the "Foreign Exchange Administration Rules"), promulgated by the State Council on 29 January 1996, effective on 1 April 1996 and amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital account items, such as direct investment, loans or investment in securities outside China, unless prior approval of the State Administration of Foreign Exchange ("SAFE") is obtained.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside China are subject to limitations and require approvals from SAFE.

On 30 March 2015, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises (Hui Fa [2015] No. 19) (“Circular 19”) (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知(匯發[2015]19號), which became effective on 1 June 2015. The Circular 19 stipulates that foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis. A foreign-invested enterprise shall not use its capital and the RMB funds obtained from foreign exchange settlement for any of the following purposes: (1) it shall not, directly or indirectly, use the foregoing funds for expenditure beyond its business scope or expenditure prohibited by State laws and regulations; (2) it shall not, directly or indirectly, use the foregoing funds for investment in securities, unless otherwise prescribed by laws and regulations; (3) it shall not, directly or indirectly, use the foregoing funds for disbursing RMB entrusted loans (unless permitted under its business scope), repaying inter-corporate borrowings (including third-party advances) and repaying RMB bank loans that have been sub-lent to third parties ; or (4) it shall not use the foregoing funds to pay for the expenses related to the purchase of real estate not for self-use, unless it is a foreign-invested real estate enterprise. Violations of the SAFE Circular 19 could result in punishment by foreign exchange bureaus.

### ***Dividend Distribution***

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law and the Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 April 1986 and amended on 31 October 2000, and promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014, respectively.

Under these regulations, wholly foreign-owned enterprises in China can pay dividends only from accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds until the accumulated reserve amounts to 50% of its registered capital. Such enterprises are also required to set aside funds for the employee bonus and welfare fund from their after-tax profits each year at percentages determined at their sole discretion. These reserves are not distributable as cash dividends.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### Foreign Exchange Registration

According to the Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”), which was promulgated on 4 July 2014 by SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they make contribution to any offshore special purpose vehicles with legitimate holdings of domestic or overseas assets or interests. According to the Circular 37, resident natural persons include those individuals who have PRC citizenship or other domestic legal status and those “individuals who do not have any domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests”. In accordance with the Appendix 1 of the Circular 37 i.e. Operating Guidelines for the Business Involved in the Foreign Exchange Administration of Round-trip Investment, “individuals who do not have domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests” mainly include the following:

- (1) individuals who have domestic permanent residence and leave this domestic permanent residence temporarily for reasons including overseas travel, study, medical treatment, work, or the requirements of overseas residence, etc., but return to the permanent residence after disappearance of the aforesaid reasons;
- (2) individuals who hold domestic-funded rights and interests in domestic enterprises; and
- (3) individuals who hold domestic-funded rights and interests in domestic enterprises which though were converted into foreign-funded rights and interests are still held by such individuals.

Based on the above: (i) He Yuan Sky Wealth has confirmed that all of its ultimate beneficial shareholders are permanent residents in Hong Kong and do not belong to “individuals who do not have domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests”; (ii) all ultimate beneficial shareholders of He Yuan Sky Wealth are not required to register pursuant to the Circular 37.

### PRC Regulations on the Issue and Listing of Shares Outside China and relevant Regulatory Approvals

According to the Circular on Further Strengthening Administration of the Issue and Listing of Shares Outside China (Guo Fa [1997] No. 21) (關於進一步加強在境外發行股票和上市管理的通知) which was promulgated by the State Council of the PRC came into effect on 20 June 1997 (the “Red Chip Guideline”). In the event that an unlisted overseas Chinese enterprise or a listed Chinese controlled enterprise applies for overseas listing where it has held its overseas assets or domestic assets for more than 3 years and these assets were obtained through investment of overseas asset, local laws will apply. However, domestic businesses that hold the share rights in the domestic-funded

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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enterprises shall obtain prior consent of the PRC Government at the provincial level or the competent authority of the State Council of the PRC. Those companies' assets within China that have been owned for less than three years may not be included in the application for issue and listing of shares outside China unless there is a special need to do so, under which circumstance the matter shall be examined by the China Securities Regulatory Commission and subsequently examined and approved by the State Council Securities Commission. Following completion of the listing activity, the domestic businesses that hold equity interests in the domestic-funded enterprise shall report to the China Securities Regulatory Commission for the record filing.

On 8 August 2006, MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, CSRC, SAT, SAIC and SAFE promulgated the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (“關於外國投資者併購境內企業的規定”) (the “M&A Rules”). The M&A Rules, which became effective on 8 September 2006 and was amended on 22 June 2009, applies in the event that foreign investors acquire PRC enterprises.

As no mergers or acquisitions of domestic enterprises have been involved in the issue and listing of shares of Keen Ocean International Holding Limited, the Red Chip Guideline and M&A Rules are not applicable to the listing of the Company and it is unnecessary for the Group to obtain approval from the PRC government authorities in respect of the listing of the Company for the reasons that He Yuan Sky Wealth was set up as a new wholly foreign owned enterprise on 24 October 2010 by a Hong Kong company owned by the controlling shareholders of Keen Ocean International Holding Limited and was owned by them since its establishment.

### U.S. LAWS AND REGULATIONS RELATING TO THE GROUP'S BUSINESS

#### Product Liability

With respect to product liability, products sold in the U.S. are generally subject to both statutory and common law liability.

Common law claims are generally made under three categories: (i) negligence claims; (ii) strict liability claims; and (iii) breach of warranty claims. Negligence claims are based on the notion that a product supplier has a duty of care to ensure the safety of its products but breaches that duty. Strict liabilities claims are related to the notion that certain products are inherently dangerous and their suppliers should be liable for an injury caused by a defective product without regard to duty or fault. Breach of warranty claims, to the extent not disclaimed, would be based upon goods not being as should be expected at the time the sale occurs, whether or not the defect is apparent. Statutory claims would likely come in the form of claims brought under relevant consumer protection laws.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### Quality and safety standards

#### *CPSC*

The Consumer Product Safety Act (“**CPSA**”) defines a “consumer product” as any article or component part (except certain products subject to other federal regulations, including products regulated by the U.S. Food and Drug Administration (“**FDA**”)), produced or distributed (i) for sale to a consumer for use, or (ii) for the personal use, consumption or enjoyment of a consumer, in or around home, school or recreation area.

The U.S. Consumer Product Safety Commission (“**CPSC**”) has jurisdiction over the safety of “consumer products” under the CPSA and the safety and labelling of “hazardous substances” under the Federal Hazardous Substances Act (“**FHSA**”). Products regulated by the FDA are specifically excluded from CPSC jurisdiction under these two statutes. However, under the Poison Prevention Packaging Act (“**PPPA**”), the CPSC has jurisdiction over the safety of packaging of all household substances. In 2008, the Consumer Product Safety Improvement Act (“**CPSIA**”) was enacted. It increased the CPSC’s budget, introduced new product testing and documentation requirements and established new acceptable levels for certain substances, including lead. The CPSIA also contains provisions intended to protect whistle-blowers who report violations of consumer product safety laws. It also increased penalties for consumer production safety violations.

The CPSA requires manufacturers, importers, distributors and retailer to submit reports to the CPSC when products they manufacture, import, distribute or sell pose an unreasonable risk to consumer safety, contains a defect that would create a substantial hazard, or fails to comply with applicable regulations. The CPSIA requires that manufacturers, including importers and labellers of products, certify that their products comply with all applicable CPSA consumer product safety rules, standards, regulations and prohibitions under any laws administered by the CPSC by issuing a certificate to accompany the product. The CPSC may seek an injunction against the distribution of any product that it deems to be an “imminent hazard”, seek corrective action (including voluntary or mandatory recalls) with regard to any product that it deems to present a “substantial hazard” and impose civil or criminal penalties for violations of the statute.

CPSC addresses product hazard and promote safety by providing technical support for voluntary standards activities for a wide range of consumer products. The 1981 amendments to the CPSA require CPSC to rely on a voluntary standard if CPSC determines that the voluntary standard adequately addresses the hazard and there is likely to be substantial compliance with the voluntary standard. Compliance with voluntary standards is not required by law and voluntary standards do not have the force of law. However, non-compliance with voluntary standards can inform a determination of a substantial product hazard by the CPSC that in turn can lead to CPSC enforcement actions. CPSC may exercise its expanded authority to place a product on the substantial products hazards list.

Power supply products sold in the U.S. may be submitted for testing by independent safety organisations such as UL and Intertek ETL. These bodies test a range of consumer products, including electric fireplaces, to ensure that they are safe for public use.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### THE EU REGULATORY FRAMEWORKS FOR PRODUCT LIABILITY/SAFETY AND CONSUMER PROTECTION

#### Background

In the European Union (“EU”), the regulatory frameworks relating to product liability and safety, and consumer protection comprise a complex body of directives. The directives seek to harmonise the law within these areas in the EU and must be transposed by each Member State through the adoption of national implementing legislation.

Most importantly, enforcement of the rules is the exclusive competence of national authorities in the various EU Member States. Thus, whilst the directives set out minimum common standards of product liability and consumer protection in the EU, the enforcement of their rules may (and, indeed, does) vary throughout the EU. Therefore, national laws and other measures which implement these directives should be researched separately to obtain a complete picture of the recourse avenues that are available to consumers in each EU Member State.

#### Product liability/safety directives

##### *Product Liability Directive (1985/374/EEC) (“PLD”)*

- (a) The PLD provides that a producer is liable for damage caused by a defect in his product. A ‘producer’ is defined as being:
  - (i) the producer of the product;
  - (ii) any person who, by putting his name on the product or using a trade mark or other distinguishing mark in relation to the product, has held himself out to be the producer of the product; or
  - (iii) any person who has imported the product into the EU.
- (b) A product will be treated as defective where it does not provide the safety that a person is entitled to expect, taking all the circumstances into account.
- (c) Where there is more than one producer, each may be jointly and severally liable.
- (d) Although liability under the directive is strict, there are several defences available to a producer:
  - (i) that the producer/distributor/own brander did not supply the product;
  - (ii) the state of scientific and technical knowledge at the time he supplied the product was not such that a producer might be expected to have discovered the defect;

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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- (iii) the defect was caused by complying with the law;
  - (iv) the defect was not in the product at the time it was supplied;
  - (v) the product was not supplied in the course for business; and
  - (vi) in relation to components, the defect was due to the design of the finished product, or to perfect the exact specifications, given to the component manufacturer by the producer of the finished product.
- (e) ‘Damage’ in the context of the and claims must be brought within three years from the date on which the consumer becomes aware, or should reasonably become aware, of the damage, the defect and the identity of the producer.

### ***General Product Safety Directive (2001/95/EC) (the “GPSD”).***

- (a) The key duties under the GPSD are:
- (i) for producers:
    - (A) to place only safe products on the market; and
    - (B) to provide consumers with appropriate information (for example, to enable them to assess the risks inherent in a product and to take precautions against those risks, monitor the safety of products placed on the market and, if necessary take appropriate action to avoid safety problems);
  - (ii) for distributors:
    - (A) not to supply products which they know or ought to know are not safe; and
    - (B) to monitor product safety, pass on information on product risks and co-operate in this regard with others.
  - (iii) for producers and distributors:
    - (A) where they know or ought to know that it has placed on the market or distributed an unsafe product, a duty to immediately advise the competent national authority; and
    - (B) a duty to cooperate with the competent authorities on action taken to avoid the risks posed by products which they have supplied or distributed.



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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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- (b) A 'producer' is defined widely under the GPSD as meaning:
  - (i) the manufacturer of the product, when he is established in the EU, and any other person presenting himself as the manufacturer by affixing to the product his name, trade mark or other distinctive mark, or the person who reconditions the product;
  - (ii) the manufacturer's representative, when the manufacturer is not established in the Community or, if there is no representative established in the EU, the importer of the product; or
  - (iii) other professionals in the supply chain, insofar as their activities may affect the safety properties of a product.
- (c) A 'distributor' is defined as meaning any professional in the supply chain whose activity does not affect the safety properties of a product.
- (d) The term 'safe product' is defined as meaning any product which, under normal or reasonably foreseeable conditions of use, presents either:
  - (i) no risk; or
  - (ii) only the minimum risks compatible with the product's use, considered to be acceptable and consistent with a high level of protection for the safety and health of persons.
- (e) A product is deemed to be a safe product where (in the absence of any specific EU legislation) it conforms to the specific rules of the member state in whose territory the product is marketed.

### *Sector Specific Directives*

- (a) Apart from the general effect of the PLD and the GPSD, there are directives which concern the safety of specific types of products, such as toys, medical devices and gas appliances.
- (b) In particular, the Low Voltage Directive (LVD) (2006/95/EC) requires, inter alia, that:
  - (i) member states take all appropriate measures to ensure that electrical equipment within certain voltage limits (between 50 and 1,000 V for alternating current and between 75 and 1,500 V for direct current) may be placed on the market only if, having been constructed in accordance with good engineering practice in safety matters in force in the EU, it does not endanger the safety of persons, domestic animals or property; and
  - (ii) before being placed on the market, the electrical equipment must have affixed to it the 'CE' marking to certify its conformity to the provision of the LVD.



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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### Consumer Protection Directives

#### *Unfair Commercial Practices Directive (2005/29/EC) (the “UCPD”)*

- (a) The UCPD seeks to harmonise all fair trading laws in all EU member states and does this by establishing a single regulatory framework to govern unfair commercial practices.
- (b) The directive prohibits generally unfair commercial practices — i.e. those which:
  - (i) do not comply with the standard of special skill and care that a trader may reasonably be expected to exercise towards consumers, commensurate with honest market practice and/or the general principle of good faith in the trader’s field of activity; and
  - (ii) distort or are likely to materially distort the economic behaviour with regard to the product of the average consumer whom it reaches or to whom it is addressed, or of the average member of the group when a commercial practice is directed to a particular group of consumers.

This prohibition is particularly intended to prevent the exploitation of vulnerable consumers (e.g. children, the elderly or the mentally or physically infirm).

- (c) Specifically, the directive also includes, inter alia, measures to address:
  - (i) misleading actions or omissions by a trader;
  - (ii) aggressive commercial practices; and
  - (iii) the use of harassment, coercion and undue influence.

#### *Miscellaneous Other Consumer Protection Directives*

Apart from the Unfair Commercial Practices Directive, other consumer protection directives include:

- (a) Misleading and Comparative Advertising Directive (2006/114/EC) which regulates the advertisement of goods or services either expressly or impliedly by reference to those offered by a competitor;
- (b) Privacy and Electronic Communications Directive (2002/58/EC) which regulates the processing of personal data relating to the delivery of communications services;
- (c) E-Commerce Directive (2000/31/EC) which sets up an internal market framework for electronic commerce by removing obstacles to cross-border online services in the EU internal market and enhancing competitiveness of European service providers;

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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- (d) Unfair Terms in Consumer Contracts Directive (93/13/EEC) which applies to standard form contracts and introduces a notion of “good faith” to redress any significant imbalances in the rights and obligations between consumers and sellers (plus a list of examples of terms that may be regarded as unfair);
- (e) Distance Selling and E-Commerce Directive (97/7/EC) which seeks to put the purchase of goods or services through means of distance communication (e.g. catalogue sales, teleshopping and e-commerce) on a similar footing to the purchase of goods or services in shops; and
- (f) Sale of Consumer Goods and Guarantees Directive (1999/44/EC) which aims to harmonise consumer sale contract law concerning guarantees.

### **Civil liability**

In addition to regulatory liability, there may also be civil claims in both contract (for breach of an implied term of the sale contract for not supplying a product is not of adequate quality) and tort (such as negligence for personal injury or property damage) in respect of product liability/safety and consumer protection.

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## HISTORY AND DEVELOPMENT

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### BUSINESS DEVELOPMENT

Our history can be traced back to 2000 when Keen Ocean Industrial was established to principally engage in the design, manufacture and sale of transformers, ferrite transformers and electronic products. At the time of its incorporation, Keen Ocean Industrial had three shareholders: Cyber Goodie, Mr. Chung Tin Ming and Mr. Yuen Wai Tong. Being the founder of our Group, since the establishment of our Group, Mr. Chung Chi Hang, Larry has been responsible for our strategic and financial planning and development. The funding of establishing Keen Ocean Industrial was all contributed by our Controlling Shareholder, Mr. Chung Chi Hang, Larry, and partial of his funding was supported by his father. Other shareholders contributed their knowledge in finance and accounting. Mr. Chung Tin Shing formally joined our Group in June 2001 who, together with his colleagues, developed the overseas sales network and the operation of Keen Ocean Industrial and became a shareholder of Keen Ocean Industrial since January 2003. Upon establishment of Keen Ocean Industrial, Mr. Lau Kwong Yiu was employed to be responsible to oversee the processing arrangement factory. Apart from founding the Group, Mr. Chung Chi Hang, Larry and Mr. Chung Tin Shing are not related to each other and not parties acting in concert.

Upon its incorporation, the production function of Keen Ocean Industrial was taken up by a processing factory, Lian Ping Ocean Factory under a contract processing arrangement (來料加工). As a requirement of the processing arrangement, all our products were for export sales.

In January 2001, we obtained UL certification.

Around 2003, we commenced the manufacture of electronic components, including PCB assembly, musical instrument for professional audio and battery charge on an OEM basis.

In December 2004, we acquired all the equity interests in Hong Kong T-Lab.

In November 2005, He Yuan T-Lab was established as a wholly-owned subsidiary of Hong Kong T-Lab.

From 2005 to 2006, He Yuan T-Lab commenced to establish its own production facilities, including the obtaining of the land use rights for the Properties and construction of the Properties.

In January 2006, Mr. Wong Shek Fai, Johnson, our executive Director, joined our Group to lead the research and development department.

As at the end of 2007, He Yuan T-Lab commenced operation on the Properties and our production base gradually re-located from the processing factory, Lian Ping Ocean Factory, to the production facilities owned by He Yuan T-Lab.

In March 2008, we obtained the CCC certification.

In December 2009, we obtained the CB certification and the FCC certification.

In 2010, the production facilities of He Yuan T-Lab fully replaced the processing factory, Lian Ping Ocean Factory, as our production base.

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## HISTORY AND DEVELOPMENT

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We continued to diversify our product portfolio and broaden our customer base. In 2010, we commenced the manufacture and sales of electronic components, including switching mode power supply for mini electronic products, such as network router and baby monitor.

In September 2010, we commenced the PRC sales of transformers and switching mode power supply of low power.

In November 2010, we established He Yuan Sky Wealth.

In 2010, we obtained the ISO9001:2008 certification, the SAA, PSE, UL-AR and CE certifications.

In January 2011, we obtained the GS certification.

For reason of segregating the operation and holding of fixed assets, He Yuan T-Lab underwent a restructuring in early 2012 which involved:

- (a) a transfer all its equity interest in He Yuan T-Lab to Yield Speed Limited, a company ultimately owned by Mr. Chung Chi Hang, Larry and Mr. Chung Tin Shing;
- (b) He Yuan T-Lab transferred the business and operation of design, manufacture and sales of transformers, switching mode power supply and other electronic parts and components, together with the relevant machinery and equipment and assets (other than the Properties), as a going concern to He Yuan Sky Wealth;
- (c) He Yuan T-Lab leased to He Yuan Sky Wealth the Properties, details of the lease are set out in the section headed “Connected transactions” of this prospectus; and
- (d) the approved scope of business of He Yuan T-Lab was changed to, among others, businesses of development and service of electronic power conservation technology, research on and service of plastic flexible packaging, wholesale and export of silicon steel, fuse and power cord.

Since completion of the above restructuring of He Yuan T-Lab, He Yuan Sky Wealth became our production base. At present, save and except the holding and leasing of the Properties, He Yuan T-Lab does not engage in any operating activities.

In 2013, we obtained the UL-BR and KC certifications.

In 2014, we commenced the production and sales of musical equipment for broadcasting and switching mode power supply of mid-level power of 200W.

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## HISTORY AND DEVELOPMENT

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In January 2015, we entered into an agreement with an Independent Third Party in relation to the design and development of high power switching mode power supply for audio equipment. Details of such collaboration are set out in the sub-section headed “Development and launch of new products through our own capability and/or collaboration with third parties” in the section headed “Business” of this prospectus.

For details of our certifications, please also refer to the sub-section headed “Recognitions and certifications of our products and production process” in the section headed “Business” of this prospectus.

### CORPORATE HISTORY

#### Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 December 2014. Please refer to the paragraph headed “Change in share capital of our Company” in Appendix VI of this prospectus for details of changes in the share capital of our Company. As a result of the Reorganisation, our Company became the holding company of our Group. The principal business of our Company is investment holding.

#### Keen Ocean Electronics

Keen Ocean Electronics is a company incorporated in the BVI on 5 December 2014 with an authorised share capital of 50,000 shares with a par value of US\$1.00 each.

On 22 December 2014, 100 shares were allotted and issued to the Company at a consideration of US\$100. As a result of the Reorganisation, Keen Ocean Electronics became our direct wholly-owned subsidiary. The principal business of Keen Ocean Electronics is investment holding.

#### Keen Ocean Industrial

Keen Ocean Industrial is a company incorporated in Hong Kong on 17 May 2000. Upon its incorporation, two shares were allotted and issued to its initial subscribers. On 3 July 2000, the initial subscribers transferred their two shares to Cyber Goodie. On 16 June 2000, 2,249,998 shares (representing approximately 75% of the issued share capital), 600,000 shares (representing 20% of the issued share capital) and 150,000 shares (representing 5% of the issued share capital) were allotted and issued to Cyber Goodie, Mr. Chung Tin Ming and Mr. Yuen Wai Tong, respectively, all at par value. The funding of establishing Keen Ocean Industrial was all contributed by our Controlling Shareholder, Mr. Chung Chi Hang, Larry, and partial of his funding was supported by his father. Other shareholders contributed their knowledge in finance and accounting. On 27 April 2001, 30,000 shares (representing 1% of the issued share capital) were transferred from Mr. Chung Tin Ming to Toroid Corporation of Maryland at nil consideration.

As a result of the transfers, Keen Ocean Industrial was held by Cyber Goodie as to 2,250,000 shares (75%), Mr. Chung Tin Ming as to 570,000 shares (19%), Mr. Yuen Wai Tong as to 150,000 shares (5%) and Toroid Corporation of Maryland as to 30,000 shares (1%).

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## HISTORY AND DEVELOPMENT

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Our Directors confirmed that the shares were transferred to Toroid Corporation of Maryland for reason of enhancing the collaboration with Toroid Corporation of Maryland, one of the then customers of Keen Ocean Industrial.

In light of the contributions of Mr. Chung Tin Shing, Mr. Lau Kwong Yiu and Mr. Chang Su Ian to our Group, on 28 January 2003, (a) Mr. Chung Tin Ming transferred 120,000 shares to Mr. Chung Tin Shing at par and 210,000 shares to Mr. Lau Kwong Yiu at par; (b) Mr. Yuen Wai Tong transferred 90,000 shares to Mr. Chung Tin Shing at par and 60,000 shares to Mr. Chang Su Ian at par. On 27 May 2003, Toroid Corporation of Maryland transferred 30,000 shares to Mr. Chung Tin Ming at par.

As a result of the transfers, Keen Ocean Industrial was held by Cyber Goodie as to 2,250,000 shares (75%), Mr. Chung Tin Ming as to 210,000 shares (7%), Mr. Chung Tin Shing as to 210,000 shares (7%), Mr. Lau Kwong Yiu as to 210,000 shares (7%), Mr. Yuen Wai Tong as to 60,000 shares (2%), Mr. Chang Su Ian as to 60,000 shares (2%).

Mr. Chung Tin Ming is the elder brother of Mr. Chung Tin Shing, our executive Director and Shareholder. Mr. Yuen Wai Tong, Mr. Lau Kwong Yiu, Mr. Chang Su Ian and, to the best knowledge of our Directors, the ultimate shareholder of Toroid Corporation are Independent Third Parties.

As Mr. Lau Kwong Yiu, Mr. Chung Tin Ming, Mr. Yuen Wai Tong and Mr. Chang Su Ian left our Group, on 28 August 2010, Mr. Lau Kwong Yiu transferred 210,000 shares to Cyber Goodie at a consideration of HK\$630,000, Mr. Chung Tin Ming transferred 210,000 shares to Cyber Goodie at a consideration of HK\$630,000, Mr. Yuen Wai Tong transferred 60,000 shares to Cyber Goodie at a consideration of HK\$180,000, Mr. Chang Su Ian transferred 60,000 shares to Cyber Goodie at a consideration of HK\$180,000. On the same date, Cyber Goodie transferred 90,000 shares to Mr. Chung Tin Shing at a consideration of HK\$1.00 in view of his past and continuing contribution.

Following completion of the transfers, Keen Ocean Industrial was held by Cyber Goodie as to 2,700,000 shares (90%) and Mr. Chung Tin Shing as to 300,000 shares (10%).

On 23 December 2014, each of Cyber Goodie and Mr. Chung Tin Shing transferred all of their respective shareholding in Keen Ocean Industrial to Keen Ocean Electronics. Following the completion of the above share transfer, Keen Ocean Industrial was wholly-owned by Keen Ocean Electronics.

The principal business of Keen Ocean Industrial is trading of transformers, switching mode power supply, electronic parts and components. Upon completion of the Reorganisation, Keen Ocean Industrial became an indirect wholly-owned subsidiary of our Company.

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## HISTORY AND DEVELOPMENT

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### **Hong Kong T-Lab**

Hong Kong T-Lab is a company incorporated in Hong Kong on 15 August 1996 and was wholly-owned by Independent Third Parties. On 7 December 2004, Keen Ocean Industrial acquired from the then shareholders of Hong Kong T-Lab all their equity interests in Hong Kong T-Lab at a nominal value. Upon completion of the acquisition, Hong Kong T-Lab was wholly-owned by Keen Ocean Industrial.

Hong Kong T-Lab currently does not carry out any business activities save for holding a motor vehicle and the domain name [www.keenocean.com.hk](http://www.keenocean.com.hk). Upon completion of the Reorganisation, Hong Kong T-Lab became an indirect wholly-owned subsidiary of our Company.

### **He Yuan Sky Wealth**

He Yuan Sky Wealth was established as a wholly-foreign owned enterprise in the PRC on 24 November 2010 with an initial registered capital of US\$3.5 million, all of which was contributed by Keen Ocean Industrial.

The principal business of He Yuan Sky Wealth is development, manufacture and sales of, among others, transformers, switching mode power supply and electronic parts and components. Upon completion of the Reorganisation, He Yuan Sky Wealth became an indirect wholly-owned subsidiary of our Company.

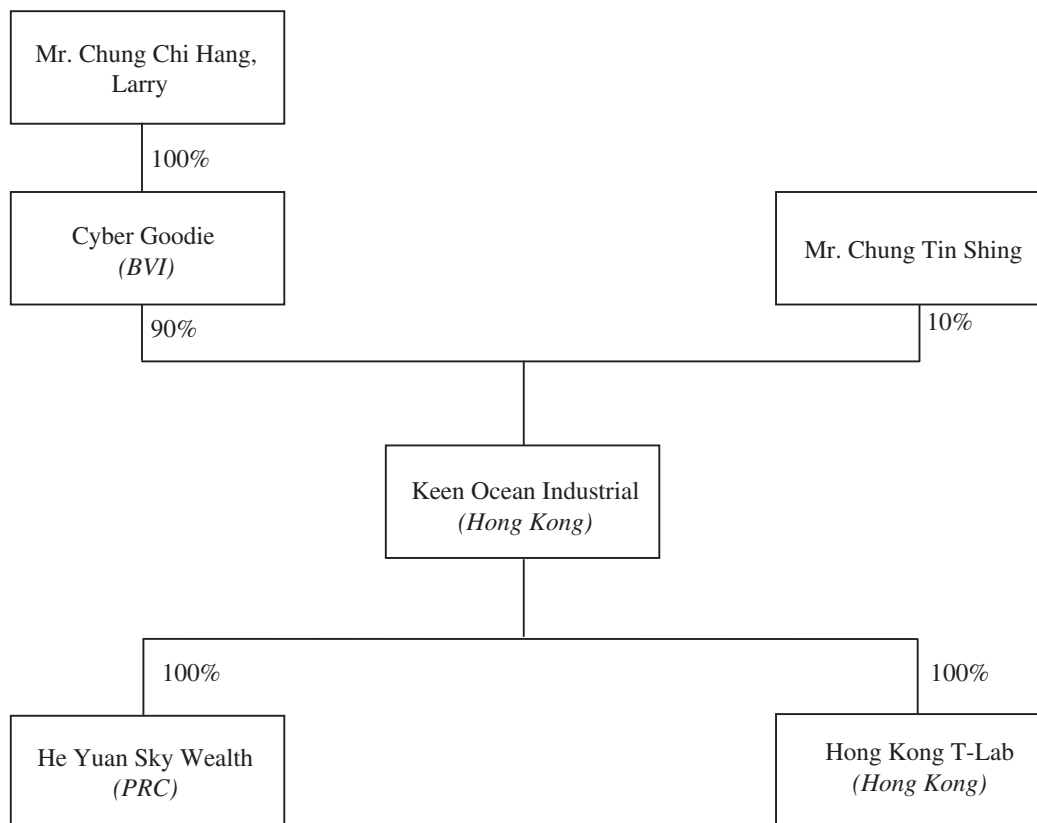
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## REORGANISATION

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### REORGANISATION

The following chart sets out our corporate and shareholding structure prior to the Reorganisation:



In preparation for the Listing, the companies comprising our Group underwent reorganisation. The Reorganisation involved the following steps:

#### Incorporation of our Company

On 19 December 2014,

- (a) our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares;
- (b) one Share was allotted and issued to the subscriber for cash at par;
- (c) the subscriber transferred the one Share to Cyber Goodie for cash at par; and



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## REORGANISATION

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(d) our Company allotted and issued 9,999 Shares to the following persons:

Name	Number of Shares	Consideration
Cyber Goodie	8,999 Shares	Cash at par
Mr. Chung Tin Shing	1,000 Shares	Cash at par

### **Incorporation of Keen Ocean Electronics**

On 5 December 2014, Keen Ocean Electronics was incorporated in BVI as our intermediate holding company.

On 22 December 2014, 100 shares were allotted and issued to the Company at a consideration of US\$100.

### **Acquisition of Keen Ocean Industrial**

On 23 December 2014, each of Cyber Goodie and Mr. Chung Tin Shing transferred all of their respective shareholding in Keen Ocean Industrial to Keen Ocean Electronics. In consideration of such transfers, Keen Ocean Electronics allotted and issued a total of 100 shares to our Company as directed by Cyber Goodie and Mr. Chung Tin Shing as follows:

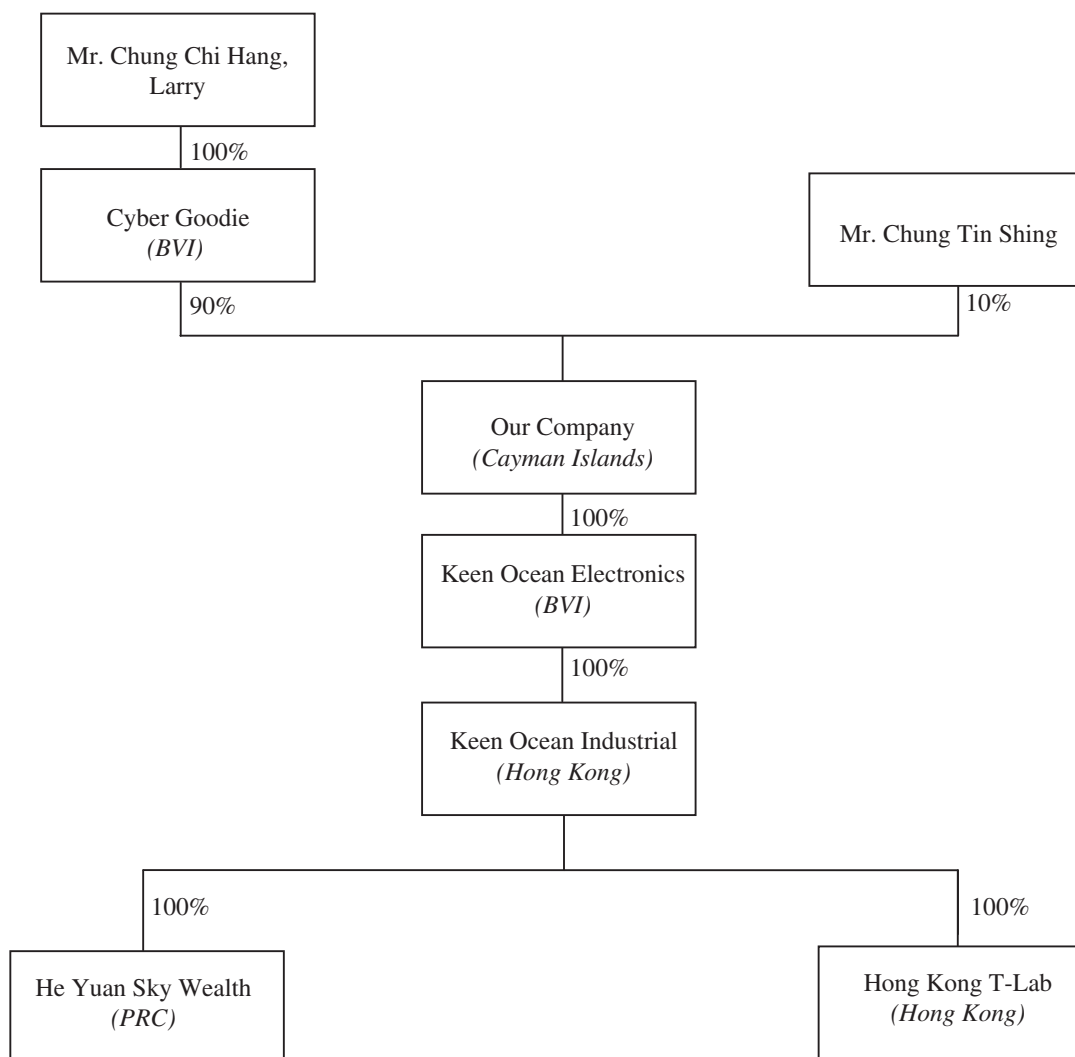
Transferor	Transferee	Number of shares transferred	Consideration shares in Keen Ocean Electronics to be allotted
Cyber Goodie	Keen Ocean Electronics	2,700,000 shares of HK\$1.0 each	90 shares to our Company (as directed by Cyber Goodie)
Mr. Chung Tin Shing	Keen Ocean Electronics	300,000 shares of HK\$1.0 each	10 shares to our Company (as directed by Mr. Chung Tin Shing)

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## REORGANISATION

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The following chart sets forth our corporate and shareholding structure upon completion of the Reorganisation but immediately before the Placing and the Capitalisation Issue:

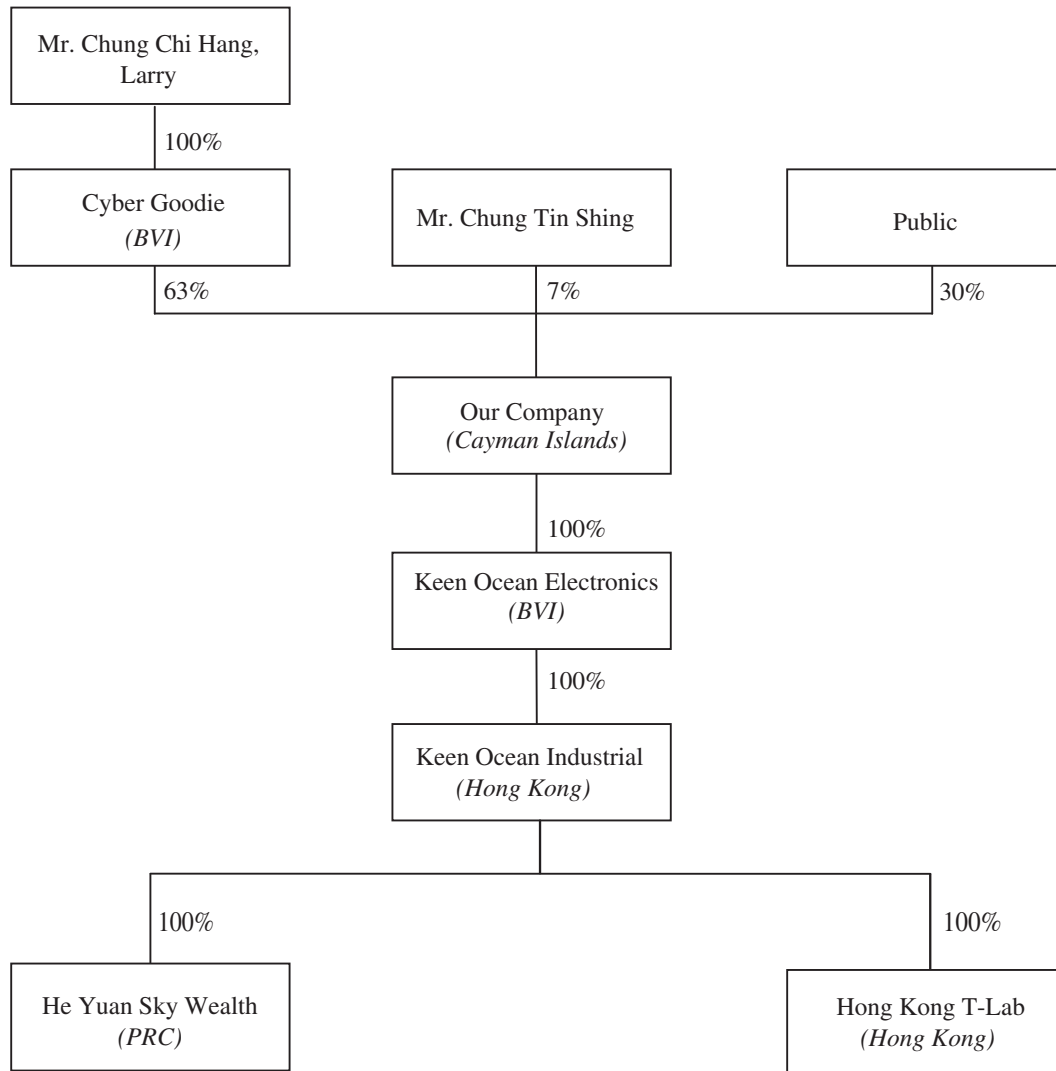


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## REORGANISATION

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The following chart sets forth our corporate and shareholding structure immediately after completion of the Placing and the Capitalisation Issue (without taking into account the Shares to be allotted and issued upon exercise of any option which may be granted under the Share Option Scheme):



### PRC GOVERNMENTAL APPROVALS

As Mr. Chung Chi Hang, Larry and Mr. Chung Tin Shing, being the indirect equity holders of He Yuan Sky Wealth, our PRC subsidiary, are not PRC domestic residents, our PRC Legal Advisers have confirmed that they are not required to carry out the foreign exchange registration pursuant to Circular 37.

Our PRC Legal Advisers have further confirmed that no approval, permits or licence shall be required under the PRC laws and regulations in connection with the Reorganisation as no reorganisation in the PRC has been involved in the Listing of the Company, and all approvals, permits and licences required under the PRC laws and regulations in connection with the establishment in respect of He Yuan Sky Wealth have been obtained.

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## BUSINESS

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### OVERVIEW

We principally engage in the design, development, production and sales of (a) power supply products, in particular transformers, switching mode power supply, and (b) other electronic parts and components. The transformers we sell include toroidal transformers, EI transformers and ferrite transformer. The other electronic parts and components we sell include PCB assembly, amplifiers for musical instrument, battery chargers and cable assembly to our customers.

All power supply products are sold under our own brand “Keen Ocean” while all electronic parts and components are sold on an OEM basis. We sell our products domestically and to overseas countries. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, approximately 88.2%, 87.9% and 87.9%, respectively of our total revenue are derived from non-PRC sales (including indirect export sales from the PRC). Our customers are mainly manufacturers and trading entities.

### OUR COMPETITIVE STRENGTHS

We believe the following strengths contribute to our success and distinguish us from our competitors:

**We have production facilities integrating research and development, production of certain parts and components and production of our products, which allow us to produce a diversified range of products, custom-made products to satisfy our customers’ needs in a timely and cost-efficient manner**

Our production facilities are located at He Yuan City, Guangdong, the PRC with a site area of approximately 52,041 square metres. Please refer to the sub-section headed “Our production facilities and production process” of the section headed “Business” of this prospectus for details of our production capacity. Our production facilities have integrated the research and development of product, manufacture of crucial parts and components to the production of finished products.

We have established special division in our production facilities to produce parts and components which we consider to be crucial for the production of finished goods. We have established the ancillary parts and components division (輔料組), the plastic injection and molding division (注塑部), the enamelled copper wire division (漆包線部) and the steel core division (鐵芯部). The ancillary parts and components division is responsible for the production of tailor-made cables and accessories to fit various types of our products. The plastic injection and molding division is responsible for the production of plastic parts and components for our products. Enamelled copper wires and steel core are the crucial parts and components for the production of our main products, the transformer. Our enamelled copper wire division and the steel core division are responsible for the production of enamelled copper wire and steel cores for our own use.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, approximately 99% of the plastic parts we produced are for our own use, 100% of the enamelled copper wires we produced are for our own use and 100%, 100% and 99%, respectively of the steel core for toroidal transformers we produced are for our own use.

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## BUSINESS

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The EI transformer is one of the components for the production of our amplifiers for musical instrument and battery chargers. The ferrite transformer is one of the components for the production of our switching mode power supply. During the Track Record Period, we also produced the EI transformer and the ferrite transformer for our production use.

The integrated production process allows us to have better control over the quality and cost of the parts and components which are crucial to our production, maintain a lower inventory level for our parts and components, provide flexibility and certainty in our production and procurement plan. In addition, the integrated production process gives us flexibility to respond to specific requirements of our customers and allows us to provide a diversified and comprehensive range of products and custom-made products for various customers.

The ability to produce parts and components for own use provides us with the advantage of a stable supply of parts and components with guaranteed quality for the production of our finished products. We are able to better plan our production schedule, delivery time and respond to customers' urgent requests and needs. The integrated production process generally reduced our overall production cost.

To the knowledge of our Directors, not many of the Group's competitors have integrated the production facilities to produce major raw materials and parts and components for their own use, instead these competitors source such raw materials and parts and components from outside suppliers. Additionally, our Group's integrated production facilities also benefit our Group with shorter production lead time and guaranteed material quality.

### **We recorded a low product return rate during the Track Record Period as a result of our effort in striking for high quality of our products**

As a result of our refined quality control management system, we have managed to maintain a low product return rate. During the Track Record Period, the average product return rate (in terms of quantities sold) of our products were approximately 0.06%, 0.14% and 0.07%, respectively. Our Directors consider that our refined quality control management system and a low product return rate are the key contributing factors for us to receive recurring purchase orders from our existing customers and maintain long-term business relationship with our customers.

The low product return rate is due to our focus on the quality of our products. As such, we have implemented stringent quality control measures throughout our production process from sourcing raw materials and parts and components to the production techniques. To ensure the quality of our productions, we also produce some of the parts and components for our own production use. Our products are exported to countries (in terms of revenue contribution for the year ended 31 December 2014) including the United States, Belgium, the United Kingdom, Denmark and Australia, etc., which have strict requirements on our products. Our production team and quality control staff examine the quality of raw materials and parts and components which we do not produce and that of our products at each key stage of production to ensure that the quality of our products is satisfactory. Members of our production team and quality control staff are trained to look out for certain quality control issues.

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To ensure that outgoing products comply with our customer's requirements, our quality control personnel conduct inspection on all finished products and testing of the randomly selected finished products. As a result of our quality control effort, we have obtained the ISO9001 (2008) recognition.

**We have extensive manufacturing techniques which give us the capability to develop new products and enhance existing products, and experienced production personnel and technicians**

With about 15 years of history and experience in the industry, we have developed extensive manufacturing techniques and experiences. These technologies and experiences give us the capability to develop new products and enhance existing products to meet the specific requirements of our customers. Our OEM customers provide us with the specifications or samples of their products. Based on these specifications and samples, we develop the product to fit the requirements of our customers. Our OEM customers will make formal purchase orders after the sample products we produced based on the specifications or samples provided by our OEM customers have met their requirements and passed the relevant testing. Our Directors believe that the capabilities to develop products to meet customers' requirements and fit different mode and types of products is important in the industry. Our strong team and extensive experiences in product research and development is a key factor to our success. As at the Latest Practicable Date, our product research and development team had eight members and is supervised by Mr. Wong Shek Fai, Johnson, our executive Director. Most of the members in our research and development team are tertiary school graduates with over eight years of experience in the industry.

Our Directors believe our extensive manufacturing techniques and our experienced product research and development team are important to our success.

**We have established relationships with our key customers and we have a relatively stable customer base**

Our products are the power supply parts and components of electrical or electronic instruments and devices. These power supply parts and components and/or the instrument and devices are required to pass certain stipulated safety and functional standards and certifications. The application for such certifications may be a prolonged process and costly which requires submission of, among others, various testing and engineering reports. Once the necessary safety certification has been obtained by the customers with the use of our power supply, the customers would seldom change the supplier for such part and component unless in very abnormal circumstances such as the failure to provide quality and up-to-standard part and component.

As such, we can maintain a long history with our key customers. Some of our key customers have established business relationships with us since our first commencement of business in 2000. The majority of our five largest customers during the Track Record Period had established business relationships with us for over 10 years.

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## BUSINESS

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Our products are used as the parts and components of the end-products such as medical devices, audio instruments and other electronic products. Our products have to meet certain safety and functional standards. If any of our products fails to meet such standards, our customers may terminate the relationship with us and source from other manufacturers. The long-history and stable relationships with our key customers are a recognition of the quality of our products, which, our Directors believe, is one of the key factors contributing to our success.

Leveraging on our stable customer base, we are able to expand and develop new products and new customers, which will continue to increase our revenue and profitability.

### OUR BUSINESS STRATEGIES

Leveraging our competitive strengths and further enhancing our market presence in the market through rapid and profitable growth, our Directors plan to pursue the following growth strategies:

#### **Development and launch of new products through our own capability and/or collaboration with third parties**

We will continue to expand and broaden our product portfolio so as to enable us to develop new customers and increase our revenue.

At present, the switching mode power supply we produced are low-to-mid power switching mode power supply ranging from 3W to 200W as we commenced our production of switching mode power supply in 2010 and the level of technology required in the production is relatively less complicated. To diversify our product portfolio and to capture the relative higher profit margin from offering high power switching mode power supply and under our own brand, in January 2015, we entered into an agreement with an Independent Third Party, who is a professional design engineer with 30 years of experience in developing professional audio products and obtaining safety certification for worldwide products, in relation to the collaboration in the design and development of (a) high power switching mode power supply of 500W and 1000W; (b) amplifier board of 500W and 1000W; and (c) digital signal processing board for use in musical equipment for broadcasting. It is expected that the gross profit margins of these new products are higher than those of our existing products. The Independent Third Party is principally responsible to produce the layout files, provide detailed design specifications and production test requirements and assist in preparing the product brochures and application documentation and applying for UL safety approvals for these new products. We intend to sell this new product under our own design and under our own brand in the United States at the beginning and they are formally launched to the market in the fourth quarter of 2015. The collaboration is for a term of one year to expire in December 2015. The intellectual property rights of the new products will belong to our Group. A total sum of US\$90,000 will be paid to the Independent Third Party. The Independent Third Party is entitled to a bonus payment of 1% of the gross sales of all products developed by him and sold by our Group. The Independent Third Party is also entitled to 1% of any sales of the products that he brings to the Group. In 2016, we intend to commence the design and testing of (i) 100W, 250W, 1,500W and 2,000W amplifier board; (ii) 100W, 250W, 1,500W and 2,000W power supply board; and (iii) digital signal processing board (medium class).

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According to Yubozhiye Report, the forecast sales amount of reactor in the PRC will increase from RMB25.2 billion in 2015 to RMB32.5 billion in 2018, representing a CAGR of approximately 6.5%. For purpose of diversifying our product types by leveraging on our existing research and development capability to further expand our market and sales, we plan to launch a new product, namely the reactor (電抗器) for use in charger of electric vehicles in light of the potential growth and demand for electrical vehicles in the PRC. It is expected that the gross profit margin of this new product is higher than that of our existing products. This new product has passed our internal engineering and safety tests, and we have commenced to promote this new product to the potential customers including face-to-face meetings and through advertisement in the industry magazine. We formally launched this new product to the market in mid-2015. As at the Latest Practicable Date, sample reactors have been sent to customers and quotations on high power switching mode power supply of 500W and 1000W and amplifier board of 500W and 1000W have been made to some existing customers.

The above new products are to be produced in our existing production facilities by using our existing production machinery and equipment, which are mostly adaptable for the production of these new products. We do not anticipate the development and launch of these new products to incur a substantial investment cost. We estimate the initial total investment cost for these new products to be HK\$11.6 million, which is to be funded by the net proceeds from the Placing. We may consider to increase our investment cost and expand the production capacity for these new products if they are well-received by the market.

### **Solidify established customer relationships and widen our customer base and broaden our existing product portfolio**

Our major customers have established business relationships with us for about 10 years. We plan to strengthen our business relationship with our customers through continued collaboration in product improvement and product quality management. Our sales and marketing team will continue to visit our customers from time to time to obtain market feedback on our products and the requirements of our customers. We believe that through the exchange of information with customers, we would be able to maintain our close working relationship with them, which is a key to our continued business development.

In addition, we continue to monitor industry trends to support our future business development and to enable us to respond to any new production needs of our customers which may arise from time to time.

We will continue to improve our existing products to better meet customers' requirements and enhance product efficiency. We will also continue to develop new power supply products to broaden our existing product ranges. We will target at diversifying our business segments and products. In particular, we have expanded into PCB assemblies and manufacture of musical equipment for broadcasting and switching mode power supply on an OEM basis.

We will continue to leverage on our strengths and experience in the industry to secure and expand our market share while at the same time we will explore into other business segments and new products.



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### **Improve our production technology and efficiency of our production**

Our production process generally involves numerous steps and is labour-intensive. To enhance our production efficiency, reduce the impact on increasing labour cost and minimise the risk on shortage of labour, we will continue to enhance our production technology and upgrade our production facilities. We target to streamline our production process and increase the automation level in our production process. From time to time, we will review our production efficiency and assess the possibility and cost in the adoption of automatic machinery in our certain production processes, such as the cable assembly process. According to China Statistics Year Book 2014, the average annual labour wages in the PRC for the manufacture industry increased from approximately RMB31,000 in 2010 to RMB46,000 in 2013. For details of our historical labour cost and a sensitivity analysis of our labour cost on our profitability, please refer to the paragraph headed “Direct labour costs” in the section headed “Financial information” of the prospectus. Around 2013, we have commenced to pay certain of our manufacturing staff based on the number of pieces made instead of on a fixed salary basis. The portion of manufacturing staff paid based on the number of pieces made increased to approximately 90% of our total manufacturing staff in 2014 and we target to pay 95% of our manufacturing staff based on the number of pieces made in 2015. Paying our workers on the basis of number of pieces made provides more initiatives to our workers and therefore increases our production efficiency as a whole. Our PRC Legal Advisers confirmed that paying our workers based on the number of pieces made complies with the requirements of the PRC Labour Law. The change in the remuneration system of our manufacturing staff does not have a material negative impact on the level of our staff turnover and labour supply.

We believe the improvement in our production technology and efficiency will increase our profitability and production capacity as a whole.

### **OUR BUSINESS MODEL**

We principally engage in the design, development, production and sale of (a) power supply products; and (b) other electronic parts and components. The power supply products we sell include transformers and switching mode power supply. The transformers we offered are toroidal transformer, EI transformer and ferrite transformer. The other electronic parts and components we offered include PCB assembly, musical instrument and equipment, battery charger and cable assembly.

Occasionally, at the request of our customers, we also produce other products including plastic parts, cord-assembling and other accessories.

We sell our products in PRC and to overseas countries. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, approximately 88.2%, 87.9% and 87.9% of our total revenue were derived from non-PRC sales (including indirect export sales from the PRC). We exported our products to countries such as the United States, Belgium, the United Kingdom, Denmark and Australia, etc.

Our power supply products are sold under our own brand “Keen Ocean” while the electronic parts and components are sold on an OEM basis. Our customers are mainly manufacturers of finished products. Our products are applied to medical devices, audio instrument, network router, power industry and baby monitor.

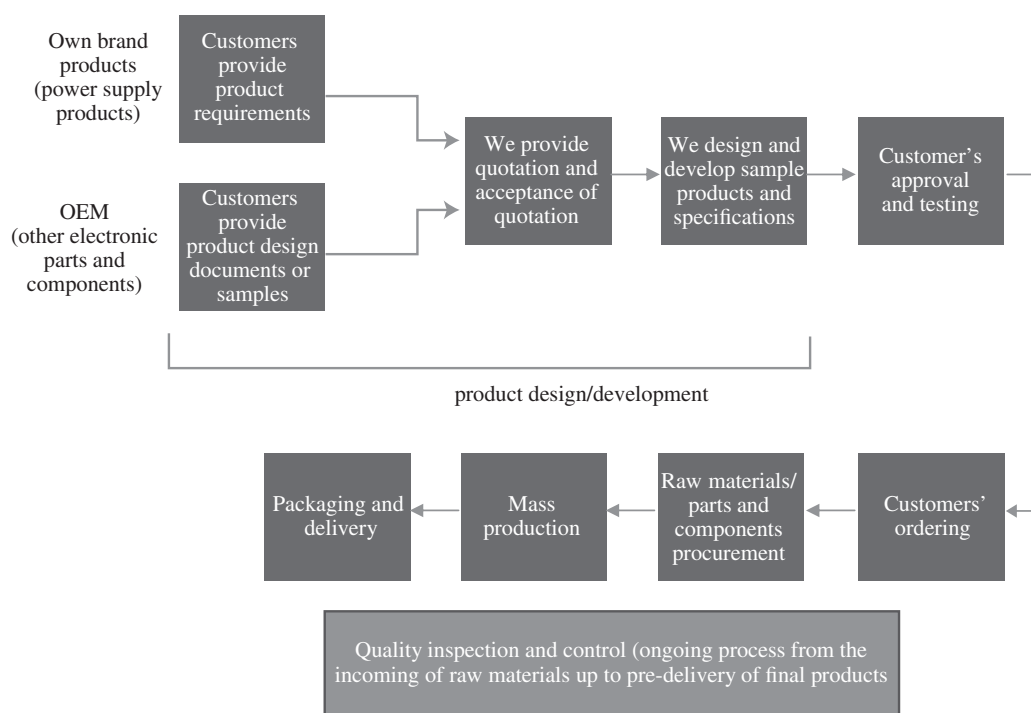
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## BUSINESS

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We source our raw materials and parts and components mainly from suppliers located in the PRC. For quality and efficiency reasons, we also manufacture some of the parts and components, such as plastic parts, enamelled copper wires, steel core and tailor-made cable and accessories, for our own production use.

The following chart illustrates our business model:



### Product design/development

For our own brand products, our customers generally provide us with the product requirements. Our engineers will design and develop the product to meet the product requirements. They will further communicate with customers from time to time to amend and fine-tune the product.

For OEM products, the designs or samples of the product are provided by customers. We produce the sample product based on the designs provided by customers.

Upon receipt of the requirements or product designs from our customers, we then provide the quotation to our customers. Upon confirmation of our quotation, we then proceed to design and develop the sample product. We send the sample product to customers who will conduct testing on and approve the sample product.

### Ordering

Upon customers' confirmation that the sample product has met their requirements, customers will place purchase orders with us.

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## BUSINESS

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### **Raw materials/parts and component procurement**

We purchase our raw materials based on the customers' confirmed purchase orders and our production projection. Our production department, based on the customers' confirmed purchase orders, will formulate the production schedules, including the parts and components which we produce for our own production use. For raw materials and parts and components which we do not produce, our production department places an internal purchase request with our procurement department. Our procurement staff then request for price quotations from at least three suppliers from our list of qualified suppliers to obtain the best price for these raw materials and parts and components.

### **Production**

After we received the purchase orders from our customers, our production and material control department will prepare and finalise the overall production plan and schedule and will analyse the demand on our production capacity. We have a custom-made ERP system in helping the material preparation and procurement.

### **Packaging and delivery**

Our finished products upon passing the quality control testing will be packaged and delivered to the location as specified by customers.

### **Quality inspection and control**

Since our products have to meet the requirements of our customers and comply with certain safety and industry standards, we place great emphasis on the quality and standard of our products. Our quality inspection is carried out from the incoming of raw materials up to pre-delivery of final products. Our quality control team will inspect the incoming raw materials and parts and components which we do not produce and also the quality of our products during various key production process to ensure our products are up to standard and major defects can be spotted and ratified as soon as possible during the production process. To ensure that outgoing products comply with our customers' requirements, our quality control staff conduct inspection on all finished products.

### **OUR PRODUCTS**

We produce and sell (a) transformers including toroidal transformer, EI transformer, ferrite transformer; and (b) switching mode power supply. We also produce and sell other electronic components including PCB, musical instrument for professional audio and equipment for broadcasting, battery chargers and cable assembly on an OEM basis.

## BUSINESS

The following table provides a breakdown of our revenue by our products during the Track Record Period:

### Revenue

	Year ended 31 December						Eight months ended 31 August					
	2013			2014			2014			2015		
	Quantity sold	Revenue	% of Total revenue	Quantity sold	Revenue	% of Total revenue	Quantity sold	Revenue	% of Total revenue	Quantity sold	Revenue	% of Total revenue
(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)	
(unaudited)												
Own products												
Transformers												
Toroidal transformer	1,241,300	103,577	54.5	1,010,576	79,124	43.5	703,833	52,239	42.9	582,624	45,870	39.0
EI transformer	129,431	7,175	3.8	178,520	7,573	4.2	120,079	4,558	3.7	72,846	3,603	3.1
Ferrite transformer	175,238	2,630	1.4	173,165	2,220	1.2	66,693	1,249	1.0	324,668	1,935	1.6
Sub-total:	1,545,969	113,382	59.7	1,362,261	88,917	48.9	890,605	58,046	47.6	980,138	51,408	43.7
Switching mode power supply												
Switching Mode Power Supply	1,123,672	15,466	8.1	1,005,293	15,865	8.7	597,183	7,738	6.3	468,585	5,529	4.7
OEM sales												
Other electronic parts and components												
PCB assembly	665,517	33,212	17.5	809,044	35,517	19.5	519,532	21,776	17.9	731,179	30,080	25.6
Battery charger	174,930	19,812	10.5	216,922	24,226	13.3	140,436	16,651	13.7	176,870	19,709	16.7
Cable assembly	188,762	3,238	1.7	135,400	2,899	1.6	115,245	2,161	1.8	163,058	2,077	1.8
Musical instrument and equipment	4,987	2,899	1.5	25,570	12,845	7.1	16,215	8,590	7.0	6,107	3,943	3.3
Others (note)	666,229	1,898	1.0	741,312	1,704	0.9	570,279	6,945	5.7	707,448	4,960	4.2
Sub-total:	1,700,425	61,059	32.2	1,928,248	77,191	42.4	1,361,707	56,123	46.1	1,784,662	60,769	51.6
Total	4,370,066	189,907	100.0	4,295,802	181,973	100.0	2,849,495	121,907	100.0	3,233,385	117,706	100.0

*Note:* Others represented sales of plastic parts and other accessories.

## BUSINESS

The following table provides a breakdown of our revenue by geographical segments during the Track Record Period:

	For the year ended 31 December				For the eight months ended 31 August			
	2013		2014		2014		2015	
	Revenue (HK\$'000)	% of total (%)	Revenue (HK\$'000)	% of total (%)	Revenue (HK\$'000) (unaudited)	% of total (%)	Revenue (HK\$'000)	% of total (%)
<b>PRC sales (note 1)</b>								
PRC domestic sales	22,454	11.8	22,012	12.1	10,601	8.7	14,184	12.1
<b>HK sales</b>								
Hong Kong	25,447	13.4	27,370	15.0	17,859	14.6	31,477	26.7
<b>Export sales</b>								
<b>Direct export sales</b>								
Europe (note 2)	50,695	26.7	44,320	24.4	29,189	23.9	31,072	26.4
The United States	39,880	21.0	46,392	25.5	29,581	24.3	14,145	12.0
Others (note 3)	14,865	7.8	10,853	6.0	12,410	10.2	12,305	10.5
<b>Indirect export sales from the PRC (note 1)</b>								
	36,566	19.3	31,026	17.0	22,267	18.3	14,523	12.3
<b>Sub-total</b>	142,006	74.8	132,591	72.9	93,447	76.7	72,045	61.2
<b>Total:</b>	189,907	100.0	181,973	100.0	121,907	100.0	117,706	100.0

Notes:

- During the Track Record Period, some of our finished products were delivered to locations in the bonded zone of the PRC as designated by our customers and we understand that these customers will arrange for exports custom clearance and are treated as our indirect export sales from the PRC, the remaining sales in the PRC are treated as our PRC domestic sales or direct PRC sales.
- Europe includes Belgium, the United Kingdom, Denmark, Austria and Germany.
- Others include Australia, Singapore, Turkey, Canada and South Africa.

### Products under our own brand

We produce and sell (a) transformers including toroidal transformers, EI transformers and ferrite transformers; and (b) power supply products including switching mode power supply under our brand “Keen Ocean”.

#### *Toroidal transformers*

Transformers are devices that transfer energy from one circuit to another by electromagnetic induction. Toroidal transformers are the toroidal coil form which resembles a doughnut and is made of soft iron, ferromagnetic, or other low-reluctance, high-permeability material. The key feature is this coil effectively confines the line of flux within itself; therefore, it is a very efficient carrier of flux lines.

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We design and develop the toroidal transformers based on customers' requirements. The toroidal transformers we produced during the Track Record Period have a range of around 10VA to 3000 VA and they are mainly used as parts and components for audio instrument, medical device, linear actuator and electronic devices.

Our toroidal transformers are sold to countries including the PRC, Europe, the United States, Canada, Japan, Korea, Australia, the United Kingdom, South Africa and New Zealand.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from the sales of our toroidal transformers amounted to approximately HK\$103.6 million, HK\$79.1 million and HK\$45.9 million, respectively, representing approximately 54.5%, 43.5% and 39.0% of our total revenue for the same period. Our toroidal transformers are applied by our customers as one of the parts and components in medical devices and audio equipment.

Below are some of our toroidal transformers:



### *EI transformers*

EI transformers are devices that transfer energy from one circuit to another by electromagnetic induction. The silicon steel core is usually constructed of thin sheets of metal for lower loss and thus higher efficiency.

Our EI transformers are sold to countries including the PRC, Europe, the United States, Canada, the United Kingdom, Korea, South Africa, Japan and Australia.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from the sales of our EI transformers amounted to approximately HK\$7.2 million, HK\$7.6 million and HK\$3.6 million, respectively, representing approximately 3.8%, 4.2% and 3.1% of our total revenue for the same period. Our EI transformers are applied by our customers as one of the parts and components in medical devices and audio equipment.

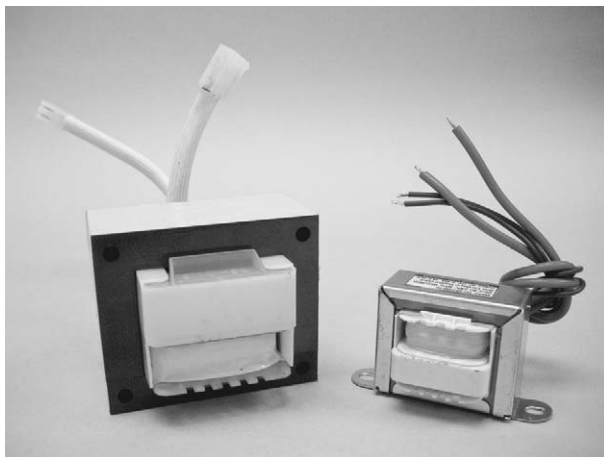
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## BUSINESS

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The EI transformers are also one of the components for the production of our battery chargers and musical instrument. During the Track Record Period, the EI transformers used in our battery chargers and musical instruments were produced by us. The EI transformers produced for our internal use for the production of our battery chargers and musical instrument were not accounted for our sales of EI transformers for the Track Record Period.

Below are some of our EI transformers:



### *Ferrite transformers*

Ferrite transformers are ferrites that are powdered and compressed materials with high permeabilities but high electrical resistance that minimizes  $I^2R$  or eddy current losses when used in high frequency applications.

We design and develop the ferrite transformers based on customers' requirements. The ferrite transformers we produced are fit for use in all kinds of electronic devices, such as medical devices.

Our ferrite transformers are sold to countries including the PRC, Europe, the United States and Korea.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from the sales of our ferrite transformer amounted to approximately HK\$2.6 million, HK\$2.2 million and HK\$1.9 million, respectively, representing approximately 1.4%, 1.2% and 1.6% of our total revenue for the same period. Our ferrite transformer are applied in all kinds of electronic devices.

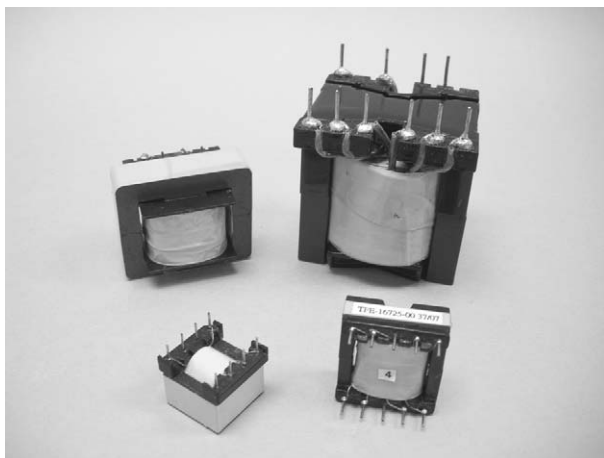
The ferrite transformers are also one of the components for the production of our switching mode power supply. During the Track Record Period, the ferrite transformers used in our switching mode power supplies were produced by us. The ferrite transformers produced for our internal use for the production of our switching mode power supplies were not accounted for our sales of ferrite transformers for the Track Record Period.

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## BUSINESS

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Below are some of our ferrite transformers:



### *Switching mode power supply*

The switching mode power supply operates at a much higher frequency, typically 30-300kHz. This greatly reduces the power supply weight and volume. Linear power supplies are usually less than 70% efficient unless they can be matched to a narrow input voltage range, whereas switch mode power supplies can easily exceed 70% and with careful design can reach 90%.

We design and develop the switching mode power supply based on customers' requirements. The switching mode power supply we produced during the Track Record Period are around 3W to 200W and they are mainly used as parts and components for baby monitor, network router and electronic devices, such as water pumps.

Our switching mode power supply are sold to countries including the PRC, Europe, the United States, Korea, Argentina, the United Kingdom and Australia.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from the sales of our switching mode power supply amounted to approximately HK\$15.5 million, HK\$15.9 million and HK\$5.5 million, respectively, representing approximately 8.1%, 8.7% and 4.7% of our total revenue for the same period.

In January 2015, we entered into an agreement with an Independent Third Party in respect of the design of high power switching mode power supply of 500W and 1000W for use in musical equipment for broadcasting. These new products are launched in the United States in the fourth quarter of 2015 under our own brand. For details of this new product, please refer to the sub-section headed "Our business strategies" in the section headed "Business" of this prospectus.



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## BUSINESS

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Below are some of our switching mode power supply:



### **OEM products**

During the Track Record Period, we manufactured printed circuit board assembly (PCB assembly), musical instrument and equipment, battery chargers and cable assembly on an OEM basis for our customers. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from our OEM products accounted for approximately 32.2%, 42.4% and 51.6% of our total revenue, respectively.

For our OEM products, our customers design and develop the products, which we then manufacture in accordance with the design provided by customers.

#### ***Printed circuit board assembly***

A printed circuit board (PCB) is used for both the electronic circuits interconnecting medium and mechanical mounting substrate.

During the Track Record Period, we manufactured PCB assembly on an OEM basis and sold to countries including PRC, Europe, the United States and Korea. We manufacture the products according to the design provided by our OEM customers. They are generally used in electronic devices.

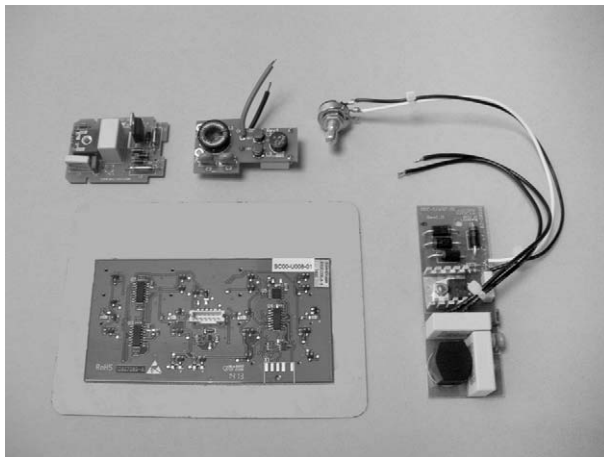
For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from the sales of PCB assembly amounted to approximately HK\$33.2 million, HK\$35.5 million and HK\$30.1 million, respectively, representing approximately 17.5%, 19.5% and 25.6% of our total revenue for the same period.

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Below are some of the PCB assembly we produce:



### ***Battery chargers***

A battery charger recharges wet, ni-cad, and renewable batteries from the power line. The circuit may consist of a step-down transformer, rectifier, and filter capacitor. During the Track Record Period, we manufactured battery chargers on an OEM basis and sold to countries including Europe, South Africa, the United States, Canada and Japan. We did not design and develop the battery chargers ourselves, instead, our customers design and develop the products. We manufacture the products according to the design provided by our OEM customers. They are generally used in vehicles and motorcycles.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from the sales of battery chargers amounted to approximately HK\$19.8 million, HK\$24.2 million and HK\$19.7 million, respectively, representing approximately 10.5%, 13.3% and 16.7% of our total revenue for the same period.

### ***Musical instrument and equipment***

During the Track Record Period, we manufactured musical instrument and equipment including amplifiers, which are generally used in professional audio and broadcasting equipment on an OEM basis and sold to countries including Korea, Europe, the PRC, and the United States.

Our musical instrument are mainly used for professional audio which was launched in around 2003 while our musical equipment includes amplifiers used for broadcasting and was first launched in mid-2013.

In January 2015, we entered into an agreement with an Independent Third Party in respect of the design of (a) amplifier board of 500W and 1000W; and (b) digital signal processing board for use in musical equipment for broadcasting. These new products are launched in the United States in the fourth quarter of 2015 under our own brand.

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For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from the sales of musical instrument and equipment amounted to approximately HK\$2.9 million, HK\$12.8 million and HK\$3.9 million, respectively, representing approximately 1.5%, 7.1% and 3.3% of our total revenue for the same period.

Below is an example of the amplifiers we produce:



### *Cable assembly*

Cable assembly refers to cables that are used for different kinds of electronic devices. During the Track Record Period, our cable assembly business was conducted on an OEM basis and sold to countries including Europe, the United States and Asian Countries. They are generally used in vehicle and motorcycle chargers.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from the sales of cable assembly products amounted to approximately HK\$3.2 million, HK\$2.9 million and HK\$2.1 million, respectively, representing approximately 1.7%, 1.6% and 1.8% of our total revenue for the same period.

Below are some of the cable assembly products we produce:



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## BUSINESS

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### PRODUCT DESIGN AND DEVELOPMENT

As at the Latest Practicable Date, we have an in-house team of eight technicians who are primarily responsible for development.

For our own products, our customers generally provide us with the requirements. Our engineers will design and develop the product to meet the requirements provided. They will further communicate with customers from time to time to amend and fine-tune the product.

For OEM products, the designs or samples are provided by customers. We produce the products based on the designs or samples provided by customers.

### OUR PRODUCTION FACILITIES AND PRODUCTION PROCESS

#### Our production facilities

As at the Latest Practicable Date, our production facilities are located in Heyuan City, Guangdong Province, the PRC and occupy a site area of approximately 52,041 square metres (with a total gross floor area of approximately 35,774.65 square metres).

The map below shows the location of our production facilities:



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## BUSINESS

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We lease the properties for production facilities from a connected person and Sure Win Limited (“**Sure Win**”), an Independent Third Party. For details of the lease from the connected person, please refer to the section headed “Connected transactions” of this prospectus. For details of the lease from Sure Win, please refer to property no. 3 (“**Property No. 3**”) in the property valuation report as set out in Appendix IV of this prospectus.

Sure Win is a company incorporated in Hong Kong and ultimately controlled by a family acquaintance of Mr. Chung Chi Hang, Larry, our Controlling Shareholder and executive Director. The father of Mr. Chung Chi Hang, Larry acquainted with the ultimate beneficial shareholder of Sure Win for more than 10 years. To the knowledge of our Directors, the ultimate beneficial shareholder of Sure Win acquired the entire equity interests in Sure Win before 2012. At the time of such acquisition, Sure Win held Property No. 3 for investment purpose. With our continuing expansion, in January 2012, our Group leased from Sure Win the Property No. 3 for a term of five years.

In addition to the leasing of Property No. 3, in 2013, Sure Win also provided a joint corporate guarantee to a loan with carrying amount of approximately HK\$16.0 million advanced to our Group by a commercial bank in the PRC. Details of such loan is set out in note 30 to the Accountant’s Report as set out in Appendix I of this prospectus.

Save and except the above transactions, we do not have transactions with Sure Win and/or its ultimate beneficial shareholder.

We have integrated our production process from production of parts and components to finished products. All of the key production processes are carried out in our own production facilities. During the Track Record Period, we did not sub-contract any of production process to outside parties. Our production facilities consist of various production lines and workshops for cable assembly, power supply manufacture, plastic injection, PCB assembly production, final testing and inspection and packaging and delivery.

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The following table sets out the (a) actual annual production volume, (b) average utilisation rate and (c) the estimated maximum annual production capacity of our products by our production facilities during the Track Record Period:

	Year ended 31 December 2013			Year ended 31 December 2014			Eight months ended 31 August 2015		
	Actual production volume <sup>(note 1)</sup>	Utilisation rate <sup>(note 2)</sup>	Estimated maximum production capacity <sup>(note 3)</sup>	Actual production volume <sup>(note 1)</sup>	Utilisation rate <sup>(note 2)</sup>	Estimated maximum production capacity <sup>(note 3)</sup>	Actual production volume <sup>(note 1)</sup>	Utilisation rate <sup>(note 2)</sup>	Estimated maximum production capacity <sup>(note 3)</sup>
	('000 pieces)	(%)	('000 pieces)	('000 pieces)	(%)	('000 pieces)	('000 pieces)	(%)	('000 pieces)
<b>Transformers</b>									
Toroidal transformers	1,235.5	69.6	1,775.4	1,064.1	46.8	2,274.4	520.1	34.3	1,516.3
EI transformers	299.2	72.7	411.4	428.2	66.6	642.8	253.6	58.6	433.1
Ferrite transformers	2,455.0	97.0	2,531.8	2,127.2	63.6	3,342.7	1,198.8	53.8	2,228.5
<b>Switching mode power supply</b>	1,139.9	57.3	1,988.8	974.6	37.8	2,578.6	437.4	25.4	1,719.1
<b>Other electronic parts and components</b>									
PCB assembly	607.0	42.4	1,432.5	835.2	39.0	2,143.2	538.9	37.7	1,428.8
Battery chargers	164.9	42.4	389.1	218.0	39.0	559.5	173.8	46.6	373.0
Musical instrument and equipment	5.8	42.0	13.8	27.7	39.0	71.1	4.0	8.5	47.4
Cable assembly	1,890.0	82.0	2,304.3	1,865.2	83.1	2,243.3	1,080.1	72.2	1,495.5
Others	667.9	42.4	1,576.3	736.6	39.0	1,890.1	990.5	78.6	1,260.1

*Notes:*

1. The actual annual production volume refers to the number of products actually produced in the relevant year/period, which includes the products produced for our own use.
2. Since our production process is labour-intensive, utilisation rate is derived by dividing the monthly average number of workers actually worked on the production lines by the maximum number of workers designated for those production lines in the relevant year/period.
3. The estimated maximum production capacity is determined based on the actual production volume being divided by the utilisation rate for the relevant year/period.
4. The actual production volume of EI transformers includes the EI transformers produced for our own use as to 170,715 pieces for the year ended 31 December 2013, 245,730 pieces for the year ended 31 December 2014 and as to 177,859 pieces for the eight months ended 31 August 2015.
5. The actual production volume of ferrite transformers includes ferrite transformer produced for our own use as to 2,279,798 pieces for the year ended 31 December 2013, 1,949,204 pieces for the year ended 31 December 2014 and as to 874,846 pieces for the eight months ended 31 August 2015.
6. The actual annual production volume of cable assembly includes the cable assembly produced for our own use as to 1,705,502 pieces for the year ended 31 December 2013 and 1,737,980 pieces for the year ended 31 December 2014 and 951,604 pieces for the eight months ended 31 August 2015.

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We expanded our production capacity of our transformer products despite a decline in the sales volume during the Track Record Period mainly because we plan for future business development and expansion, especially in the PRC domestic market as we start to receive orders and indicative orders from some sizable manufacturers in the PRC for our transformer products.

### **Our production equipment and machinery**

In order to enhance our manufacturing standards and capability, apart from purchasing the production machinery and testing devices from Independent Third Parties in the PRC and importing from overseas, our in-house technicians would self-assemble certain testing devices which are specifically used to test the quality and standard of our products.

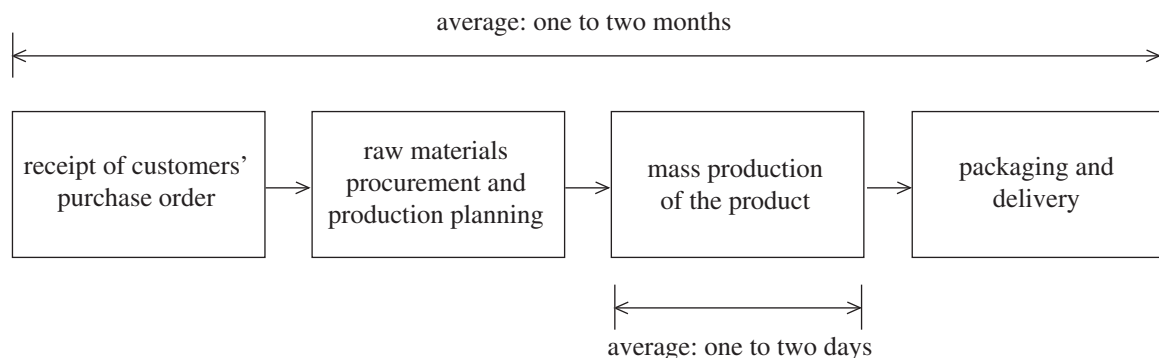
We have a comprehensive maintenance system for our production facilities and equipment, including scheduled downtimes for maintenance and repairs, and regular inspection of our production facilities and equipment in order to ensure our production lines run smoothly and operate at optimal levels. Our production lines are subject to on-going maintenance checks.

Certain of our production machinery and equipment are compatible for the production of different types of products. For example, the same machinery and equipment can be used for the OEM products, including battery chargers, PCB assembly, musical instruments and switching mode power supply. As such, we generally are not required to suspend operation during our production machinery and equipment maintenance. Regular maintenance of our production facilities are generally on a monthly basis and are scheduled to rotate among different equipment to avoid complete shutdown of our operation.

During the Track Record Period, we have not experienced any material or prolonged interruption to our production processes due to equipment or machinery failure.

### **Mass production process**

All the production processes of our products take place in our own production facilities. The average production lead time from customers' confirmed purchase order to delivery of the product is about one to two months. The average production lead time of mass production of the product is about one to two days.



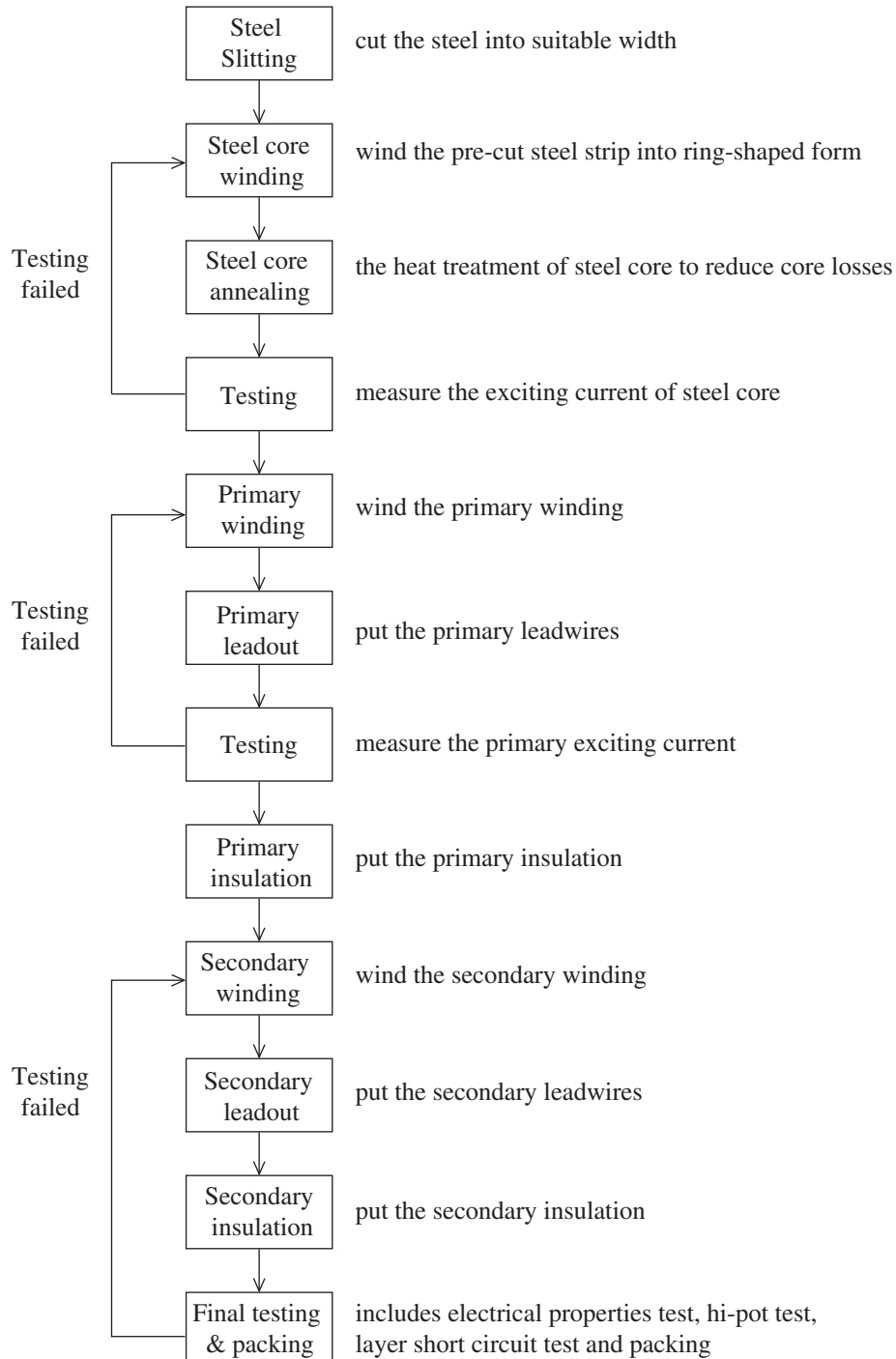
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## BUSINESS

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The following chart illustrates the typical production process of our power supply products:

### Toroidal transformer



The average production lead time for this type of product is approximately two days.

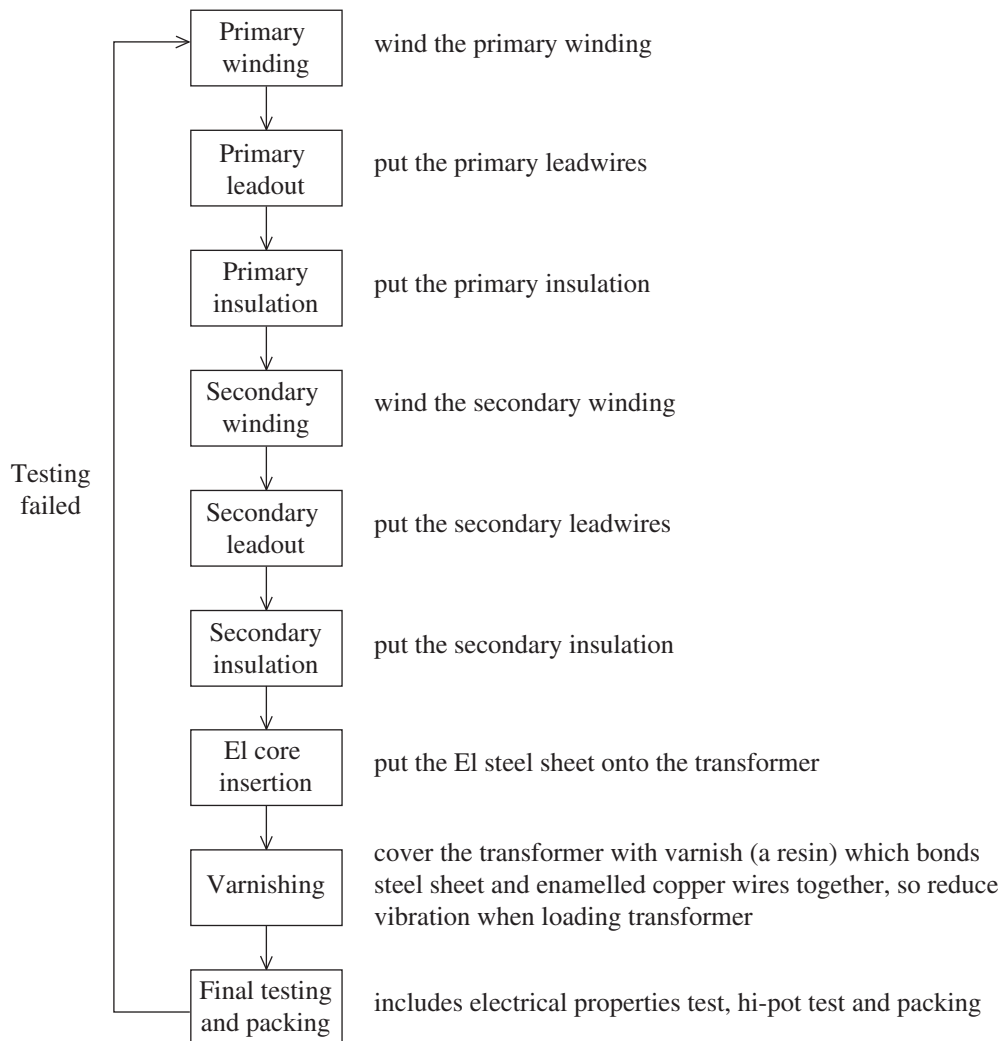


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## BUSINESS

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### EI transformer



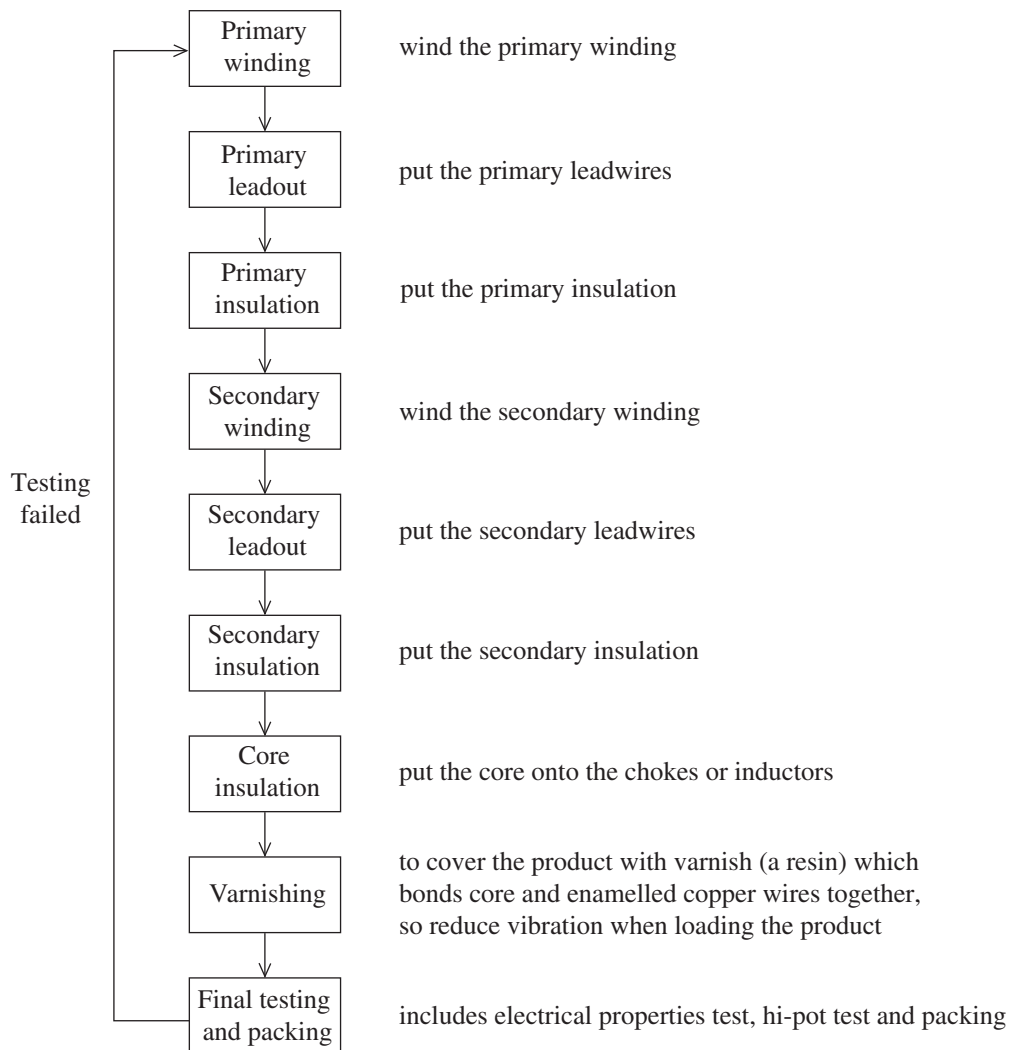
The average production lead time for this type of product is approximately one day.

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## BUSINESS

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### Ferrite transformer



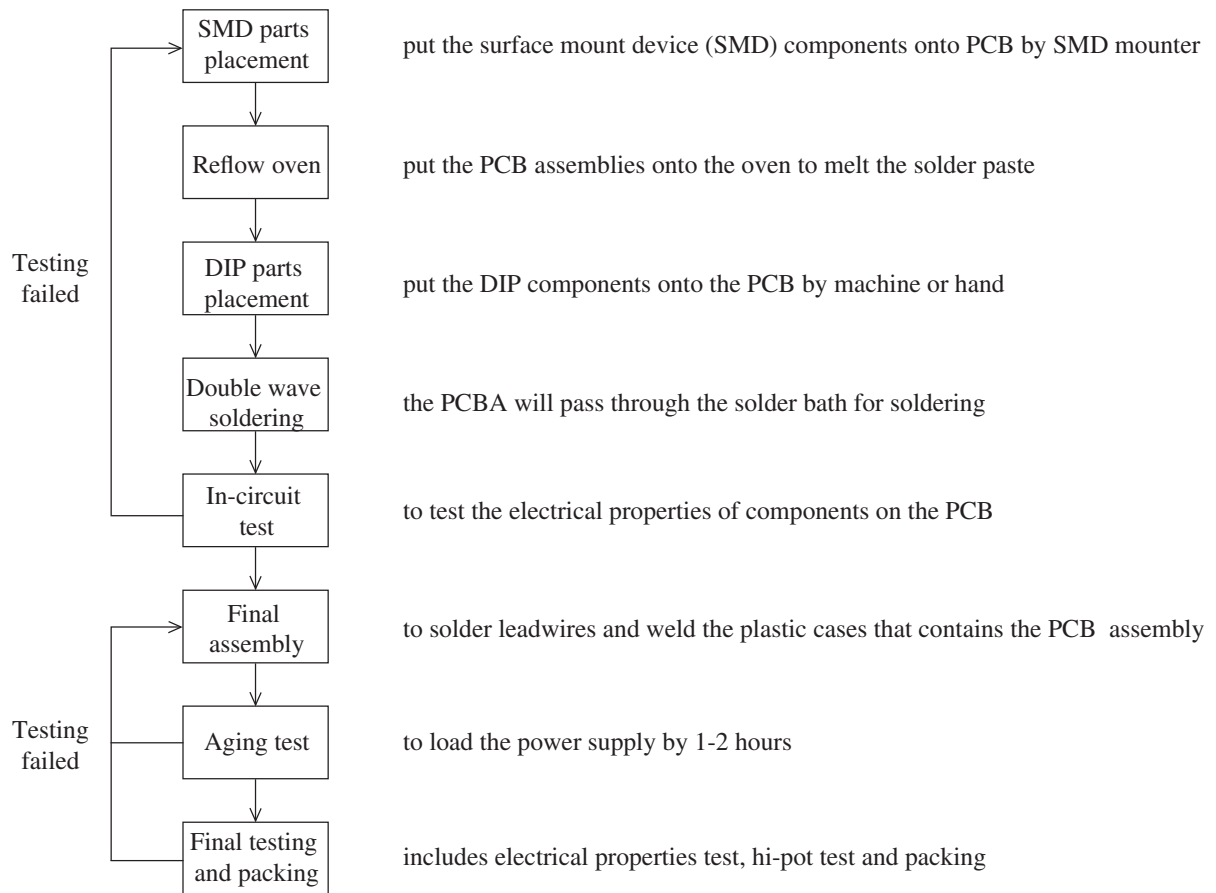
The average production lead time for this type of product is approximately one day.

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### Switching mode power supply



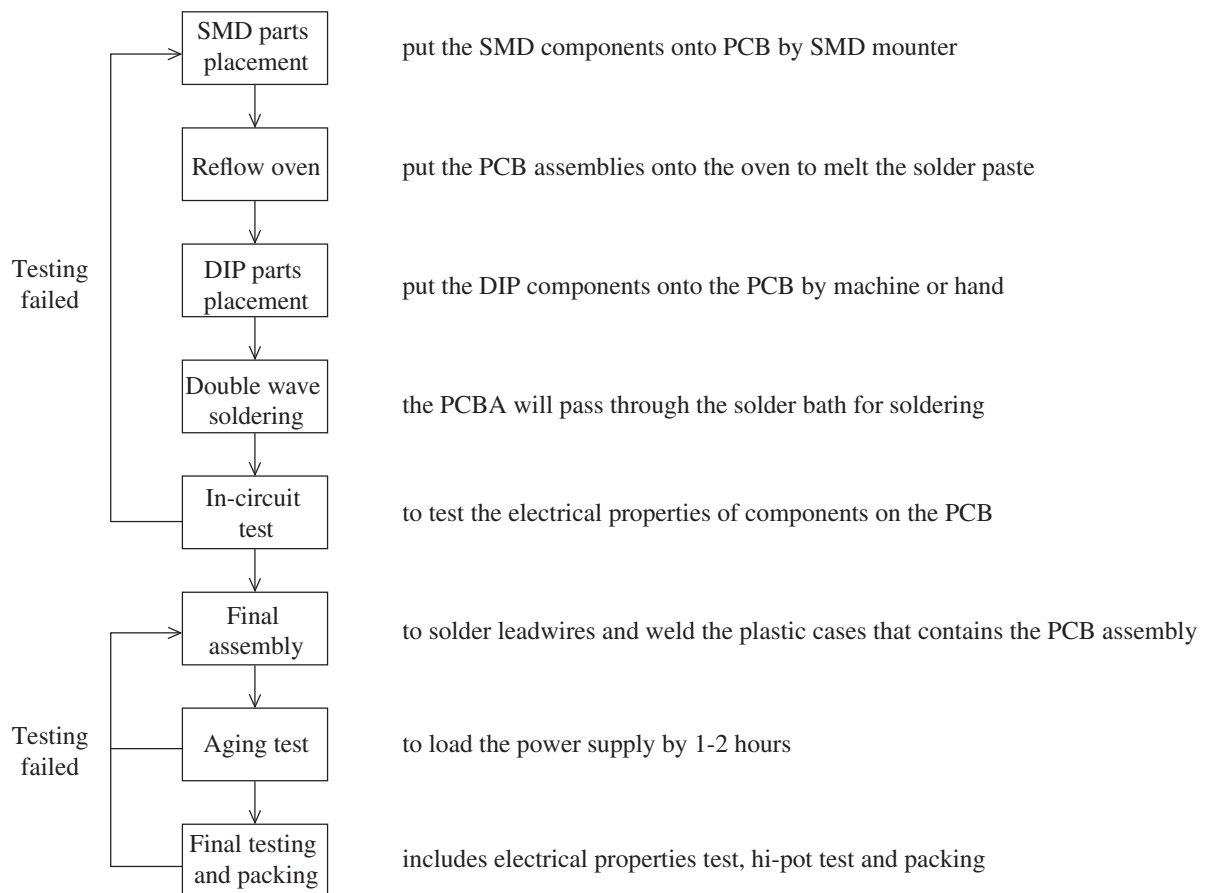
The average production lead time for this type of product is approximately two days.

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## BUSINESS

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### OEM products



The average production lead time for this type of product is approximately two days.

All the production processes are carried out by our own production facilities and we have not outsourced any production process during the Track Record Period.

### PRODUCTION FACILITIES FOR PARTS AND COMPONENTS FOR OWN USE

The quality of a number of parts and components is crucial to our production. In order to have better control over the quality and cost of such parts and components, we have set up divisions for the production of such parts and components for our own use.

At present, we have the ancillary parts and components division (輔料組), the plastic injection and moulding division (注塑部), the enamelled copper wire division (漆包線部) and the silicon steel core division (鐵芯).

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The ancillary parts and components division is responsible for the production of tailor-made cables and accessories which are adapted to fit various types of our products. The plastic injection and molding division is responsible for the production of plastic parts and components for our products. Enamelled copper wires and steel core are the core parts and components for the production of our main products, the transformer. Our enamelled copper wire division and the steel core division are responsible for the production of enamelled copper wires and steel cores.

Apart from ensuring that the crucial parts and components for production of our products are of a consistently good quality, the integration of producing the parts and components for our own use also bring us the advantages of reducing our purchase cost, maintaining a lower inventory level for our parts and components and providing flexibility and certainty in our production and procurement plan. For instance, suppliers generally require a minimum purchase amount for their enamelled copper wires, which are one of the core parts and components for our transformers. Our products require enamelled copper wires of different diametres. As such, our inventory level will be high (if we purchase enamelled copper wires of different diametres) and we do not have the flexibility in our procurement plan to do so. With the enamelled copper wire division, we produce enamelled copper wires of suitable diameters in the specific volume required for the production of certain series/types of our transformers. The raw material used for the production of copper wires are copper rods (銅桿), which can be used to produce copper wires of different diametres.

During the Track Record Period, almost all of the plastic parts and components and enamelled copper wires consumed for our production were produced by us, and approximately 70% of the cable assemblies and 99% of the steel core for toroidal transformers consumed for our production were produced by us.

The parts and components we produced are primarily to satisfy our own production demand and we may sell the excess amount we produced to customers. The table below sets forth the utilization of the parts and components we produced during the period indicated:

	For the year ended 31 December				For the eight months ended 31 August 2015	
	2013		2014			
	Approximate percentage for own use	Approximate percentage for sale to customers	Approximate percentage for own use	Approximate percentage for sale to customers	Approximate percentage for own use	Approximate percentage for sale to customers
<b>Parts and components we produced</b>						
Plastic parts	99%	1%	99%	1%	99%	1%
Enamelled copper wires	100%	—	100%	—	100%	—
Steel core for toroidal transformers	100%	—	100%	—	99%	1%

The cable assemblies, the plastic parts and components, enamelled copper wires and steel core for toroidal transformers are treated as our work-in-progress in the course of their production. Upon the completion of their production, they will be treated as our raw materials if they are applied for our own production use or our finished goods if they are sold to our customers.

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The EI transformers are one of the components for the production of our amplifiers for musical instrument and battery chargers. The ferrite transformers are one of the components for the production of our switching mode power supply. During the Track Record Period, we also produced the EI transformers and the ferrite transformers for our own use. The EI transformers and the ferrite transformers used in our production were produced by us.

### **INTRA-GROUP SALES BETWEEN HE YUAN SKY WEALTH AND KEEN OCEAN INDUSTRIAL**

He Yuan Sky Wealth is our production arm while most of our sales orders are concluded by Keen Ocean Industrial with our customers. Upon receipt of the sales orders from our customers, Keen Ocean Industrial would channel the purchase orders to He Yuan Sky Wealth to produce the products. For exports sales, He Yuan Sky Wealth will deliver the finished products to Keen Ocean Industrial in Hong Kong, or to a location or the bonded zones (保稅區) in the PRC as designated by the customers. The transactions between He Yuan Sky Wealth and Keen Ocean Industrial are treated as sales of He Yuan Sky Wealth to Keen Ocean Industrial and the selling prices are on a cost-plus basis. Our Directors confirmed that the relevant intra-group transactions were conducted on normal commercial terms. Despite this, we may be challenged by the relevant tax authorities on the appropriateness of these transactions and may be subject to possible tax exposure arising from our transfer pricing arrangement. Please also refer to the paragraph headed “Our operations may be subject to transfer pricing adjustments by competent authorities” in the section headed “Risk Factors” of this prospectus. As at the Latest Practicable Date, we were not aware of any enquiry, audit or investigation by any tax authority in the PRC or Hong Kong with respect to transfer pricing carried out by our Group.

On some occasions, Keen Ocean Industrial sourced raw materials outside the PRC and delivered the same to He Yuan Sky Wealth for production use. These raw materials become part of the sales price for sales made by He Yuan Sky Wealth to Keen Ocean Industrial.

The functions undertaken by Keen Ocean Industrial, in the cases of PRC sales and non-PRC sales, include (i) undertaking overall marketing and sales activities including customer channels development and maintenance, price negotiation and contracts conclusion in the name of Keen Ocean; (ii) involving in core technology research and development and quality standards control; and (iii) involving in supplier selection and price negotiation. In the case of non-PRC sales, Keen Ocean Industrial further undertakes the functions of (i) buying raw materials directly from suppliers and (ii) being responsible for after-sales service when quality issues occur. For PRC sales, if the suppliers are located outside the PRC, Keen Ocean Industrial will purchase the raw materials and then re-sell the same to the He Yuan Sky Wealth.

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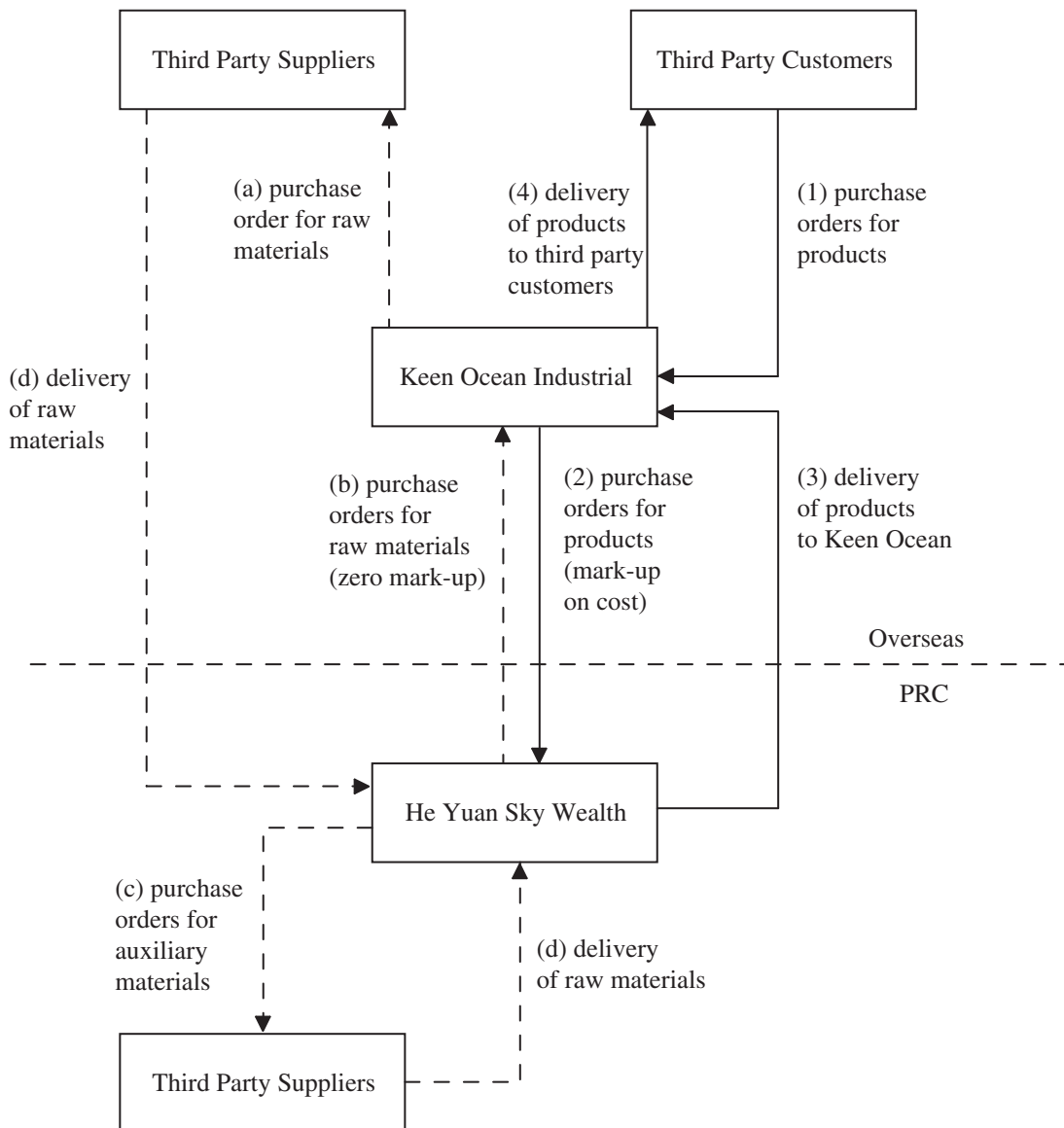
## BUSINESS

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### Transfer pricing arrangements

#### *Transfer pricing arrangements and parties involved*

The flow chart below shows the major steps and parties involved in the transfer pricing arrangements between Keen Ocean Industrial and He Yuan Sky Wealth:



#### *Sales of products*

1. *Keen Ocean Industrial received purchase orders from third party customers in overseas and Keen Ocean Industrial will channel such purchase orders to He Yuan Sky Wealth for the production of the relevant products.*
2. *the purchase orders placed by Keen Ocean Industrial to He Yuan Sky Wealth are on a mark-up on cost method. The mark-up rate varies from different categories of products.*

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3. *The finished products produced by He Yuan Sky Wealth will be delivered to Keen Ocean Industrial.*
4. *Keen Ocean Industrial delivers the products to the customers in overseas or to the bonded zone located in the PRC as designated by the customers.*

### *Raw materials procurement*

- (a) *Keen Ocean Industrial purchases the principal raw materials from overseas.*
- (b) *Keen Ocean sells the principal materials it purchased from overseas suppliers to He Yuan Sky Wealth at a zero mark-up price.*
- (c) *For auxiliary materials, He Yuan Sky Wealth sources such materials in the PRC.*
- (d) *Materials used for the production are delivered directly to He Yuan Sky Wealth.*

### *Potential tax exposure*

There were significant sales between He Yuan Sky Wealth and Keen Ocean Industrial during the Track Record Period and the pricing policy of the He Yuan Sky Wealth is based on the mark-up on cost basis. In order to assess whether the sales between He Yuan Sky Wealth and Keen Ocean Industrial were carried out at arm's length basis, our Company has engaged an independent tax consultant to conduct an analysis of the above processing arrangements between Keen Ocean Industrial and He Yuan Sky Wealth. Given the nature and characteristics of the transaction model and the functional profile of the participants, a profit split method is selected as an appropriate transfer pricing analysis methodology to test the arms' length nature of forth mentioned cost plus policy adopted for business purpose. The analysis result indicated that the discrepancy between the profit allocated to He Yuan Sky Wealth computed on mark-up on cost method and that determined by profit split method was minimum. The tax consultant is of the view that the tax exposure arising from the transfer pricing arrangement of our Group should be insignificant. Therefore, our Directors concluded that the sales between He Yuan Sky Wealth and Keen Ocean Industrial were carried out at arm's length basis. Please refer to the paragraph headed "Tax implications and compliance" of this section for the analysis of the independent tax consultant.

Given that the decrease in total revenue of He Yuan Sky Wealth for the year ended 31 December 2014 compared with that for the year ended 31 December 2013 (mainly due to the decrease in sales from He Yuan Sky Wealth to Keen Ocean Industrial from HK\$154 million in 2013 to HK\$138 million in 2014), while the gross profit margin and administrative expenses for the year ended 31 December 2014 were comparable with those for the year ended 31 December 2013, which led to the taxable profit of He Yuan Sky Wealth for the year ended 31 December 2014 being minimal. Thus, no PRC income tax expense was recognised in the Accountants' Report for the year ended 31 December 2014.

He Yuan Sky Wealth recognised the export sales to Keen Ocean Industrial in the PRC ledger when the custom declaration procedures for export sales have been completed. For the preparation of the financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), year-end sales and cost of sales cut-off adjustments (the "Cut-off Adjustments") were made by reference to the date that the risk and rewards of the goods passed to the customers i.e. the date of delivery of goods, which will be earlier than the date the custom declaration procedures were completed. The Cut-off Adjustments are made to conform with the relevant Hong Kong accounting



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standards, resulting to have timing difference in recognition of the profit in the PRC ledger and the financial statements prepared under HKFRS in different accounting periods. However, due to the timing difference in recording the accounting profit between the PRC ledger and the HKFRS financial statements, no PRC income tax expense has been recognised in the HKFRS financial statements in 2014 because the abovementioned Cut-off Adjustments have already reduced the PRC income tax expense in 2014.

### *Commercial rationale*

Our Directors believe that such arrangements (i) enhances the effectiveness of our overall management and operations and avoid the concentration of our marketing and production functions into a single entity within our Group; and (ii) enable our Group to benefit from the relevant PRC laws and regulations encouraging the development of processing trade, such as preferential treatment on customs and government subsidies for exporting enterprises.

### *Tax implications and compliance*

The independent tax consultant has conducted an analysis in respect of the *processing arrangements* between Keen Ocean Industrial and He Yuan Sky Wealth, which are within the same group ultimately under the same control (the “**Tested Transactions**”), for each of the years ended 31 December of 2013 and 2014 (the “**TP Analysis**”). For the purpose of such TP Analysis, the tax consultant calculated the profit level should be earned by Keen Ocean Industrial and He Yuan Sky Wealth in the Tested Transactions based on the following procedures:

- i. analysed the financial statements and other relevant accounting information of Keen Ocean Industrial and He Yuan Sky Wealth;
- ii. understood the operation model and analysed the functions and risks assumed by Keen Ocean Industrial and He Yuan Sky Wealth;
- iii. understood the pricing policy set forth and specific execution between Keen Ocean Industrial and He Yuan Sky Wealth in the Tested Transactions;
- iv. based on the nature and characteristics of the Tested Transactions and the functional profile of the transactional parties, selected the appropriate transfer pricing analysis methodology (i.e. **Profit Split Method**);
- v. following the selected transfer pricing method, determined the respective contribution weighting to the controlled supply chain system profit by Keen Ocean Industrial and He Yuan Sky Wealth;
- vi. computed the system profit amount derived from the Tested Transactions and split the profit between Keen Ocean Industrial and He Yuan Sky Wealth in accordance with respective contribution weights for each of the years ended 31 December of 2013 and 2014; and
- vii. completed the quantitative analysis on the transfer pricing influence.

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The tax consultant has determined the pre-tax profit that should be earned by He Yuan Sky Wealth based on the Profit Split Method, taking into account the contribution weight on key functions undertaken by He Yuan Sky Wealth and Keen Ocean Industrial, and compared with the actual pre-tax profit or loss that was actually recorded by He Yuan Sky Wealth. It is concluded that the additional tax liability of approximately RMB216,000 arisen from the Group's transfer pricing arrangement that should be recognised by He Yuan Sky Wealth is insignificant to the Group's consolidated financial statements as a whole and no further PRC income tax provision for the Track Record Period is considered necessary. The result of the tax consultant indicated that the pricing policy reasonably complied with the arms' length principle advocated in *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* which is also applicable to both PRC and Hong Kong's transfer pricing practice. Based on the advice from the tax consultant, our Directors concluded that the sales between He Yuan Sky Wealth and Keen Ocean Industrial were carried out on arm length's basis.

Starting January 2015 and onwards, our Group has adopted the inter-company pricing determined based on the profit ratio calculated in the TP Analysis to mitigate potential transfer pricing risks. Accordingly, the tax consultant is of the opinion that the inter-company pricing is in accordance with arms' length principle.

Mr. Yin Fan, our Group's financial manager has been involved in reviewing our Group's Transfer Pricing Arrangement on a regular basis. Mr. Yin Fan has around 10 years of relevant experiences. For details of the biographies of Mr. Yin Fan, please refer to the section headed "Directors and senior management" of this prospectus.

Furthermore, pursuant to the Regulation on Implementing the Enterprise Income Tax Law of the PRC, He Yuan Sky Wealth is required to submit an annual related-party transactions reporting form to the tax authority in-charge. In the event that its related party transactions exceed a certain threshold, He Yuan Sky Wealth is required to prepare contemporaneous documentation report with respect to the related party transactions in question. If the relevant PRC tax authorities conduct any investigation on the related party transactions carried out against He Yuan Sky Wealth, Heyuan Sky Wealth is required to submit such report to the relevant PRC tax authorities. According to the confirmation dated 16 January 2015 and issued by the Sub-Bureau of Heyuan State Tax Bureau (河源市國家稅務局直屬稅務分局) (the "**Sub-Bureau**"), the tax authority in charge of He Yuan Sky Wealth, He Yuan Sky Wealth has completed all relevant tax filings. He Yuan Sky Wealth has not been subject to penalties for non-compliance with such laws and regulations or received request or challenge by any PRC authorities for additional tax payment. According to another confirmation dated 5 June 2015 and issued by the Sub-Bureau, He Yuan Sky Wealth has submitted Form of the People's Republic of China for Enterprise Annual Report on Associated Transactions in accordance with the relevant tax laws and regulations, which reflected the situations of associated transactions, and the Sub-Bureau had not yet found it necessary to make appropriate adjustments in respect of the relevant tax. Moreover, no records of administrative penalties on He Yuan Sky Wealth for breach of tax laws and regulations had been found. According to Notice of the State Administration of Taxation on Issues Concerning Adjustment to Tax Jurisdictions of Enterprise Income Tax from Newly-founded Enterprises ("國家稅務總局關於調整新增企業所得稅徵管範圍問題的通知"), the Enterprise Income Tax of foreign invested enterprises and permanent representative offices of foreign enterprises shall continue to be administered by state tax authorities. Therefore, the PRC legal advisers are of the opinion that the Sub-Bureau is the competent tax authority to issue the relevant confirmation.

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On the sole basis of the TP Analysis and the abovementioned two confirmations issued by the Sub-Bureau, our PRC Legal Advisers are also of the view that the transfer pricing policy for intra group sales between Keen Ocean Industrial and He Yuan Sky Wealth are not in breach of the relevant tax laws and regulations in the PRC and hence He Yuan Sky Wealth has not been imposed on any penalties.

### *Measures to ensure on-going compliance*

Our Group's transfer pricing arrangement is part of a normal trading operation where a transaction price needs to be established. Our Group's general policy in this area is to follow the arm's length principle and to achieve an arm's length outcome. We will regularly review the processing arrangements between Keen Ocean Industrial and He Yuan Sky Wealth every three months, and where necessary, appoint tax consultant to review if such transfer pricing arrangements have followed the arm's length principle.

## RECOGNITIONS AND CERTIFICATIONS OF OUR PRODUCTS AND PRODUCTION PROCESS

We have been awarded the following recognitions and certifications in relation to our products and production process:

We have obtained certain certifications for our power supply products and these certifications include ISO 9001:2008, UL, FCC, GS, SAA, PSE, UL-AR, KC, CE, UL-BR, CCC and CB.

### **ISO 9001:2008**

ISO 9001:2008 specifies requirements for a quality management system where an organisation (a) needs to demonstrate its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements, and (b) aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements. We first obtained such certification in June 2007 for our quality control management and the current certification will expire in March 2016.

### **UL**

To establish UL certification, samples of a product submitted by manufacturers for certification are tested and evaluated. If UL decides the product fulfils all applicable requirements, it authorises the manufacturer to apply for a certification mark for the production of the samples submitted, or issues a certificate or notification that the product is now certified by UL. We first obtained such certification in January 2001 for our toroidal transformer, which is for a perpetual period.

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### FCC

Depending on the type of equipment that the manufacturers have, FCC certification might be required. The two most common FCC Certifications requirements are FCC Part 15 and FCC Part 68. Telecommunications equipment has to be tested and be in compliance with FCC Part 68. FCC Part 68 is the FCC Certification for connection to the telephone network. The other most common FCC Certification for most electronic equipment is FCC Part 15. FCC Part 15 covers unintentional testing and evaluation as well as low power un-licensed transmitters. We first obtained such certification in December 2009 for our switching mode power supply products, which is for a perpetual period.

### GS

GS certification is established based on German Product Safety Act. GS mark indicates that the operation safety of the product has passed the test of independent body with the credibility, and the product meets Europe safety standards and unique German national standards. Although GS mark is not legally required, it does strictly constrain manufacturers by Germany (Europe) Product Safety Act when the product fails or causes accidents. Accordingly, GS mark is a powerful market instrument which can enhance customers' confidence and desire to make purchases. We first obtained such certification in January 2011 for our switching mode power supply products, which is for a perpetual period.

### SAA

SAA approvals is accredited by the Joint Accreditation Service of Australia and New Zealand as a third party certification body. Certificates of Approval are issued for electrical equipment that has proven to comply with the safety requirements of the applicable Australian Standard and be fully accepted throughout Australia and New Zealand. We first obtained such certification in February 2010 for our switching mode power supply, which is for a perpetual period.

### PSE

PSE, Product Safety of Electrical Appliance and Materials certification, is referred to as a "Compatibility Test" in Japan. It refers to the mandatory market entry system for Japan's electrical equipment and is an important content of Safety Laws for Electrical Equipment. We first obtained such certification in January 2010 for our switching mode power supply products and the current certification will expire in September 2016.

### UL-AR

UL-AR certification is a safety certification for electric and electronic products. It is issued by UL de Argentina S.R.L., which is accredited by the Argentine Accreditation Organization as a Product Certification Body and recognised by the government to provide the mandatory certification for electric and electronic products established in the Resolution 92/98. Resolution 92/98 requires that all

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electrical and electronic products marketed within the national territory shall have a safety certification issued by a Product Certification Body verifying compliance with essential safety requirements. We first obtained such certification in October 2010 for switching mode power supply, which is for a perpetual period.

### KC

KC mark certification for products importing into Korea is issued by the Korea Electric Testing Institute, which is the National Official Professional Testing Research Institute and a well-known reputation organization in Korea in performing testing. We first obtained such certification in February 2010 for switching mode power supply, which is for a perpetual period.

### CE

The CE mark, or formerly EC mark, is a mandatory conformity marking for certain products sold within the European Economic Area. The CE marking is the manufacturer's declaration that the product meets the requirements of the applicable EC directives. We first obtained such certification in August 2010 for our switching mode power supply products, which is for a perpetual period.

### UL-BR

UL-BR certification is provided by UL Testtech, a Brazilian electrical safety and energy efficiency-testing laboratory, subsequent to electrical safety testing and/or energy efficiency and performance testing for appliances and lighting products. UL Testtech is the only laboratory in Brazil accredited by INMETRO to test conformance to household electrical appliance standards. This standard recognises the internationally accepted level of protection against electrical hazards, mechanical, thermal, fire and radiation devices, when operating in normal use, taking into account the manufacturer's instructions. We first obtained such certification in December 2013 for switching mode power supply and the current certificate will expire in December 2015. Our Directors confirmed that they do not anticipate any material particular legal impediment for our Group to renew such relevant certification upon its expiry.

### CCC

CCC, also known as China Compulsory Certification, is a mandatory certification system for a wide variety of products being exported to or sold in the Chinese market. The CCC mark is the statutory compulsory safety certification system and the basic approach to safeguard consumer rights and interests, and protect the personal and property safety. CCC is adopted widely by international organisations. We first obtained such certification in March 2008 for switching mode power supply, which is for a perpetual period.

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### CB

Verification for CB certification covers the stipulations of the Standards of the International Electrotechnical Commission, and takes into account the requirements of IECEE (Worldwide System for Conformity Testing and Certification of Electrotechnical Equipment and Components). The test is conducted on the basis of test specimens in association with corresponding documentation, and applies to domestic and commercial appliances, office machines and data processing equipment. We first obtained such certification in December 2009 for our switching mode power supply products, which is for a perpetual period.

### RAW MATERIALS, PARTS AND COMPONENTS AND MAJOR SUPPLIERS

#### Principal raw materials and parts and components

The major raw materials used in the production of our products include copper, DC motors, semi-conductors and plastic parts, etc. During the Track Record Period, we sourced all our major raw materials from suppliers in, among others, the PRC, Japan and the United States.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the total material cost included in total cost of manufacturing accounted for approximately 70.0%, 68.7% and 62.5%, respectively, of our total cost of sales.

The following table sets out the breakdown of our total purchase of raw materials during the Track Record Period:

	For the year ended 31 December				For the eight months ended 31 August			
	2013		2014		2014		2015	
	% of total purchase of raw materials		% of total purchase of raw materials		% of total purchase of raw materials		% of total purchase of raw materials	
	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)
	(unaudited)							
Copper	38,871	35.2	28,317	27.4	18,868	27.3	11,867	22.7
DC motors	9,363	8.5	13,089	12.7	7,694	11.1	8,026	15.4
Semi-conductors	6,112	5.5	8,373	8.1	5,110	7.4	2,651	5.1
Cable	9,624	8.7	8,022	7.7	4,913	7.1	3,139	6.0
Plastic components	9,452	8.6	9,004	8.7	5,608	8.1	5,878	11.3
PCB	5,907	5.4	7,712	7.5	2,180	3.2	1,320	2.5
Metal components	3,927	3.5	5,362	5.2	4,269	6.2	3,419	6.6
Silicon steel	11,277	10.2	5,646	5.4	4,207	6.1	2,803	5.4
Others (note)	15,861	14.4	17,884	17.3	16,246	23.5	13,075	25.0
<b>Total purchase of raw materials</b>	<b>110,394</b>	<b>100.0</b>	<b>103,409</b>	<b>100.0</b>	<b>69,095</b>	<b>100.0</b>	<b>52,178</b>	<b>100.0</b>

*Note:* Others comprise packaging materials, audio components, insulating varnish, industrial chemicals, electrical components and moulding.

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Copper is the major raw material for our toroidal transformer and EI transformer. Silicon steel is used in the production of our toroidal transformer and EI transformer. DC motors are used as the parts and components for our PCB assembly while semi-conductors are used in the production of our switching mode power supplies, battery chargers and PCB assemblies.

Our total revenue decreased from approximately HK\$189.9 million in 2013 to approximately HK\$182.0 million in 2014, and this is in line with the decrease in our total cost for raw materials and parts and components in 2014.

We also produce certain parts and components for our own production use. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, we produced cable assemblies, plastic parts and components, enamelled copper wires and steel cores for toroidal transformers for our own production use. During the Track Record Period, most of these parts and components we produced are for our own consumption. Details of the parts and components we produced for our own production use are set out in the paragraph headed “Production facilities for parts and components for own use” in this section.

### **Procurement planning**

As at 31 December 2014, our procurement department comprised nine personnel. We in general purchase our raw materials based on the customers’ confirmed purchase orders and projected production schedule. Our production department, based on the customers’ confirmed purchase orders, will formulate the production plan, including the production of parts and components for our own use. For raw materials and parts and components which we have to source from external suppliers, our production department will place an internal purchase request with our procurement department. Our procurement staff would then request for price quotations from at least three suppliers from our list of qualified suppliers to obtain the best price for the raw materials and parts and components required for our production.

It is also our policy that purchase of raw materials in bulk quantities must be carried out on a centralised procurement basis in order to better manage our procurement process and to increase our bargaining power and to meet minimum ordinary quantities.

We generally maintain inventory level of approximately 90 days for certain raw materials and parts and components commonly used in our production process to support our production needs. For copper, which is a crucial material for our production, we generally maintain an inventory level of 90 days. We will take reference of the LME price of copper in determining and negotiating the copper price with our supplier. During the Track Record Period, our yearly average purchase price of copper recorded a decreasing trend from US\$7,682 per tonne in 2013 to US\$7,225 per tonne in 2014.

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Since we did not engage in any hedging activity or enter into any futures contract to manage price fluctuation of our raw materials and parts and components during the Track Record Period and do not plan to enter into any hedging activity in the foreseeable future, it is our policy that we closely monitor the price of the raw material and parts and components and when we anticipate an increase in the raw material and parts and components prices or a shortage of supply, we will adjust our procurement plans accordingly in order to minimise our exposure to the fluctuations in prices and supply.

During the Track Record Period, other than the decline in the average purchase price of copper and silicon steel, we did not experience any significant fluctuations of the prices of our raw materials and parts and components.

### **Our suppliers**

In general, we source our raw materials from suppliers based in the PRC, Hong Kong, the United States, Europe and Japan, etc. As at the Latest Practicable Date, we had over 400 qualified suppliers. For our major raw materials and parts and components such as copper and silicon steel, we generally have alternate suppliers to ensure a stable supply. For each of the years during the Track Record Period, all of our five largest suppliers have established a relationship of around 1 year to 6 years with us.

For the major suppliers who grant us a credit term, the credit period granted generally ranges from 30 to 60 days. In case of transaction with new suppliers, they may require us to pay upon the delivery of goods. During the Track Record Period, we mainly settled payments with our suppliers in USD, Renminbi and Hong Kong dollars by cash, bank transfers and letters of credit.

We adopt strict procedures in selecting our suppliers. We conduct on-site inspections of our suppliers, review their background information and corporate documents, including their business licence(s). We also assess other aspects of the suppliers including their scale of operation, quality control system, prices, financial position and services provided. Having met our selection criteria, the supplier will become our qualified supplier. We also monitor and review the qualifications of our qualified suppliers from time to time, which include the stability and schedule of supply, production facilities, quality control system and the validity of their relevant licences and permits.

Delivery of raw materials and parts and components mostly takes place at our production facilities. Upon delivery of the raw materials and parts and components, our staff from the quality control department will conduct inspection and sample testing on the raw materials and parts and components in accordance with our internal quality requirements and our customers' purchase orders. Our internal guidelines require the testing and inspection to cover aspects including appearance, size, chemical reaction, mechanical features, electrical testing and geometric features.

If a raw material or part and component is found to be not up to our standard and specifications in the relevant purchase orders, we will negotiate with our suppliers for return and replacement in respect of any sub-standard raw materials and parts and components. The raw materials and parts and



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components will be recognized as our inventory and risk and title passed to us after they passed our inspection and sample testing. During the Track Record Period, we have not experienced any material return of raw materials and parts and components to our suppliers.

As we do not foresee any significant difficulty in finding alternate suppliers for our raw materials and parts and components, we have not entered into any long-term or framework supply agreement with our suppliers. We place individual purchase orders with our suppliers when we receive sales orders from customers. We believe this arrangement provides us with the greatest flexibility in choosing our suppliers and obtaining a competitive price for the raw materials we require in our production process.

During the Track Record Period, we have not experienced any material dispute with our suppliers, nor any disruption, shortage or delay in relation to the supply of our raw materials which may materially and adversely affect our operations and financial conditions.

### Our five largest suppliers

The table below sets forth a summary of our five largest suppliers for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015:

#### For the year ended 31 December 2013

Rank	Supplier	Background	Years of relationship	Principal raw materials purchased	Approximate percentage of our total purchase of raw materials (%)
1.	Supplier A	Production and sales of copper	6	Copper	32.4
2.	Supplier B	Production and sales of micro-motors and components	3	DC motor	6.1
3.	Supplier C	Trading of silicon steel	5	Silicon steel	3.7
4.	Supplier D	Trading of plastic products	3	Plastic parts	3.2
5.	Supplier E	Production and sales of power electronics products	4	PCB	2.9

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**For the year ended 31 December 2014**

<b>Rank</b>	<b>Supplier</b>	<b>Background</b>	<b>Years of relationship</b>	<b>Principal raw materials sourced</b>	<b>Approximate percentage of our total purchase of raw materials (%)</b>
1.	Supplier A	Production and sales of copper	6	Copper	26.1
2.	Supplier F	Holding company of Supplier B	2	DC motor	11.8
3.	Supplier E	Production and sales of power electronics products	4	PCB	4.5
4.	Supplier H	Distribution of chemical products	1	Plastic parts	2.7
5.	Supplier G	Production process and sales of power cord	3	Cable	2.2

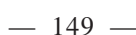
**For the eight months ended 31 August 2015**

<b>Rank</b>	<b>Supplier</b>	<b>Background</b>	<b>Years of relationship</b>	<b>Principal raw materials sourced</b>	<b>Approximate percentage of our total purchase of raw materials (%)</b>
1.	Supplier A	Production and sales of copper	6	Copper	21.1
2.	Supplier F	Holding company of Supplier B	2	DC motors	14.4
3.	Supplier E	Production and sales of power electronics products	4	PCB	6.8
4.	Supplier H	Distribution of chemical products	1	Plastic parts	5.0
5.	Supplier G	Production process and sales of power cord	3	Cable	2.3

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our five largest suppliers accounted for approximately 48.3%, 47.3% and 49.6%, respectively, of our total purchase of raw materials and our largest supplier accounted for 32.4%, 26.1% and 21.1%, respectively, of our total purchase of raw materials. None of our Directors, their respective close associates or any shareholders who, to the knowledge of our Directors, owns more than 5% of our share capital has any interest in any of these five largest suppliers upon completion of the Placing.

Our sales department is responsible for our sales activities. As at 31 August 2015, our sales department consisted of 13 staff. Our sales department is responsible for formulating our overall sales strategies, collecting and analysing market data and negotiating and finalising sales terms with our customers. Our sales team, along with our production teams, provides sales and after-sales services to our customers.

The map below shows our major exporting regions, i.e., U.S. and Europe, during the Track Record Period:



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According to Yubozhiye Report, the production volume of transformer in China increased from approximately 3,460 million units in 2010 to approximately 3,975 million units in 2014, representing a CAGR of approximately 2.8%, which showed a moderate growth during the period. It is forecasted that the production volume of transformer in China will further increase to 4,562 million units in 2018, representing a CAGR of approximately 2.6%, which forecasts a moderate growth trend. The production volume of PCB products in China, increased from 11 billion units in 2010 to 16 billion units in 2014, representing an annual growth rate of 10.3%, which represented a moderate growth during the period. It is forecasted that the production volume of PCB products in China will further increased to 24 billion units in 2018, representing a CAGR of approximately 7.7%, which forecasts a moderate growth trend. The production volume of switch mode power supply product in China increased from 860 million units in 2010 to 1,130 million units in 2014, representing a CAGR of approximately 5.6%, which showed a fluctuation in growth during the period. It is forecasted that the production volume of switch mode power supply product in China will further increase to 1,480 million units in 2018, representing a CAGR of approximately 5.2%, which forecasts a moderate growth trend. The production volume of battery charger in China increased from 720 million units in 2010 to 1,120 million units in 2014, representing a CAGR of approximately 9.2%, which revealed a moderate growth during the period. It is forecasted that the production volume of battery charger in China will further increase to 1,740 million units in 2018, representing a CAGR of approximately 8.6%, which forecasts a moderate growth trend. In addition, almost all electrical and electronic products require transformers for lowering their voltage, as most of the electronic components are run at a low voltage, whereas sources of power in cities are normally in high voltage. Transformers are also applicable in medical, energy, automation equipment and professional audio industries. Every electrical and electronic product contains printed circuit boards. Besides, application of PCB products can be found in industries such as medical, health care and automation equipment. Switching mode power supply products are generally designed for applications in medium and small size electronic products such as mobile phones and laptops. Battery chargers are generally categorized into household or machine applications. Battery chargers for household usages are for charging mobile devices and household appliances. Battery chargers for machines are used for cars, motorcycles, golf carts and other small electric vehicles with power generated from internal combustion engines. Along with the rapid development of society and economy, we are reliant on automatic equipment in workplaces and daily life. Coupled with the increasing consumer demand for electronic products, there is an accelerating requirement for relevant electronic components such as transformers, PCB products, switching mode power supply products and battery chargers. Electronic components industry was mainly labor-intensive manufacturing in the past, but the whole sector devotes more resources to research and development and for designing automatic production facilities in recent years in response to the continuous rise in wages and costs, so as to enhance the competitiveness of their products. In addition, there is growing awareness of green culture, environmental-friendly and energy-conservation concepts among consumers and exporting countries. We believe that this will be a future trend for technological development in the electronics products industry as well as the electronic components industry, which will help enhance the quality and performance of electronic products.

### Export sales

Our export sales include sales of products under our own brand “Keen Ocean” and OEM products. Overseas customers of products under our own brand are mainly manufacturers and designers of audio equipment and medical equipment and we understand they generally use our

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products for their own manufacture use. Overseas customers of our OEM products are mainly manufacturers and designers of battery charger, audio equipment and medical equipment. We understand that they generally use our products for their own manufacture use or sell our products directly to their customers without any further processing.

During the Track Record Period, some of our export sales were made to customers located within the PRC. At the request of these customers, we physically deliver the products they purchased from us to bonded zones (保稅區) in the PRC as designated by them. We will arrange exports custom clearances of the products they purchased from us and the products will be subsequently imported into China or exported to other countries. The sales to these customers are settled in USD but they are treated as our overseas sales. Our PRC Legal Advisers confirmed that such arrangements with these customers are in compliance with the relevant PRC laws and regulations and they can be treated as our export sales.

### PRC sales

Our PRC sales consist of sales of products under our own brand “Keen Ocean” and on OEM basis. The customers of such sales primarily are trading companies and manufacturers of baby monitor, network router, electronic devices. We understand these trading entities will further sell or export our products and the manufacturers generally use our products for their own manufacture use.

### Our customers

During the Track Record Period, we sold directly to our customers. We had not appointed any distributors or agents to conduct sales on our behalf.

The following table sets out the number and movement of each type of our customers during each of the year ended 31 December 2013 and 2014:

	<b>Manufacturers</b>	<b>Trading companies</b>	<b>Overseas customers</b>	<b>Domestic customers</b>	<b>Total</b>
As at 1 January 2013	174	29	151	52	203
Addition during the year	39	0	12	27	39
Non-recurring customers during the year	-43	0	-17	-26	-43
As at 31 December 2013	170	29	146	53	199
As at 1 January 2014	170	29	146	53	199
Addition during the year	42	2	23	21	44
Non-recurring customers during the year	-35	-5	-22	-18	-40
As at 31 December 2014	177	26	147	56	203

*Note:*

The number of customers only includes customers who have placed purchase orders with our Group during the relevant year.

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As at 31 August 2015, we had 137 manufacturer customers, 23 trading company customers, 99 overseas customers and 61 domestic customers.

For the year ended 31 December 2014, we did not receive recurring purchase orders from three of our major customers who principally purchased our toroidal transformers in 2013, due to the following reasons: (i) one of our engineers left our Group in 2013 and he solicited away two of these customers by offering more competitive prices; and (ii) to the best knowledge of our Directors, the toroidal transformer business of one of these customers did not perform well and such customer did not place purchase orders with our Group in 2014, 2015 and up to the Latest Practicable Date. Our Directors confirm that the non-recurrence of purchase orders from these three customers were not due to any disputes or their dissatisfaction with our products. We do not expect any further loss of customers or sales to the departed engineer as such former employee was mainly responsible for serving the two lost customers during the course of his employment with our Group nor are we aware that any of our customers will leave our Group to follow such former employee.

We have taken measures in promoting our sales revenue and preventing the loss of customers through the leave of our engineer(s). In particular, we have provided an incentive program for our sales staff to expand our customer base and gradually launched new products (like reactor) to increase our sales amount. As a result of effort to increase sales, we are able to attract and retain new customers for our transformer products, especially in the PRC domestic market as the Company starts to receive orders and indicative orders from some sizable manufacturers in the PRC. As a result of our effort to increase sales, our Directors believe the losses of the above-mentioned three major customers would not affect our sustainability, business and financial performance and competitiveness taken as a whole.

As a preventive measures, we have assigned senior employees, who are our executive Directors, senior engineers and senior sales staff (who have been with our Group for not less than five years) to follow up purchase orders with our customers. We have signed confidentiality, non-competition and non-solicitation agreements with the existing key employees which incorporated confidentiality obligations clauses and restrictive covenants on soliciting away business, customers and other employees. Additionally, we have implemented an internal policy where only designated personnel are allowed to contact customers, all customers information should be directed to the designated persons for handling and we will terminate the employment contracts if an employee fails to abide by the internal policy.

During the Track Record Period, the losses of major customers to follow our former employees only happened for one time and we had not encountered recurrence similar incidents. As a result of our preventive measures, our Directors believe that the possibility of recurrence of losing major customers to follow departed employees is low.

### **Pricing strategy and policy**

Our pricing policy aims to facilitate our profitable and sustainable growth strategy. In general, during the Track Record Period, prices of our products are based on various factors including the cost of raw materials used, the technical requirements of the products, the labour costs and our after-sale services to be provided and the prevailing market conditions.

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The price of our products is generally determined on a “cost-plus” basis, comprising the price of the raw materials, the labour costs and a processing fee, which depends on the specifications and skills required for the relevant products. As a result of our “cost-plus” pricing strategy, our Directors believe that we can fully pass on the increase in purchase costs of raw materials to our customers during the Track Record Period. Our Directors from time to time will take reference of the LME price of copper in determining and negotiating the copper price with our suppliers. We will take into consideration the recent changes to the raw material prices to negotiate our product prices with our customers. In cases with large customers, we and these customers have a set formula where our gross profit margin is fixed at a certain percentage notwithstanding any change in raw material costs and currency exchange rates.

Since the end of 2014, we adopted a pricing strategy that not to merely follow the general trend of the market prices by overall reducing our selling prices. In determining the selling price of our products, the price of the product is determined with reference to various factors. Our Directors believe that as our customers place emphasis on the quality of the products, they are willing to pay for our products at a price slightly above the prevailing market prices. In particular, it is noted from some of our major customers that our products are considered to be reliable but at a higher price.

As stated in the sub-section headed “We have established relationships with our key customers and we have a relatively stable customer base” of this section, due to the prolonged process and costs involved in applying for the relevant safety certifications, customers seldom change their suppliers solely on reason that another supplier offers lower prices. We, therefore, are in a position to be less responsive to the general prevailing market prices in setting our selling prices, and in case where a reduction in our selling prices is to be made, we reduce our selling prices to the extent which is less than the decrease in our material costs so as to maintain our profit margins.

We continuously keep ourselves abreast of changes to the market prices, conduct regular review of our pricing policy and pay close attention to responses of our customers during negotiations/quotations stage. We may adjust our pricing policy to ensure we are responsive timely to market price changes and customers’ responses to avoid any material adverse impact on its market position, performance and financial conditions.

### **Credit period and payments**

We generally grant to our customers a credit period of 15 days to 90 days from the date of invoices. The credit period is determined with reference to factors including their scale of operations, length of business relationship and historical payment records. Occasionally, at the requests of the relevant customers, subject to the approval of the sales manager and accounting manager, and after taking into account factors including transaction volume, trade references, length of business relationship, payment history and financial status, we may extend the credit period for certain customers.

Our customers usually settled our payments by way of bank transfer in US dollars.



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During the Track Record Period, save and except for a court proceeding against a customer for the purchase price of approximately RMB0.6 million in 2013, we have not experienced any major defaults in payments or bad debts from our customers which may materially affect our financial condition and operating results.

### **Products return policy and after-sale services**

We normally allow exchange of any defective products but do not allow return of products for other reasons. We promptly investigate any quality issue raised by our customers. We generally categorise the defects into technical issue and non-technical issue. Technical problem will be referred to the responsible technical department while the non-technical problem will be handled by the customer services and sales department together with other relevant departments. Generally, we respond to our customers' inquiries regarding any defective products within seven days. We will fix the defects or exchange the defective product and follow up with the customers. Our customers can exchange any defective products within one year of the purchase but we do not provide any warranty on our products to our customers.

During the Track Record Period, we have not experienced any substantial replacement or exchange of our products owing to any quality issue and the cost incurred on our after-sale services was insignificant which did not have any material and adverse impact on our financial condition and operating results. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, average products returned in terms of quantity sold were approximately 0.06%, 0.14% and 0.07%, respectively.

Our staff of the sales department pay visits to and communicate with our customers to collect their feedback on a regular basis on the quality, preferences, improvements and market demands of our products. Our sales team will share this information collected with our production and development team in order to improve our existing products.

### **Delivery and logistics**

Delivery of our products to our customers is made by road and shipment. For products delivered by road, we generally engage third party logistic service providers to deliver our products from our production facilities or warehouses to locations specified by our customers. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the delivery costs for engaging third-party logistic service providers amounted to approximately 1.6%, 1.6% and 1.5%, respectively of our total revenue. For our exports, our products are delivered through shipment on a freight-on-board (FOB) basis. According to the International Commercial Terms (INCOTERMS) issued by the International Chamber of Commerce (ICC), the risks of loss or damage of goods transported under FOB basis pass to the buyer when the goods are on board of the vessel, and the buyer bears all costs from that moment onwards.

Our Directors confirmed that, other than a court proceeding with an independent logistics services provider in 2013 where we were granted damages of approximately RMB0.4 million, we have not experienced any material disruption or damage to our products in the delivery of our products during the Track Record Period.



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### Our five largest customers

The table below sets forth a summary of our five largest customers for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015:

#### For the year ended 31 December 2013

Rank	Customer	Customer location (note 1)	Background	Years of operation (note 4)	Size of operation (note 4)	Listed company (note 4)	Years of relationship (%)	Principal products sold	Credit period	Approximate percentage of our total revenue
1.	Customer A	China (note 2)	Manufacture of communication equipments, electronic products and components etc.	46	around 200,000 employees	Yes	12	Toroidal transformer	around 60 days	17.4
2.	Customer B	U.S.	Manufacture of electrically adjustable furniture	21	A subsidiary of an European multinational firm, which has subsidiaries in U.S. and Slovenia	No	4	PCB assembly	around 45 days	14.8
3.	Customer C	Europe	Develop and manufacture of battery charging, battery testing and engine troubleshooting and tuning tools	21	Registered capital around EUR0.09 million	No	12	Battery charger	around 30 days	10.3
4.	Customer E	Europe	Offer of a wide range of actuator systems	108	around 1,600 employees	No	12	Toroidal transformer and EI transformer	around 45 days	6.3
5.	Customer F	Hong Kong	Manufacture of mechanics and electronics products	36	A subsidiary of a multinational firm, which has operations in China, Poland and Germany	No	9	Toroidal transformer	around 30 days	3.4

#### For the year ended 31 December 2014

Rank	Customer	Customer location (note 1)	Background	Years of operation (note 4)	Size of operation (note 4)	Listed company (note 4)	Years of relationship (%)	Principal products sold	Credit period	Approximate percentage of our total revenue
1.	Customer A	China (note 2)	Manufacture of communication equipments, electronic products and components etc.	46	around 200,000 employees	Yes	12	Toroidal transformer	around 60 days	15.9

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Rank	Customer	Customer location (note 1)	Background	Years of operation (note 4)	Size of operation (note 4)	Listed company (note 4)	Years of relationship (%)	Principal products sold	Credit period	Approximate percentage of our total revenue
2.	Customer B	U.S.	Manufacture of electrically adjustable furniture	21	A subsidiary of an European multinational firm, which has subsidiaries in U.S. and Slovenia	No	4	PCB assembly	around 45 days	14.6
3.	Customer C	Europe	Develop and manufacture of battery charging, battery testing and engine troubleshooting and tuning tools	21	Registered capital around EUR0.09 million	No	12	Battery charger	around 30 days	11.5
4.	Customer E	Europe	Offer of a wide range of actuator systems	108	around 1,600 employees	No	12	Toroidal transformer and EI transformer	around 45 days	5.0
5.	Customer G	Hong Kong	Manufacture and design of amplifiers systems, power amplifiers, broadcast audio equipment	3	around 40 employees	No	2	Musical instrument and equipment	around 30 days	4.8

### For the eight months ended 31 August 2015

Rank	Customer	Customer location (note 1)	Background	Years of operation (note 4)	Size of operation (note 4)	Listed company (note 4)	Years of relationship	Principal products sold	Credit period	Approximate percentage of our total revenue (%)
1.	Customer D (note 3)	Hong Kong	Manufacture of electrically adjustable furniture	21	A subsidiary of an European multinational firm, which has subsidiaries in U.S. and Slovenia	No	0.5	PCB assembly	around 45 days	16.5%
2.	Customer C	Europe	Develop and manufacture of battery charging, battery testing and engine troubleshooting and tuning tools	21	Registered capital around EUR0.09 million	No	12	Battery chargers	around 30 days	13.1%

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Rank	Customer	Customer location (note 1)	Background	Years of operation (note 4)	Size of operation (note 4)	Listed company (note 4)	Years of relationship	Principal products sold	Credit period	Approximate percentage of our total revenue (%)
3.	Customer A	China (note 2)	Manufacture of communication equipment, electronic products and components, etc.	46	around 200,000 employees	Yes	12	Toroidal transformer	around 60 days	11.6%
4.	Customer E	Europe	Offer of a wide range of actuator systems	108	around 1,600 employees	No	12	Toroidal transformer and EI transformer	around 45 days	5.9%
5.	Customer H	USA	Develop and manufacture of battery charging, battery testing and engine troubleshooting and tuning tools	21	Registered capital around EUR0.09 million	No	12	Battery chargers	around 30 days	4.0%

*Note 1:* Customer location is based on address on purchase order/invoice.

*Note 2:* Customer A is a group company of an U.S. multinational firm.

*Note 3:* Customer D is a company established in Hong Kong, which is an associate of Customer B under the same Austrian mother company. Customer B and Customer D together with the mother company contributed around 15.8%, 17.5% and 20.4% of the total revenue of the Company for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015.

*Note 4:* Referring to the customer or its parent group.

*Note 5:* Customer H is a group company of Customer C.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our five largest customers accounted for approximately 52.2%, 51.8% and 51.1%, respectively, of our total revenue, and our largest customer accounted for approximately 17.4%, 15.9% and 16.5%, respectively, of our total revenue during the same period. None of our Directors, their close associates or any shareholders who, to the knowledge of our Directors, owns more than 5% of our share capital has any interest in any of these five largest customers upon completion of the Placing.

### Factoring arrangements

For cash flow and credit risk management purposes, during the Track Record Period, we entered into factoring arrangements with three commercial banks in Hong Kong for certain customers.

Under a factoring arrangement, banks generally only purchase up to a certain percentage, but not all, of the confirmed invoice value of a particular customer, and the relevant percentage is normally

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determined with reference to the coverage of the relevant credit insurance policy which is typically required for trade receivables under factoring arrangements. In such circumstances, the risk of non-payment by the debtors will be borne by the insurance company and/or the bank and our customers will pay the banks directly in respect of the trade receivables.

Cash received by us from the banks for the invoice value factored are regarded as factoring loans from banks which are secured by our trade receivables.

The relevant commercial banks maintain credit insurance policies for all of our invoice value factored. During the Track Record Period, to our Directors' knowledge, no claims had been made under these credit insurance policies.

Factoring arrangements are subject to discounting charges (or interest charges), services charges and other administrative charges. During the Track Record Period, the discounting charges for our factoring arrangements prevailing market interest rate plus premium and the service charges and other administrative, charges generally ranged from 0.5% to 0.6% on the invoice value factored. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the discounting charges and the service charges and other administrative charges in relation to our factoring arrangements amounted to approximately HK\$1.1 million, HK\$1.0 million and HK\$0.6 million, respectively.

According to the terms of the factoring documents, factoring loans with one commercial bank was with recourse while those with the other two commercial banks were expressly stated to be without recourse. As at 31 December 2013 and 2014, the amount of receivables factored on a recourse basis was approximately HK\$5.3 million and nil, respectively, and the amount of receivables factored on a without recourse basis was approximately HK\$9.3 million and HK\$9.6 million, respectively. However, our Company considers that the protective provisions contained in the factoring agreements would give rise to a possibility that certain credit risks could be excluded or the credit limit could lapse under certain circumstances, whereby allowing the financial institutions to minimise their exposure. As such, we are of the view that such insurance coverage or credit protection on the debtors had significantly reduced our Company's credit risk but not to the extent that the liability can be de-recognised immediately upon entering into the factoring agreements from accounting perspective. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the receivables factored amounted to approximately HK\$14.6 million, HK\$9.6 million and HK\$8.8 million, respectively. The balance of factoring loan amounted to approximately HK\$14.6 million, HK\$9.6 million and HK\$8.8 million as at 31 December 2013 and 2014 and the eight months ended 31 August 2015, representing approximately 80.2%, 57.7% and 43.8% of our corresponding discounted trade receivable as at 31 December 2013 and 2014 and 31 August 2015, respectively.

During the Track Record Period, we entered into factoring arrangements with banks for the invoices of certain customers covering invoice value of 90% as and when the relevant factoring facility exists.

During the Track Record Period, we continued to maintain the invoice factored as our trade receivables and such trade receivables would not be derecognized until our customers pay the banks.

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Our management would generally determine whether to enter into factoring arrangements for invoices of particular customers upon considering a number of factors including the historical and sales amount of the customers, credibility of the customers and ordering frequencies of the customers.

### **QUALITY CONTROL**

As at 31 August 2015, we had 33 staff responsible for quality control. We have implemented quality control measures throughout our manufacturing process. Our quality control manager is in charge of the overall quality control of the production. They are mandated to identify any quality control issues and provide solutions to the production team to address the quality control issues. Our production team with our quality control staff are tasked with examination of our products at each key stage of production to ensure that the quality of our products meet our internal standards and customers' requirements. Members of our production team and quality control staff are trained to identify quality control issues.

#### **Incoming quality control (IQC)**

Incoming raw materials and parts and components are inspected on the acceptable quality limit (AQL) quality standard for product inspection by our IQC personnel to ensure their conformity with the sketches, specifications and requirements pursuant to our customer's purchase orders before acceptance. Upon the discovery of any sub-standard or defective raw materials, our IQC personnel will refer the case to our procurement department which will communicate with the relevant suppliers for defect analysis and arrange for return of such supplies.

AQL is an inspection standard where the maximum number of defects that could be considered acceptable during the random sampling of an inspection.

While we have adopted a strict quality control measure in inspecting our incoming raw materials and parts and components, we cannot assure that all defects in raw materials and parts and components can be discovered. There are occasions the defects may be discovered during the production process. In such case, we re-fix the defects by reworks or return the defective raw materials and parts and components to our suppliers. If we re-fix the defects by our own reworks, we will claim compensation for such rework costs from our suppliers. During the Track Record Period, we had received a compensation claim of HK\$5,000 from a supplier for such rework costs.

#### **Production quality control (PQC)**

Our quality control personnel test the quality of work-in-progress at several points in the production process. One of the major objectives of PQC is to ensure that the overall quality of work-in-progress conforms to the required standards, by means of testing on all of our work-in-progress, immediate defect analysis and timely repair. Those products that fail to meet the quality standards are repaired or disposed of and are subject to failure analysis to identify the root cause of failures and determine corrective actions. Our production personnel and quality control personnel meet regularly to discuss the causes of the quality problems of our goods and the corresponding solution to improve and ensure the quality of our products.

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### **Outgoing quality control (OQC)**

OQC serves as the final control point to ensure that outgoing products comply with our customers' requirements. We require our quality control personnel to conduct visual inspection and functional testing on the AQL quality standard for product inspection. The finished products must pass our final quality testing before packaging. Those products that fail to meet the quality standard will be subject to additional work and those which meet the requisite standard will be subject to final inspection by our customers, if required.

Some of our customers also send their representatives to conduct on-site quality checks on our finished products.

### **INVENTORY MANAGEMENT**

Our inventory comprises mainly of raw materials and parts and components, work-in-progress and finished products. Our production and material control department, which consisted of three staff as at 31 August 2015, closely monitor our inventory level to meet our production requirements, and minimize any waste on inventory or obsolete inventory.

#### **Raw materials and parts and components**

Our inventory level is determined principally by our production requirements and the orders received by us. Our policy is to maintain an average of 90-day inventory level of major raw materials and parts and components. However, certain of our raw materials and parts and components, such as semi-conductors, are subject to long lead time, we may increase the stock of these raw materials and parts and components for a longer inventory period.

We adopt a first-in-first-out approach for the utilisation of the raw materials and parts and components. We monitor our inventory level by conducting regular checks on quality and quantity. In addition, our procurement staff work closely with our production staff to formulate our procurement plan and budget.

With the capability to integrate the production of crucial parts and components for our own production use, we are able to lower purchase cost, obtain flexibility in our procurement plan and maintain lower raw materials inventory level. Please refer to the section headed "Production facilities for parts and components for own use" of this section for details of our production of parts and components.

#### **Work-in-progress**

Work-in-progress mainly comprises semi-finished products such as silicon steel core. Finished products refer to the products which are readily delivered to customers. We adopt a first-in-first-out approach in utilizing our work-in-progress and closely monitor the inventory level of our work in progress to minimise our inventory level.

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### Finished goods

As we manufacture our products after receipt of purchase orders placed by our customers, we do not maintain a high level of inventory for finished goods. As at 31 December 2013 and 2014 and 31 August 2015, the finished goods inventories amounted to HK\$2.8 million, HK\$8.0 million and HK\$2.5 million, respectively.

### MARKETING AND PROMOTION

As at 31 August 2015, our sales and marketing team consisted of 13 members who are responsible to communicate with our customers from time to time to collect their feedback on our products and updated market information. Our sales and marketing team is also responsible for handling the return of customers' defective products by timely attending to the matter and referring the problem to our technical and other departments.

To promote our Group and our products, we attend trade fairs such as AES trade fair for audio products, Coil Winding Expo once or twice a year. We also placed advertisements in industry magazine, such as Global Sources.

### COMPETITION

We face competition from other electronic component manufacturers in the PRC as well as those which are overseas, including manufacturers in Taiwan and Japan. We believe that the principal competitive factors include the following:

- product quality;
- selling prices;
- scale and location of production facilities;
- customer base; and
- supply stability and reliability.

Transformer, being a core component of certain electronic devices, is normally expected to have stringent standard requirements. Customers generally impose stringent requirements in choosing their manufacturers. Once these customers establish a relationship with a manufacturer supplier, their connection will last long and hence creating a barrier to entry for other market participants.

### INSURANCE

We maintain various insurance policies covering our cargoes, motor vehicles and fixed assets.

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For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the premiums which we paid for our insurance were approximately HK\$125,000, HK\$132,000 and HK\$71,000, respectively.

Our Directors believe that our insurance coverage is adequate in the context of our business and in line with industry practice. During the Track Record Period and up to the Latest Practicable Date, we have not made or been the subject of any material insurance claims.

### ENVIRONMENTAL PROTECTION

We are subject to the PRC national and local environmental laws, regulations and rules including, among others, the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》. Our PRC Legal Advisers confirmed that we are not required to comply with any special legal or regulatory requirements other than those applicable to all manufacturers in the PRC.

Our production process generates air pollutants and other industrial waste at different stages of production process. To ensure that our production complies with the applicable PRC environmental protection laws and regulations, we have implemented the following environmental protection measures:

- Waste disposal - we have entered into agreements with waste disposal companies in the PRC.
- Air pollutants - we have installed air purifying system in all our production lines.

Our costs of compliance with the applicable environmental protection laws and regulations for each of the years ended 31 December 2013, 2014 and the eight months ended 31 August 2015 was approximately HK\$287,000, HK\$769,000 and HK\$303,000, respectively. Going forward, we expect that our costs of compliance with the applicable environmental protection laws and regulations for each of the year ended 31 December 2015 and the year ending 31 December 2016 will be approximately HK\$400,000 and HK\$400,000, respectively.

Our Directors believe that we have adopted effective measures to prevent and control pollution to the environment. Our Directors confirmed that our Group was in full compliance with all relevant environmental laws and regulations in the PRC during the Track Record Period. We have not encountered any penalty for failure to comply with the applicable environmental laws and regulations during the Track Record Period and up to the Latest Practicable Date.

### OCCUPATIONAL SAFETY

We are subject to the PRC laws and regulations on labour, safety and work-related incidents. We have in place safety guidelines and operating manuals setting out safety measures for our production process. We also provide our employees with training programmes on work safety to ensure that all of our employees are aware of our safety procedures and policies, which include guidelines for safety management, emergency situations and proper operation and usage of equipment and machinery.



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During the Track Record Period and up to the Latest Practicable Date, we have complied with the PRC workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which had materially and adversely affected our operations.

### EMPLOYEES

As at 31 August 2015, our Group had a total of 525 employees. The following table sets out the functional distribution of our Group's employees as at 31 August 2015.

Department	Number of employees		
	PRC	Hong Kong	Total
Directors	—	2	2
Administration and finance	38	6	44
Research and development	8	—	8
Engineering	23	1	24
Production	385	—	385
Quality control and assurance	33	—	33
Production and material control	3	—	3
Procurement	6	2	8
Sales and marketing	8	5	13
Shipping	3	2	5
<b>Total</b>	<b>507</b>	<b>18</b>	<b>525</b>

We believe that our ability to recruit and retain experienced and skilled labour is crucial to our growth and development. We provide training to our new employees and such trainings cover various areas of our operations including knowledge on the operations of the production machinery and equipment, safety inspections and the internal control system of our Group. In addition to providing our staff with the opportunities to receive on-the-job trainings, we strive to create a harmonious and warm working and living environment for our staff.

We consider that we have maintained a positive relationship with our employees during the Track Record Period and up to the Latest Practicable Date. We have not experienced any strikes, labour disputes or other labour disturbances which have materially and adversely interfered with our operations.

We have established the remuneration and review management system in accordance with our employees' positions and their responsibilities. The head of each of our departments is responsible for the salary review and promotion appraisal of the staff of its own department.

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For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, we incurred staff costs (excluding Directors' remuneration) of approximately HK\$42.0 million, HK\$44.9 million and HK\$23.0 million, respectively.

### INTELLECTUAL PROPERTY

We have registered and are in the process of registering patents and trademarks. For details, please refer to the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this prospectus.

To the best of our Directors' knowledge, for each of the years ended 31 December 2013 and 2014 and up to the Latest Practicable Date, we have not infringed or were not alleged to have infringed any intellectual property rights owned by third parties.

### PROPERTIES USED BY US

As at 31 August 2015, our production facilities, office buildings, residential units and other ancillary facilities occupied a total gross floor area of approximately 35,774.65 square metres. Details of our properties are set out in the valuation report in Appendix IV to this prospectus. These properties are leased from a connected person and Independent Third Parties, and the lease from the connected person will constitute our continuing connected transaction after the Listing. Details of which are set out in the section headed "Connected transactions" of this prospectus.

### LICENSES AND PERMITS

As at the Latest Practicable Date, our PRC Legal Advisers confirmed that He Yuan Sky Wealth had obtained the requisite governmental licences, permits, certification and renewal which are necessary for its operations.

Save as disclosed in the paragraph headed "Non-compliance incidents" of this section, our Group has complied, in all material respects, with all applicable laws and regulations in the PRC. A summary of the relevant PRC laws and regulations has been set out in the section headed "Summary of Principal Legal and Regulatory Provisions" of this prospectus.

### LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge after having made reasonable enquiries, there was no litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our financial condition or operating results.

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### NON-COMPLIANCE INCIDENTS

During the Track Record Period, we had the following non-compliance incidents:

1. ***Failure of He Yuan Sky Wealth to make social insurance fund contribution to all of its employees prior to December 2014***

#### *The incident*

Prior to December 2014, He Yuan Sky Wealth did not fully comply with the Social Insurance Law of the PRC and failed to make social insurance fund contribution to all of its employees. Since December 2014, He Yuan Sky Wealth had made contribution to the social insurance fund to all of its employees at a base number approved by the relevant local authority.

The amount of outstanding social insurance contributions for each of the years ended 31 December 2013 and 2014 was approximately RMB2.0 million and RMB1.5 million, respectively.

#### *Reasons for the non-compliance*

He Yuan Sky Wealth had asked all of its employees to make social insurance contribution. However, some employees did not agree to have He Yuan Sky Wealth made contribution and they strongly indicated that they would forth with resign as they did not want to participate in the social insurance fund and make their portion of contribution. They are of the view that they might not be able to enjoy the benefit of the social insurance. To avoid the risk that these employees might resign from He Yuan Sky Wealth and for purpose of maintaining a stable labour supply, He Yuan Sky Wealth did not make social insurance contribution for those employees who were reluctant to participate in the social insurance fund.

#### *Laws and regulations concerning the penalty*

Prior to the implementation of the Social Insurance Law of the PRC, which came into force on 1 July 2011, under the Interim Regulations on the Collection of Social Insurance Premium (社會保險費徵繳暫行條例) which became effective on 22 January 1999, a fine ranging from RMB1,000 to RMB5,000 in case of serious circumstances, a fine ranging from RMB5,000 to RMB10,000 in case of particularly serious circumstances, will be imposed on the management and other persons with direct responsibilities of the employer for non-compliances happened prior to 1 July 2011. The social insurance authorities are also entitled to order the employer to pay the outstanding social insurance within or without a time limit and impose a daily late charge of 0.2% according to the Interim Provisions on Declaration and Payment of Social Insurance (社會保險申報繳納管理暫行辦法) which came into effect on 19 March 1999 and repealed by the Administrative Provisions on the Declaration and Payment of Social Insurance Premiums (社會保險費申報繳納管理規定) on 1 November 2013. Pursuant to the Regulations of Insurance for Employment Injury (工傷保險條例), which became effective on 1 January 2011, if an employer fails to participate in the work-related injury insurance, the social insurance authorities are entitled to order

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it to participate in such insurance within a specified time limit and make up the work-related insurance premiums that need to be paid and impose a daily late charge of 0.05%. If the outstanding social insurance payment is still not paid within the time limit, a fine ranging from one to three times of the outstanding amount for work-related injury insurance shall be imposed.

Since 1 July 2011, for non-compliances occurred after 1 July 2011, according to the Social Insurance Law of the PRC, the social insurance authorities are entitled to order the employer to pay the outstanding social insurance (including pension, medical, work injury, unemployment and maternity insurance), and impose a daily late charge of 0.05%. If the outstanding social insurance is still not paid within the time limit, a fine ranging from one to three times of the outstanding amount shall be imposed.

The maximum late charge which may be imposed on He Yuan Sky Wealth is approximately RMB0.7 million.

### *Corrective actions and impact on our Group*

In an interview with a competent officer of He Yuan City Social Insurance Fund Management Bureau (河源市社會保險基金管理局) an authority directly under He Yuan City Human Resources and Social Security Bureau (the “**Bureau**”) in November 2014 and February 2015, it was confirmed that, among others, (a) the Bureau was aware of the failure of He Yuan Sky Wealth to make social insurance contribution for all of its employees prior to December 2014; (b) He Yuan Sky Wealth is not the only enterprise in He Yuan City which does not fully comply with the social insurance contribution; (c) at present, the Bureau has not formulated any policy to request all the enterprises in He Yuan City to repay the outstanding social insurance contribution; and (d) the Bureau would not initiate any administrative penalty and fine on He Yuan Sky Wealth unless employees of He Yuan Sky Wealth has lodged a complaint to the Bureau.

On 10 November 2014, He Yuan Sky Wealth convened a meeting of with the representative of the labour union and the labour union agreed not to lodge any complaint or claim against He Yuan Sky Wealth in relation to the social insurance fund.

On 16 December 2014, He Yuan City Social Insurance Fund Management Bureau, being the competent authority, issued a confirmation confirming that since its establishment, He Yuan Sky Wealth has complied with the state and local social insurance laws, regulations, policies and directives and no administrative penalties have been imposed on He Yuan Sky Wealth as a result of a breach of the social insurance laws, regulations, policies and directives.

On 19 March 2015, we obtained a written confirmation from He Yuan City Social Insurance Fund Management Bureau where it approved the basis of calculation of the social insurance contribution of He Yuan Sky Wealth.

Since December 2014, He Yuan Sky Wealth has made social insurance contribution for all of its employees based on the calculation approved by He Yuan City Social Insurance Fund Management Bureau.

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As at the Latest Practicable Date, we have not received any notice or demand from the Bureau or other competent authorities ordering us to make retrospective payments or any differences of the payments for the social insurance fund. We did not receive any complaint from employees of He Yuan Sky Wealth and were not aware of any employees lodging any complaint to the Bureau or initiating any arbitration or court proceedings against He Yuan Sky Wealth in relation to its failure to contribute to the social insurance fund.

Based on the above, our PRC Legal Advisers are of the view that the possibility that He Yuan Sky Wealth will be penalised or ordered to make retrospective payments or shortfall to the social insurance fund as a result of its failure to make social insurance contribution to all of its employees prior to December 2014 is relatively low.

On the basis of the confirmation and the advice from our PRC Legal Advisers, our Directors are of the view that the risk of He Yuan Sky Wealth being penalised as a result of its failure to make social insurance contribution to all of its employees prior to December 2014 is remote, and accordingly, no provision is required to be made. In addition, our Directors are of the view that the failure to contribute to the social insurance fund for the employees of He Yuan Sky Wealth at the base number stipulated by the relevant PRC laws will not have a material adverse impact on our Group's operations and financial conditions.

### *Measures in place to prevent recurrence*

- He Yuan Sky Wealth will make social insurance contributions to all of its employees.
- Our general and administration department will consult our PRC lawyer on the relevant laws and regulations from time to time.
- We have established an internal policy to request our general and administration department to provide, on a monthly basis, an updated list of social insurance contribution to our Board, and our Board will review if such list is complied with the relevant PRC social insurance laws and regulations.

### ***2. Failure of He Yuan Sky Wealth to make contribution to the house provident fund for all of its employees prior to December 2014.***

#### *The incident*

Prior to December 2014, He Yuan Sky Wealth did not fully comply with the Regulations on the Management of the Housing Provident Fund and failed to make housing provident fund contribution to all of its employees. The amount of outstanding housing provident fund contribution for each of the years ended 31 December 2013 and 2014 was approximately RMB0.8 million and RMB0.8 million, respectively.

#### *Reason*

The reason for the non-compliance is the same that for the non-compliance with the social insurance contribution.

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### *Laws and regulations concerning the penalty*

Under the Regulations on the Management of the Housing Provident Fund (住房公積金管理條例) (effective from 24 March 2002), if an employer fails to register and establish an account for housing provident fund for its employees, the relevant housing provident fund authority is entitled to order the employer to do so within a prescribed time limit. If the employer fails to do so within such prescribed time limit, a fine in the range of RMB10,000 to RMB50,000 will be imposed. The housing provident fund authority may also order the employer to pay the outstanding housing fund within a prescribed time limit. If it fails to do so within such prescribed time limit, the housing fund authority may seek an order for payment from the relevant PRC court.

### *Corrective actions and impact on our Group*

In an interview with a competent officer of He Yuan City Housing Provident Fund Management Centre (河源市住房公積金管理中心) (the “Centre”) in November 2014 and February 2015, it was confirmed that (a) the Centre was aware of the failure of He Yuan Sky Wealth to make contribution to the housing provident fund for all of its employees prior to December 2014; (b) He Yuan Sky Wealth is not the only enterprise in He Yuan City which does not fully comply with the housing provident fund; (c) at present, the Centre had not formulated any policy to request all the enterprises under its supervision to repay the outstanding housing provident fund; (d) the Centre would not initiate any administrative penalty and fine on He Yuan Sky Wealth; and (e) the Centre acknowledged the basis of calculating the housing provident fund of He Yuan Sky Wealth since December 2014.

On 10 November 2014, He Yuan Sky Wealth convened a meeting of with the representative of the labour union and the labour union agreed not to lodge any complaint or claim against He Yuan Sky Wealth in relation to the housing provident fund contribution.

On 13 January 2015, the Centre, being the competent authority, issued a confirmation confirming that He Yuan Sky Wealth has registered with the Centre in relation to housing provident fund and He Yuan Sky Wealth has made contributions to the housing provident fund and the Centre has not imposed any penalties on He Yuan Sky Wealth.

Since December 2014, He Yuan Sky Wealth has made contribution to the housing provident fund for all of its employees based on the calculation acknowledged by the Centre.

As at the Latest Practicable Date, we have not received any notice or demand from the Centre or other competent authorities ordering us to make retrospective payments or any shortfall to the housing provident fund. We did not receive any complaint from employees of He Yuan Sky Wealth and were not aware of any employees lodging any complaint to the Centre or initiating any arbitration or court proceedings against He Yuan Sky Wealth in relation to its failure to contribute to the housing provident fund.

Based on the above, our PRC Legal Advisers are of the view that the possibility that He Yuan Sky Wealth will be ordered to pay the outstanding housing provident fund contribution or be penalised as a result of its failure to make contribution to housing provident fund in respect of all of its employees prior to December 2014 is relatively low.

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On the basis of the confirmation and the advice from our PRC Legal Advisers, our Directors are of the view that the risk of He Yuan Sky Wealth being penalised or ordered to make retrospective payments or any shortfall to the housing provident fund as a result of its failure to make housing provident fund contribution to all of its employees prior to December 2014 is remote, and accordingly, no provision is required to be made. In addition, our Directors are of the view that the failure to contribute to the housing provident fund for the employees of He Yuan Sky Wealth at the base number stipulated by the relevant PRC laws will not have a material adverse impact on our Group's operations and financial conditions.

### **On-going compliance measures after the Listing**

We will adopt the following on-going compliance measures after the Listing:

- He Yuan Sky Wealth will continue to communicate with its employees on the social insurance fund contribution and housing provident fund contributions at the rate stipulated by the relevant PRC laws;
- After the Listing, we will disclose in our interim and annual reports on the outstanding amount of the social insurance fund and the housing provident fund and state whether a provision is required to be made;
- Our general and administration department will consult our PRC lawyer on the relevant laws and regulations from time to time and report the same to our Board.

### **Indemnity from our Controlling Shareholders in relation to the non-compliance**

In the event that any action is made against or any penalty is imposed on our Group or if our Group is ordered to pay the outstanding amount or shortfall of the contributions to the social insurance fund and/or housing provident fund, our Controlling Shareholders have agreed to indemnify our Group from and against losses, liabilities, damages, costs, claims and expenses incurred by our Group in relation to such non-compliance. Our Controlling Shareholders have entered into a deed of indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the deed of indemnity, in respect of any liabilities as a result of any non-compliance of our Group before the Listing Date. Further details of the deed of indemnity are set out in the paragraph headed "Estate duty, tax and other indemnities" in Appendix VI to this prospectus.

### **Additional measures to ensure future compliance**

To enhance the effectiveness of our corporate governance, to strengthen our monitoring and internal control system and to ensure compliance with the relevant laws and regulations, we have adopted the following measures to ensure on-going compliance with all applicable laws and regulations after Listing:

- (a) We have established an audit committee comprising three independent non-executive Directors to oversee the internal control procedures and accounting and financial reporting

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matters of our Group. Pursuant to its terms of reference, one of the duties and obligations of the audit committee is to ensure our Group's compliance with the relevant regulatory requirements and to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters.

- (b) We have appointed LY Capital Limited as our compliance adviser to advise our Company on compliance matters upon Listing in accordance with Rule 6A.19 of the GEM Listing Rules. Please refer to the sub-section headed "Compliance adviser" in the section headed "Directors and senior management" in this prospectus for duties of our compliance adviser.
- (c) We shall engage external legal advisers after Listing as our legal advisers which will assist us in performing the requisite legal due diligence and complying with the relevant registration/filing and other legal requirements in respect of any agreements to be entered into by us and/or matters associated with business operated by our Group in the future as well as to advise us on compliance with the GEM Listing Rules.
- (d) Our Directors of our Group have attended training session conducted by our Hong Kong legal advisers on, among other things, on-going obligations, general corporate governance requirements, duties and responsibilities of directors of a company whose shares are listed on the Stock Exchange under applicable laws, rules and regulations, including but not limited to the GEM Listing Rules. Our Directors have confirmed in writing in relation to their understanding of their duties under the GEM Listing Rules and other applicable laws and regulations.

We have appointed an independent internal control adviser to conduct an internal control review. Such internal control adviser has reviewed the implementation status of the above corrective actions. The above corrective actions are consistent with those recommended by the internal control adviser in addressing some key findings of its review on our internal controls. Based on the findings, recommendations and testing results of the work performed by the internal control adviser, it is considered that such remedial actions are adequate and effective.

Having taken into account the fact that (i) our Group has taken corrective measures and the abovementioned non-compliance incidents have been rectified to the extent practicable; (ii) our Group has implemented the abovementioned additional measures to avoid recurrence of the non-compliance incidents; and (iii) the non-compliance incidents were unintentional, did not involve any fraudulent act on the part of our Directors or cast doubt on their integrity, our Directors consider that the abovementioned non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 5.01, 5.02 and 11.06 of the GEM Listing Rules and our suitability for Listing under Rule 11.06 of the GEM Listing Rules. Directors are satisfied that our internal control system is adequate and effective for our current operating environment.



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### CORPORATE GOVERNANCE AND INTERNAL CONTROL MEASURES

We have engaged an independent internal control adviser to review on the internal control system of our Group. The internal control adviser has reviewed the internal control system of our Group according to the agreed scope which covers the documentation, testing and assessment of the effectiveness of the procedures, systems and controls established by our Group in regard to the operating cycles of our Group (including the review of our Group's corporate governance practice and regulatory compliance, revenue and receipts cycle, expenses and payments cycle, treasury management cycle, financial reporting cycle and IT general controls). The internal control adviser's review focuses on the status of implementation of the recommended remedial actions in areas where deficiencies and weaknesses were identified, the effectiveness of our procedures, systems and controls, and the standards and effectiveness of our corporate governance practice to ensure our compliance with the GEM Listing Rules and the applicable Hong Kong laws and regulations.

As at the Latest Practicable Date, we had implemented the recommendations from the internal control adviser to the extent practicable. The internal control adviser has performed follow-up review in March 2015 on our internal control measures implemented for verifying the implementation status of the system improvement recommendations and is satisfied with the adequacy and effectiveness of such measures. The internal control adviser is not aware of any material internal control weakness. Our Directors are also of the view that our Group's enhanced internal control measures are adequate and effective.

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## CONNECTED TRANSACTIONS

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### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon the Listing, we will continue to lease from our connected person the Properties, which will constitute a non-exempt continuing connected transaction under the GEM Listing Rules.

#### Nature of the transaction

On 25 March 2015, He Yuan Sky Wealth and He Yuan T-Lab entered into a tenancy agreement (the “**Tenancy Agreement**”) whereby He Yuan Sky Wealth leases from He Yuan T-Lab the properties located at the east of Xinggong Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City, Guangdong Province, the PRC (the “**Properties**”) for a term of three years commencing from the Listing Date at a monthly rental of RMB124,000 (excluding any utilities and management fees). The Properties are used by He Yuan Sky Wealth for production, warehouse and dormitory uses, with an option to renew every three years.

#### Background of connected person

He Yuan T-Lab is a company established in the PRC on 12 January 2005 and is wholly-owned by Yield Speed Limited which is ultimately owned as to 90% by Cyber Goodie and as to 10% by Mr. Chung Tin Shing. At present, other than holding and leasing the Properties, He Yuan T-Lab does not engage in any operating activities. Cyber Goodie is wholly-owned by Mr. Chung Chi Hang, Larry, our Controlling Shareholder. Mr. Chung Tin Shing is one of our Shareholders and executive Directors. As such, He Yuan T-Lab is our connected person under Rule 20.7 of the GEM Listing Rules.

#### Historical transaction value

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the aggregate rentals paid by our Group to He Yuan T-Lab were as follows:

	<b>Year ended 31 December</b>		<b>Eight months ended</b>
	<b>2013</b>	<b>2014</b>	<b>31 August</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>2015</i>
			<i>RMB'000</i>
Rentals paid to He Yuan T-Lab	1,488	1,488	992

#### Proposed annual caps

The proposed annual aggregated rentals to be paid by our Group to He Yuan T-Lab under the Tenancy Agreement for the three years ending 31 December 2017 are as follows:

	<b>Year ended</b>	<b>Year ending</b>	
	<b>31 December</b>	<b>31 December</b>	
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proposed annual rentals to be paid to			
He Yuan T-Lab	1,488	1,488	1,488

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## CONNECTED TRANSACTIONS

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### **Basis of the proposed annual caps**

The proposed annual rentals are determined on normal commercial terms with reference to the prevailing market rates of similar properties in the proximity. According to the property valuer, Asset Appraisal Limited, the proposed annual rentals payable under the Tenancy Agreement are fair, reasonable and are consistent with the prevailing market rates of similar properties in the proximity.

### **Reasons**

The Properties have been used as our production facilities, warehouse and dormitory since 2007. He Yuan T-Lab was used to be wholly-owned by Keen Ocean Industrial. In early 2012, Keen Ocean Industrial transferred all its equity interests in He Yuan T-Lab to Yield Speed Limited. With a view to segregate the business and fixed asset, He Yuan T-Lab underwent a restructuring (the “**Restructuring**”) pursuant to which all the production operation was transferred to and undertaken by He Yuan Sky Wealth in 2012. Details of the Restructuring are set out in the sub-section headed “Business development” in the section headed “History and development” of this prospectus. Upon completion of the Restructuring, He Yuan T-Lab does not engage in any operating activities other than holding and leasing the Properties. As the Properties have been used by us for a long period since 2007, we consider that it will benefit our Group to continue the lease with He Yuan T-Lab after the Listing.

### **GEM Listing Rules implications**

The proposed annual rentals under the Tenancy Agreement for the three years ending 31 December 2017 are approximately RMB1,488,000, RMB1,488,000 and RMB1,488,000, respectively, and the applicable highest percentage ratio (other than the profits ratio) under Chapter 19 of the GEM Listing Rules is less than 5%. Therefore, the transactions under the Tenancy Agreement will be subject to reporting, annual review and announcement requirements under Chapter 20 of the GEM Listing Rules.

### **Application for waiver**

With respect to the transactions under the Tenancy Agreement, we have, pursuant to Rule 20.100 of the GEM Listing Rules, applied for and the Stock Exchange has granted a waiver from strict compliance with the announcement requirement under the GEM Listing Rules subject to the annual rentals for each financial year not exceeding the relevant annual cap as stated above.

### **Confirmation from Directors**

Our Directors (including our independent non-executive Directors) confirm that the Tenancy Agreement has been and will be entered into in the ordinary and usual course of our business and is based on normal commercial terms that are fair and reasonable and in the interest of our Company and Shareholders as a whole, and that the proposed annual rentals for the Tenancy Agreement are fair and reasonable and in the interest of the Company and our Shareholders as a whole.

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## CONNECTED TRANSACTIONS

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### **Confirmation from the Sponsor**

The Sponsor considers that the Tenancy Agreement has been entered into in the ordinary and usual course of our business and is based on normal commercial terms that are fair and reasonable and in the interest of our Company and Shareholders as a whole, and that the proposed annual rentals for the Tenancy Agreement are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

Immediately following completion of the Placing and the Capitalisation Issue, Cyber Goodie will be interested in approximately 63.0% of the issued share capital of our Company. Hence, Cyber Goodie and Mr. Chung Chi Hang, Larry will be our Controlling Shareholders.

### COMPANIES OWNED BY CONTROLLING SHAREHOLDERS AND/OR THEIR CLOSE ASSOCIATES BUT NOT INCLUDED IN OUR GROUP

#### **T-Lab Holdings Limited**

T-Lab Holdings Limited is a company incorporated in Hong Kong on 16 September 2006 and wholly-owned by Cyber Goodie. At present, T-Lab Holdings Limited does not engage in any operating activities. During the Track Record Period, save and except as disclosed in note 30 to the Accountant's Report as set out in Appendix I to this prospectus, we did not enter into any transactions with T-Lab Holdings Limited.

#### **T-Lab Electronic (Guangxi) Ltd.**

T-Lab Electronic (Guangxi) Ltd. is a company established in the PRC on 25 August 2009 and is wholly-owned by T-Lab Holdings Limited. At present, to the knowledge of our Directors, T-Lab Electronic (Guangxi) Ltd. does not engage in any operating activities. During the Track Record Period, we did not enter into any transactions with T-Lab Electronic (Guangxi) Ltd.

#### **Yield Speed Ltd.**

Yield Speed Ltd. is a company incorporated in Hong Kong on 27 April 2007 and is owned as to 90% by Cyber Goodie and 10% by Mr. Chung Tin Shing. The principal business of Yield Speed Ltd. is investment holding. During the Track Record Period, save and except as disclosed in note 30 to the Accountant's Report as set out in Appendix I to this prospectus, we did not enter into any transactions with Yield Speed Ltd.

#### **He Yuan T-Lab**

He Yuan T-Lab is a company incorporated in the PRC on 12 January 2005 and is wholly-owned by Yield Speed Ltd. At present, other than holding and leasing the Properties, He Yuan T-Lab does not engage in any operating activities. The properties held by He Yuan T-Lab are leased to our Group and will constitute our continuing connected transactions after the Listing. Please refer to the section headed "Connected transactions" for details.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### **Update Industrial Ltd.**

Update Industrial Ltd. is a company incorporated in Hong Kong on 6 December 2012 and is owned as to 90% by Cyber Goodie and 10% by Mr. Chung Tin Shing. At present, Update Industrial Ltd. does not engage in any operating activities. During the Track Record Period, save and except as disclosed in note 30 to the Accountant's Report as set out in Appendix I to this prospectus, we did not enter into any transactions with Update Industrial Ltd.

### **Create Wealth Holdings Limited**

Create Wealth Holdings Limited is a company incorporated in the BVI on 6 January 2006 and is owned as to 50% by Mr. Chung Chi Hang, Larry and 50% by an Independent Third Party. At present, to the best knowledge of our Directors, Create Wealth Holdings Limited does not engage in any operating activities. During the Track Record Period, we did not enter into any transactions with Create Wealth Holdings Limited.

## **TRANSACTIONS WITH CONNECTED PERSONS**

As disclosed in the section headed "Connected transactions" of this prospectus, we leased from He Yuan T-Lab, the Properties for our production use, and such lease will continue after the Listing.

The Properties have been used for production of some of our products for a long period since 2007 after we re-located from the processing factory, Lian Ping Ocean Factory, to existing address in Hi-tech Development Zone, Heyuan City, Guangdong Province, the PRC, we consider it will benefit our Group to continue to lease the Properties from He Yuan T-Lab after Listing.

We have established a set of protective measures and internal control policies to facilitate the effective and independent operation of its business in relation to the lease of the Properties from He Yuan T-Lab. These measures and policies include:

- (a) the tenancy agreement in respect of the Properties provides that:
  - (i) He Yuan T-Lab is not allowed to unilaterally terminate the tenancy agreement in respect of the Properties;
  - (ii) our Group has the first right of refusal to purchase the Properties should He Yuan T-Lab decides to sell the Properties;
  - (iii) in case our Group has not exercised the first right of refusal to purchase the Properties and He Yuan T-Lab sells the Properties to a third party, He Yuan T-Lab is only allowed to do so provided that such third party has agreed to continue to perform He Yuan T-Lab's remaining obligations under the existing tenancy agreement with our Group, including to lease the Properties to our Group on terms of the then existing tenancy agreement; and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (iv) our Group was granted an option to request He Yuan T-Lab to transfer the Properties to us at a consideration of the fair market value of the Properties,
- (b) our staff will collect information on, among others, market rentals and availability of similar properties in the proximity of the Properties;
- (c) our Group will keep record of properties which are readily available substitutes of the Properties;
- (d) our management will review at least on an annual basis the terms of the tenancy agreement with He Yuan T-Lab and compare the benefit our Group derives from the tenancy with He Yuan T-Lab with other alternatives such as relocation to other properties or purchase of the Properties or other properties. In determining the benefit with other alternatives, factors on the relocation costs, geographical location and financial and operation impacts will be considered;
- (e) our independent non-executive Directors will review at least on an annual basis the terms of the tenancy agreement with He Yuan T-Lab and provide their views as if such terms are fair and reasonable, of normal commercial terms and in the interests of our Company and Shareholders as a whole; and
- (f) our Controlling Shareholders have provided an indemnity in favour our Group against any loss, costs and expenses arising from the relocation of our production facilities.

From the market information available to us, there are readily available substitute properties in the proximity of similar site area and rentals as those of the Properties. The primary reason for continuing to lease the Properties from He Yuan T-Lab is that the Properties has been used for the production of some of our products for a long period of time since 2007. With the above protective measures and internal control policies and the availability of other substitute properties, our Directors are of the view that we are able to effectively operate independently from our Controlling Shareholders.

## INDEPENDENCE TO OUR CONTROLLING SHAREHOLDERS

Save as disclosed in the section headed “Connected transactions” of this prospectus and note 30 to the Accountants’ Report as set out in Appendix I to this prospectus, our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders or their respective associates upon or shortly after the Listing. Having considered the following factors, our Directors consider that, our Group is capable of carrying on our business independently of, and does not place undue reliance on our Controlling Shareholders and their respective associates after Listing.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Management independence

Our Board comprises three executive Directors, and three independent non-executive Directors. Our Board comprises a balanced composition of independent non-executive Directors who have sufficient character, integrity and calibre for their views to carry weight, and thus can effectively exercise independent judgment. In addition, each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit of and in the best interests of our Company and does not allow any conflict between his duties as a director and his personal interests. If there is any potential conflict of interests arising out of any transactions to be entered into between our Group and our Directors or their respective close associates, the interested Directors shall declare such interest to the Board at or prior to the meeting of the Board at which the relevant transactions are to be considered as soon as he becomes aware of the conflicts in accordance with the Articles and the applicable laws of the Cayman Islands. The interested Directors shall also abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum in accordance with the Articles.

In addition, our Group has a senior management team which is capable of carrying out the business decision of our Group independently. None of our senior management team has any family relationship with our Controlling Shareholders or any of their respective associates.

Three of our Board members are independent non-executive Directors who are experienced in different professions to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions.

Our Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions.

Furthermore, our Board's main functions include the approval of our Group's overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. Our Board acts collectively by majority decisions in accordance with the Articles and the applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by our Board.

Having considered the above factors and in light of the non-competition undertakings given by our Controlling Shareholders in favour of our Group (as more particularly disclosed in the paragraph headed "Non-competition undertakings" below), our Directors are satisfied that they are able to perform their roles in our Group independently and are of the view that they are capable of managing our business independently from our Controlling Shareholders and their respective associates after Listing.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### **Operational independence**

While our Board has full rights to make all decisions on the overall strategic development and management and operational aspects of our Group, all essential operational functions (such as financial and accounting management, invoicing and billing and human resources) have been and will be overseen by the senior management of our Group (whose biographies are disclosed in the section headed “Directors and senior management” in this prospectus), without unduly requiring the support of our Controlling Shareholders and their associates.

Other than the lease as disclosed in the section headed “Connected transactions” of this prospectus, our Group holds all the trademarks and domain names that are material to our business, and has sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders and their respective associates.

Our Group does not rely on our Controlling Shareholders or their associates and has our independent access to our customers.

Our Group has also established a set of internal control policies and guidelines to facilitate the effective and independent operation of its business. Further details are set out in the paragraph headed “Corporate governance and internal control measures” in the section headed “Business” in this prospectus.

### **Administrative independence**

Our Group has our own capabilities and staff to perform all essential administrative functions, including financial and accounting management and human resources. Our senior management staff is independent of our Controlling Shareholders.

### **Financial independence**

Our Group has our own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. Our Directors confirm that as at the Latest Practicable Date, save for the rentals payable on a monthly basis to He Yuan T-Lab for the Properties, our Group was not indebted to our Controlling Shareholders. All guarantees provided by our Controlling Shareholders and/or their respective associates to secure loans/financing facility granted to our Group were fully discharged upon Listing. Our Directors are of the view that our Group is able to obtain financing from external sources without reliance on our Controlling Shareholders after Listing. There will be no financial dependence on our Controlling Shareholders or any of their respective associates.

### **NON-COMPETITION UNDERTAKINGS**

None of our Directors, our Controlling Shareholders nor any of their respective associates is a director or a shareholder of any business apart from the business of our Group which competes or is likely to compete, either directly or indirectly, with the business of our Group or has other conflicts of interest with our Group.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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In order to eliminate any future competition with us, our Controlling Shareholders, as covenantors (the “**Covenantors**”), have entered into the Deed of Non-competition with our Company whereby each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaking and covenanted with our Company (for ourselves and for the benefit of our subsidiaries from time to time) that with effect from the Listing Date and for so long as the Shares remain listed on the Stock Exchange and (i) the Covenantors, individually or collectively (whether or not with their respective close associates), are directly or indirectly interested in not less than 30% of the Shares in issue; or (ii) the relevant Covenantor remains as our executive Director, each of the Covenantors shall, and shall procure that its/his respective associates shall:

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of our Group or any business activities which our Group may undertake in the future;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff of our Group;
- (c) keep our Board informed of any matter of potential conflicts of interests between the relevant Covenantor (including its/his associates) and our Group, in particular, a transaction between any of the relevant Covenantor (including its/his associates) and our Group; and
- (d) provide as soon as practicable upon our Company’s request a written confirmation in respect of compliance by it with the terms of the Deed of Non-competition and their respective consent to the inclusion of such confirmation in our Company’s annual report and all such information as may be reasonably requested by the Company for its review.

In addition, each of the Covenantors hereby irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of our Group (the “**Business Opportunity**”) is made available to it/him or its/his associates (other than members of our Group), it or he will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Covenantor shall provide or procure its/his associates to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. If he or it (or his/its associates) plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the existing business activities of our Group, he or it shall give our Company a first right of refusal to participate or engage in the Business Opportunity and will not participate or engage in these activities unless with the prior written consent of our Company. None of the Covenantors and their respective associates (other than members of our Group) will pursue the Business Opportunity until our Group decides not to pursue the Business Opportunity because of commercial reasons. Any

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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decision of our Company will have to be approved by our independent non-executive Directors taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and, where necessary, any expert opinion on the commercial viability of the Business Opportunity.

Each of the Covenantors further irrevocably and unconditionally, undertakes that it or he will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to our Company on an annual basis as to whether it or he has complied with such undertakings.

The Deed of Non-competition will cease to have any effect on the earliest of the date on which:

- (a) our Company becomes wholly-owned by any of the Covenantor and/or its/his associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or its/his associates in the Shares in issue falls below 30% of the number of Shares in issue and the relevant Covenantor shall cease to be our executive Director; or
- (c) the Shares cease to be listed on the Stock Exchange.

## CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to manage the potential conflict of interests between us and our Controlling Shareholders, and to safeguard the interests of our Shareholders:

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

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.

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## SUBSTANTIAL SHAREHOLDERS

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So far as our Directors are aware, the following persons will, immediately following the completion of the Placing and the Capitalisation Issue taking no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, have beneficial interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, 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 other member of our Group:

Name of Shareholder	Capacity/ Nature of Interest	Shares held immediately prior to the Capitalisation Issue and Placing		Shares held immediately following the completion of the Capitalisation Issue and the Placing	
		Number	Percentage	Number	Percentage
Cyber Goodie ( <i>note</i> )	Beneficial owner	9,000	90%	126,000,000	63%
Mr. Chung Chi Hang, Larry ( <i>note</i> )	Interest of a controlled corporation	9,000	90%	126,000,000	63%
Mr. Chung Tin Shing	Beneficial owner	1,000	10%	14,000,000	7%

*Note:*

Cyber Goodie is a company incorporated in the BVI and is wholly-owned by Mr. Chung Chi Hang, Larry.

Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Placing and the Capitalisation Issue (assuming no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme), have beneficial interests or short positions in any Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in the circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

So far as our Directors are aware, save for the persons disclosed above, there are no other persons who will immediately following completion of the Capitalisation Issue and the Placing (but without taking into account of any Shares which may be allotted and issued upon the exercise or any 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 under the Provisions of Divisions 2 and 3 of Part XV of the SFO, or, be directly or indirectly interested in 10% or more of the voting power at general meetings of our subsidiaries.

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## SUBSTANTIAL SHAREHOLDERS

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### UNDERTAKINGS

Each of our Controlling Shareholders has given certain undertakings in respect of the Shares held by them to our Company, the Sponsor, the Bookrunner and Lead Manager (for itself and on behalf of the Underwriter) and the Stock Exchange. Our Controlling Shareholders have also given undertakings to our Company and the Stock Exchange as required by Rule 13.19 of the GEM Listing Rules and are bound by the non-disposal restrictions as imposed by Rule 13.19 of the GEM Listing Rules. Further details of such undertakings are set out under the section headed “Underwriting – Undertakings” in this prospectus.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

The table below shows certain information in respect of members of the Board:

Name	Age	Position	Responsibility	Date of joining our Group	Date of appointment as Director
Mr. Chung Chi Hang, Larry (鍾志恆)	44	Chairman and executive Director	Business strategy and overall development of our Group	May 2000	19 December 2014
Mr. Chung Tin Shing (鍾天成)	45	Chief executive officer and executive Director	Oversees the operation and marketing and sales of our Group	June 2001	19 December 2014
Mr. Wong Shek Fai, Johnson (黃石輝)	43	Executive Director and compliance officer	Oversees the production and engineering of our Group	January 2006	17 March 2015
Mr. Wong Choi Chak (黃在澤)	51	Independent non-executive Director	Supervising our Group's compliance and corporate governance matters, providing independent judgment to our Board	2 February 2016	2 February 2016
Mr. Li Chung Pong, Stephen (李仲邦)	49	Independent non-executive Director	Supervising our Group's compliance and corporate governance matters, providing independent judgment to our Board	2 February 2016	2 February 2016
Mr. Tang Sze Wo (鄧仕和)	54	Independent non-executive Director	Supervising our Group's compliance and corporate governance matters, providing independent judgment to our Board	2 February 2016	2 February 2016

### BOARD OF DIRECTORS

Our Board currently consists of six Directors, three of whom being executive Directors and the other three being independent non-executive Directors. The powers and duties of our Board include determining business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions as well as exercising other powers, functions and duties as conferred by our Memorandum and Articles of Association. We have also 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.

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## DIRECTORS AND SENIOR MANAGEMENT

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### **Executive Directors**

**Mr. Chung Chi Hang, Larry (鍾志恆)**, aged 44, our executive Director. Mr. Chung is primarily responsible for the overall business strategy and development of our Group and monitor our Group's financial position. He is the founder of our Group in May 2000. Being the founder and his long-time commitment to our Group, Mr. Chung is the spearhead of our Group's development and growth. He formulated our overall development plan and strategy, includes the transformation of our production model from processing arrangement to our own production, expansion of our business to domestic sales and diversification of our product ranges. Before founding our Group, Mr. Chung worked in his family construction business from March 1998 to August 2001 and were principally responsible for monitoring the work progress, calculating construction workers' wages and overseeing financial operation.

**Mr. Chung Tin Shing (鍾天成)**, aged 45, our executive Director. Mr. Chung is primarily responsible for overseeing the overall operation and marketing and sales of our Group. He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration (finance) in 1994. Mr. Chung formally joined our Group in June 2001. Before joining our Group, Mr. Chung was responsible for the marketing operation management in Mae Holdings Limited.

**Mr. Wong Shek Fai, Johnson (黃石輝)**, aged 43, our executive Director and compliance office. Mr. Wong is primarily responsible for overseeing the production and engineering of our Group. Mr. Wong obtained the bachelor of electrical engineering from Carleton University in Canada in 1995. Mr. Wong joined our Group in January 2006. Before joining our Group, Mr. Wong worked as manager for the engineering department of Mei Ah Electrical & Industry (HK) Ltd. from May 1995 to January 2006 responsible for the project development and providing technical support to sale and marketing team.

### ***Independent non-executive Directors***

**Mr. Wong Choi Chak (黃在澤)**, aged 51, an independent non-executive Director. Mr. Wong has worked for various listed companies for over 20 years primarily responsible for financial projection, finance control and accounting matters. Mr. Wong is currently the chief financial officer and company secretary of China Minsheng Financial Holding Corporation Limited (formerly known as China Seven Star Holdings Limited), a company listed on the Stock Exchange (stock code: 245). Mr. Wong was the financial controller and company secretary of De Team Company Limited, a company listed on the Stock Exchange (stock code: 65) from October 2003 to January 2015. Mr. Wong holds a bachelor's degree in Accounting from the University of Lincoln, England. Mr. Wong is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

**Mr. Li Chung Pong, Stephen (李仲邦)**, aged 49, an independent non-executive Director. Mr. Li graduated from Schulich School of Business, York University majoring in finance and management science in June 1989. He obtained a master degree of business administration from Schulich School of Business, York University in June 1992, of science in financial engineering from City University of Hong Kong in May 2000, of science in electronic commerce management and of science in information systems management from Hong Kong University of Science & Technology in January 2003 and November 2005 respectively. He has been a candidate for PhD degree in finance in Shanghai University of Finance & Economics since September 2007.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Li was conferred by Global Association of Risk Professionals as a certified financial risk manager in 2001. He has also been a member of Hong Kong Securities and Investment Institute since 2001, and a full member of Treasury Markets Association since 2006.

Mr. Li was a financial analyst in the head office of The Body Shop Canada Limited from December 1989 to May 1991. He worked as a management trainee, assistant vice president and corporate advisor in the treasury of Bank of America NT & SA from August 1992 to September 1997. He then acted as the vice president and corporate desk head in the treasury marketing unit for Hong Kong, the vice president in the structured product group for Hong Kong, and the vice president in the regional financial market treasury for Citibank N.A., Hong Kong Branch from October 1997 to June 2004. He was the director and regional head of business sales for global markets of Standard Chartered Bank from July 2004 to December 2007. He acted as the head of treasury for Greater China and head of marketplaces for North Asia of Thomson Reuters from January 2008 to December 2013. He acted as the chief representative for Beijing of Reuters Transaction Services Ltd. from April 2011 to December 2013. He has been the director of Sky Source Enterprises Limited since April 2014.

**Mr. Tang Sze Wo (鄧仕和)**, aged 54, an independent non-executive Director. Mr. Tang graduated with a Bachelor of Science (Honours) Construction Project Management from the University of Central Lancashire in the United Kingdom in 2005 and a master degree in Construction and Management from Griffith University of Australia in 2002. Mr. Tang is a registered professional engineer (civil) and currently is the corporate member of the Hong Kong Institution of Engineers. He was a member of the Registered Contractors' Disciplinary Board Panel from 2008 to 2011. From 1984 to 1994, he was employed by Sheung Yip Construction Limited mainly responsible for supervision and training. From 1994 to 1996, he was employed as a general foreman by Hong Kong and Macau International (Holding) Limited mainly responsible for the management and supervision of various building development projects in Hong Kong and the PRC. Since January 1997, Mr. Tang was appointed as the managing director of Sheung Moon Construction Limited mainly responsible for project management and overall management of this company.

Save as disclosed above, each of our Directors has not been involved in any of the events described under Rule 17.50(2) of the GEM Listing Rules. In addition, save as disclosed above, none of our Directors has been a director of other listed entities for the three years immediately preceding the date of this prospectus.



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## DIRECTORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

The table below shows certain information in respect of members of our senior management:

Name	Age	Position	Responsibility	Date of joining our Group	Relationship with other Directors or senior management
Mr. Yu Siu Ming (余兆明)	52	Financial controller	In charge of financial management of our Group	2 July 2008	Nil
Mr. Yin Fan (尹凡)	37	Financial manager	In charge of accounting matters of He Yuan Sky Wealth	13 August 2008 (note)	Nil

*Note:* Mr. Yin first worked as the accounting manager with He Yuan T-Lab in 2008 and as a result of the restructuring of He Yuan T-Lab in 2012, Mr. Yin became an employee of our Group in the middle of 2008.

**Mr. Yu Siu Ming (余兆明)**, aged 52, is the financial controller of our Group. Mr. Yu obtained a bachelor's degree in Business Administration from the Queen's University of Brighton in 2007 and a MBA of Financial Management from the Queen's University of Brighton in 2009. From 1984 to 1987, Mr. Yu worked with G. F. Mark Five Knitting Factory Limited initially as an account clerk and promoted as an assistant accountant. From 1987 to 1988, he worked as an accountant with China Rising Development Limited. From 1988 to 1991, he worked as an accountant with Bagutta Garment Limited. From 1991 to 2007, he worked as an accountant and controller with Ospinter Limited. From 2007 to 2008, Mr. Yu worked as an accountant with Flexcon Limited.

**Mr. Yin Fan (尹凡)**, aged 37, is the financial manager of He Yuan Sky Wealth. Mr. Yin graduated from Hunan Institute of Technology (湖南工學院), formerly known as Hunan Construction Material Advanced Technical School (湖南建材高等專科學校), majoring in corporate management in 2002. From 2004 to 2005, he worked as the account and tax manager with 力升樹燈 (河源) 有限公司. From 2005 to 2008, he worked as the financial vice-manager, administration manager and assistant to vice-general manager with 中山澳碧制衣有限公司. From 2008 to 2011, he worked as the accounting manager with He Yuan T-Lab.

### COMPANY SECRETARY

**Ms. Chau Hing Ling (周慶齡)**, aged 41, was appointed as our company secretary on 19 December 2014. She has been serving as a director of Corporate Services of Vistra Corporate Services (HK) Limited since June 2013, where she leads a team of professional staff to provide a full range of corporate services and listed company secretary services. Prior to joining Vistra Corporate Services (HK) Limited, she was an associate director of Corporate Secretarial of TMF Hong Kong Limited.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Chau has over 15 years of experience in the corporate services industry. Ms. Chau received a master of laws majoring in corporate and financial law from The University of Hong Kong in November 2007. She has been a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since May 2013.

### BOARD COMMITTEES

#### Audit Committee

We established an Audit Committee on 2 February 2016 with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee consists of three independent non-executive Directors, Mr. Wong Choi Chak (who is the chairman), Mr. Li Chung Pong, Stephen and Mr. Tang Sze Wo. The primary duties of the Audit Committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

#### Remuneration Committee

We established a Remuneration Committee on 2 February 2016 with written terms of reference in compliance with the GEM Listing Rules. The Remuneration Committee consists of three members, being Mr. Tang Sze Wo, Mr. Wong Choi Chak and Mr. Chung Chi Hang, Larry. Two of the members of the Remuneration Committee are our independent non-executive Directors. The Remuneration Committee is chaired by Mr. Tang Sze Wo. The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the 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.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the performance of the Group and the individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the Listing, subject to review by and the recommendations of our Remuneration Committee.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Nomination Committee

We established a Nomination Committee on 2 February 2016 with written terms of reference. The Nomination Committee consists of three members, being Mr. Li Chung Pong, Stephen, Mr. Tang Sze Wo and Mr. Chung Tin Shing. Two of the members of the Nomination Committee are our independent non-executive Directors. The Nomination Committee is chaired by Mr. Li Chung Pong, Stephen. The primary function of the Nomination Committee is to make recommendations to our Board on the appointment of members of our Board.

### Risk Management Committee

We have established a Risk Management Committee on 2 February 2016 to review the general goals and fundamental policies of our risk and compliance management, internal control and risk management and internal audit functions and made recommendations to our Board on the same. The Risk Management Committee comprises three members, namely Mr. Chung Tin Shing, our executive Director, Mr. Wong Shek Fai, Johnson, our executive Director and Mr. Tang Sze Wo, our independent non-executive Director. Mr. Chung Tin Shing is the chairman of the Risk Management Committee.

## COMPENSATION OF EMPLOYEES

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, we incurred employee costs (including Directors remuneration) of HK\$42.9 million, HK\$45.8 million and HK\$23.7 million, respectively, representing 22.6%, 25.2% and 20.1%, respectively of our revenue during those periods.

As required by PRC regulations as well as compulsory rules of the PRC local governments, we participate in various social welfare schemes including pension, medical, maternity, work-related injury insurances, unemployment insurance and housing provident fund contributions. We are required under PRC law to make contributions to these schemes based on certain percentages of the salaries, bonuses and certain allowances of our employees in accordance with the respective regulatory requirement, up to a minimum amount specified by the relevant local governments from time to time.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

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 for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 was HK\$954,000, HK\$856,000 and HK\$730,000, 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 for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 was HK\$2.3 million, HK\$2.1 million and HK\$1.3 million, respectively.

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## DIRECTORS AND SENIOR MANAGEMENT

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No remuneration was paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office in respect of the each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015. Further, none of our Directors waived any remuneration during the same periods.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, allowances and benefits in kind) of our Directors (including the independent non-executive Directors) for the year ended 31 December 2015 and the year ending 31 December 2016 is estimated to be approximately HK\$1.1 million and HK\$1.4 million, respectively.

### SHARE OPTION SCHEME

We have adopted the Share Option Scheme. For details of the Share Option Scheme, see the section headed “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix VI to this prospectus.

### PENSION SCHEME

All of our employees in Hong Kong have joined a mandatory provident fund scheme (the “MPF Scheme”). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. The Group has complied with the relevant laws and regulations, and that relevant contributions have been paid by the Group in accordance with the aforesaid laws and regulations.

### COMPLIANCE ADVISER

We have appointed LY Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. The compliance adviser will advise us in the following circumstances:

- (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) if we propose to use the proceeds of the Placing in a manner different from that detailed in this prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) if the Stock Exchange makes an inquiry of our Group under the GEM Listing Rules regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the first two full financial years ending 31 December 2017, and such appointment may be subject to extension by mutual agreement.

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## SHARE CAPITAL

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The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the Placing and the Capitalisation Issue (assuming no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme):

*Authorized Share capital:* *HK\$*

<u>1,000,000,000</u>	Shares of HK\$0.01 each	<u>10,000,000</u>
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*Issued and to be issued, fully paid or credited as fully paid:* *HK\$*

10,000	Shares in issue as at the date of this prospectus	100
139,990,000	Shares to be issued pursuant to the Capitalisation Issue	1,399,900
<u>60,000,000</u>	Shares to be issued pursuant to the Placing	<u>600,000</u>
<u>200,000,000</u>		<u>2,000,000</u>

### ASSUMPTIONS

The above table assumes that the Placing becomes unconditional and the issue of Shares pursuant to the Placing and Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandate granted to our Directors to issue or repurchase Shares as described below.

### RANKINGS

The Placing Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus save for entitlements to the Capitalisation Issue.

### CAPITALISATION ISSUE

Conditional on the share premium account of our Company being credited as a result of the Placing, the Directors are authorised to capitalise the amount of HK\$1,399,900 from such account and to apply such sum in paying up in full at par a total of 139,990,000 Shares for allotment and issue to its then shareholders, Cyber Goodie and Mr. Chung Tin Shing.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with a total nominal value of not more than the sum of:

- (a) 20% of the total nominal amount of the share capital of our Company in issue immediately following the completion of Placing and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and
- (b) the total nominal amount of share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorized to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option granted or which may be granted under the Share Option Scheme.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- at the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Further information on this general mandate is set out in the paragraph headed "Resolutions in writing of all our Shareholders passed on 2 February 2016" in Appendix VI to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the Placing and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme).

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## SHARE CAPITAL

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This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase of Shares by our Company” in Appendix VI to this prospectus.

This mandate will expire:

- at the conclusion of our Company’s next annual general meeting; or
- at the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

whichever is earliest.

Further information on this general mandate is set out in the paragraph headed “Resolutions in writing of all our Shareholders passed on 2 February 2016” in Appendix VI to this prospectus.

### SHARE OPTION SCHEME

Pursuant to the written resolutions of all the Shareholders dated 2 February 2016, we conditionally adopted the Share Option Scheme. Summaries of the principal terms of the Share Option Scheme are set out in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum of Association and the Articles of Association, the Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, the Company may subject to the provisions of the Cayman Islands Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, see the sub-section headed “Summary of the Constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — Alteration of capital” in Appendix V to this prospectus.

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## SHARE CAPITAL

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Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, all or any of the special rights attached to the Share 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, see the paragraph headed “Variation of rights of existing shares or classes of shares” in Appendix V to this prospectus.



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## FINANCIAL INFORMATION

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*The following discussion and analysis should be read in conjunction with the audited financial information of our Group for each of the years ended 31 December 2013 and 2014, in each case with the related notes thereto, included in Appendix I to this prospectus. The financial information and the consolidated financial statements of our Group have been prepared in accordance with HKFRS, which differ in certain significant respects from generally accepted accounting principles in certain other countries. For further information, see “Appendix I — accountants’ report” included in this prospectus. Potential investors are encouraged to read the whole of the Accountants’ report set out in Appendix I of this prospectus and should not rely merely on the information set up in this section.*

*The discussion and analysis set out in this section contains forward-looking statements that involve risks and uncertainties. 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 the section headed “Risk factors” of this prospectus.*

*Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this prospectus may due to rounding.*

### OVERVIEW

Our Group is principally engaged in the design, manufacturing and sales of power supply products, in particular, transformers and switching mode power supplies. Our transformers can be broadly categorized into Toroidal transformer, EI transformer and ferrite transformer. All the transformers and switching mode power supplies are sold under our own brand “Keen Ocean”. In addition, we also produce, on an OEM basis, electronic parts and components, for our customers. We derive our revenue mainly from export (including PRC customers who purchased our products for their exports). Our customers can be categorized into manufacturers which use our products for their own manufacturing and trading companies, which sell our products to their customers. Our products can be applied as parts and components to audio and medical products. Our principal operating subsidiary, He Yuan Sky Wealth is located in He Yuan, Guangdong province and is responsible for the production and manufacturing of all products sold by us.

The history of our business can be traced back to 2000 when Keen Ocean was established by Mr. Chung Chi Hang, Larry. We commenced production of transformers in 2000 by way of contract processing arrangement (來料加工). In 2010, we commenced our switching mode power supply business. We have obtained the necessary safety permit/ certificate which enable us to sell our power supply products to countries include the United State, Belgium, the United Kingdom and Australia and other countries. Our products are directly sold to our customers under our own brand, “Keen Ocean” and on an OEM basis. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our revenue derived from the sales of our own brand products accounted for approximately 67.8%, 57.6% and 48.4%, respectively, of our total revenue.

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## FINANCIAL INFORMATION

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While we sell a majority of our products under our own brand to our customers, we also manufacture other electronic parts and components for our customers on an OEM basis. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our revenue derived from the manufacturing and sale of other electronic parts and components products accounted for approximately 32.2%, 42.4% and 51.6%, respectively, of our total revenue.

Our revenue slightly fell from approximately HK\$189.9 million for the year ended 31 December 2013 to approximately HK\$182.0 million for the year ended 31 December 2014 mainly due to a fall in our sale volume as a result of falling export sales to Europe and a fall in sale in PRC (indirect export portion).

Our revenue for the eight months ended 31 August 2015 amounted to approximately HK\$117.7 million, representing a decrease of approximately 3.4% compared to the eight months ended 31 August 2014. The decrease in revenue was mainly due to our Group's pricing policy of not merely to follow the general trend of the market prices to overall reducing the selling prices for purpose of increasing our sales. Despite the decline in our revenue, we generally performed better for the eight months ended 31 August 2015. Our gross profit margin for the eight months ended 31 August 2015 has improved to approximately 21.0%, compared to approximately 19.0% for the eight months ended 31 August 2014. As a result of our effort in reducing our cost of sales, including but not limited to the continuing implementation of the policy of rewarding our manufacture staff by number of pieces made rather than on a fixed salary basis and continuous decrease in the purchase price of raw materials in 2014, our cost of sales reduced as compared to that for the eight months ended 31 August 2015. Our net profit (without taking into account the Listing expenses) for the eight months ended 31 August 2015 also improved when compared with the eight months ended 31 August 2014.

### BASIS OF PREPARATION

Our financial information has been prepared in accordance with the HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our financial information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules and has been prepared under the historical cost except for certain financial instruments, which we measured at fair value.

Pursuant to the Reorganisation, the Company has become the holding company of the companies now comprising the Group since 23 December 2014. These subsidiaries are under the common control of the Controlling Shareholder throughout the Track Record Period or since their respective dates of incorporation, where this is a shorter period.

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 of the Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment of

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## FINANCIAL INFORMATION

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the relevant companies now comprising the Group, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2013 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

The functional currency of the Company is U.S. dollars and the presentation currency of the Company is Hong Kong dollars, as the directors consider that it is easier to monitor the financial performance of the Company.

### SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our Directors consider our operating results are most significantly affected by the following factors:

#### **Product mix and pricing**

Our products are categorised into three segments: transformers, switching mode power supply and electronic parts and components, which have different selling prices, gross profit margins and levels of demands, etc. Our results of operations and financial conditions are impacted by our product mix and the pricing of our products. We currently sell transformers and switching mode power supplies under our own brand “Keen Ocean”. In addition, we produce other electronic parts and components for our customers on an OEM basis.

The transformers we sold during the Track Record Period include toroidal transformers, EI transformers and ferrite transformers. The electronic parts and components we sold include PCB assembly, battery charger, musical instrument and equipment, cable assembly and other. During the Track Record Period, transformers were the principal products we offered. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, the revenue derived from sales of transformers accounted for approximately 59.7%, 48.9% and 43.7% of our total revenue, respectively, and the revenue derived from sales of other parts and components accounted from approximately 32.2%, 42.4% and 51.6% of our total revenue, respectively. As we developed the business of switching mode power supply in 2011 and currently we are only offering low-end to mid-end power supply that required relatively simple technology level as compared with other electronics, sales of switching mode power supply accounted for the smallest portion among our products, representing approximately 8.1%, 8.7% and 4.7% of our total revenue for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, respectively.

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, our gross profit margin for transformers was 20.4%, 20.4% and 22.5%, respectively, our gross profit margin for switching mode power supply was 14.8%, 20.0% and 19.5%, respectively, and our gross profit margin for electronic parts and components was 17.5%, 17.0% and 19.8%, respectively.

Electronic parts and components income comprises PCB assembly, battery charger, musical instrument and equipment, cable assembly and others. All other electronic parts and components products are sold under OEM. At the request of our customers, we also produce other products including plastic parts, cord-assembly and other accessories. These products only accounted for a minimal amount.

## FINANCIAL INFORMATION

During the Track Record Period, our sales mix are generally in line with our product profit margin contribution. Our principal product line, transformers, contribute the highest revenue and profit margin whilst switching mode power supply contribute the lowest amount of revenue and profit margin as it commenced in 2010 and is still in a development stage. Our OEM products contribute a moderate profit margin among our products categories as we will only handle OEM order with acceptable profit margin.

We intend to further improve our existing products and widen the product spectrum. If our product mix and adjustments of our selling prices are unable to respond to the market demands and preferences, our results may be adversely affected.

### Production capacity

Our operation results had been affected by our production capacity during the Track Record Period. The following table sets forth the quantity of products we produced and sold:

	2013		2014		31 August 2015	
	Quantity produced	Quantity sold	Quantity produced	Quantity sold	Quantity produced	Quantity sold
Transformers						
- Toroidal transformer	1,235,549	1,241,300	1,064,055	1,010,576	520,110	582,624
- EI transformer ( <i>note 1</i> )	128,523	129,431	182,465	178,520	75,776	72,846
- Ferrite transformer ( <i>note 2</i> )	175,241	175,238	177,960	173,165	323,981	324,668
Sub-total:	<u>1,539,313</u>	<u>1,545,969</u>	<u>1,424,480</u>	<u>1,362,261</u>	<u>919,867</u>	<u>980,138</u>
Switching Mode Power Supply						
- Switching mode power supply	<u>1,139,899</u>	<u>1,123,672</u>	<u>974,602</u>	<u>1,005,293</u>	<u>437,423</u>	<u>468,585</u>
Sub-total:						
Electronic parts and components						
- PCB assembly	606,991	665,517	835,203	809,044	538,936	731,179
- Battery charger	164,867	174,930	218,036	216,922	173,827	176,870
- Musical instrument and equipment	5,848	4,987	27,694	25,570	4,032	6,107
- Cable assembly ( <i>note 3</i> )	184,533	188,762	127,192	135,400	128,522	163,058
- Others	667,905	666,229	736,590	741,312	990,535	707,448
Sub-total:	<u>1,630,144</u>	<u>1,700,425</u>	<u>1,944,715</u>	<u>1,928,248</u>	<u>1,835,852</u>	<u>1,784,662</u>
Total:	<u>4,309,356</u>	<u>4,370,066</u>	<u>4,343,797</u>	<u>4,295,802</u>	<u>3,193,142</u>	<u>3,233,385</u>

Notes:

- The actual annual production volume of EI transformer, being 299,238 pieces in 2013, 428,195 pieces in 2014 and 253,635 pieces for the eight months ended 31 August 2015, include the EI transformer produced for our own use as to 170,715 pieces in 2013 and 245,730 pieces in 2014 and as to 177,859 pieces for the eight months ended 31 August 2015.

## FINANCIAL INFORMATION

2. The actual annual production volume of ferrite transformer, being 2,455,039 pieces in 2013, 2,127,164 pieces in 2014 and 1,198,827 pieces for the eight months ended 31 August 2015, include ferrite transformer produced for our own use as to 2,279,798 pieces in 2013, 1,949,204 pieces in 2014 and 874,846 pieces for the eight months ended 31 August 2015.
3. The actual annual production volume of cable assembly, being 1,890,035 pieces in 2013, 1,865,172 pieces in 2014 and 1,080,126 pieces for the eight months ended 31 August 2015, include the cable assembly produced for our own use as to 1,705,502 pieces in 2013, 1,737,980 pieces in 2014 and 951,604 pieces for the eight months ended 31 August 2015.

### Competition

The electronic parts and components industry is scattered and we face competition from PRC and overseas manufacturers including Japan and Taiwan. Transformers, being a core component of many electronic devices, have stringent standard requirements. Customers generally impose stringent requirements in choosing their manufacturers. Once these customers establish a relationship with a manufacturer supplier, their connection will last long and hence create a barrier of entry for other market participants.

We face competition from electronic parts and components manufacturers in aspects including quality of products, product prices, research and development capability to meet the customers' specifications and requirements and past relationship with customers. Our operation results may be affected if we fail to maintain our competitive advantages and effectively compete with our competitors.

### Economic conditions in export countries

We are affected by the changes in the economic conditions of the countries in which we sold our products. Even though our principal production facilities are located in PRC, our products are sold directly to customers located in developed countries including the United States, Belgium, Denmark, the United Kingdom, Hungary, Austria and Germany; or subsequently sold by our customers located in the PRC to other countries. During the Track Record Period, the geographic segment of our customers can be categorized as follows:

	For the year ended 31 December				For the eight months ended 31 August			
	2013		2014		2014		2015	
	Revenue (HK\$'000)	% of total (%)	Revenue (HK\$'000)	% of total (%)	Revenue (HK\$'000)	% of total (%)	Revenue (HK\$'000)	% of total (%)
	(unaudited)							
<b>PRC sales (note 1)</b>								
PRC domestic sales	22,454	11.8	22,012	12.1	10,601	8.7	14,184	12.1
<b>HK sales</b>								
Hong Kong	25,447	13.4	27,370	15.0	17,859	14.6	31,477	26.7
<b>Export sales</b>								
<b>Direct export sales</b>								
Europe (note 2)	50,695	26.7	44,320	24.4	29,189	23.9	31,072	26.4
The United States	39,880	21.0	46,392	25.5	29,581	24.3	14,145	12.0
Others (note 3)	14,865	7.8	10,853	6.0	12,410	10.2	12,305	10.5
<b>Indirect export sales from the PRC (note 1)</b>	36,566	19.3	31,026	17.0	22,267	18.3	14,523	12.3
<b>Sub-total</b>	142,006	74.8	132,591	72.9	93,447	76.7	72,045	61.2
<b>Total:</b>	189,907	100.0	181,973	100.0	121,907	100.0	117,706	100.0

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## FINANCIAL INFORMATION

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*Notes:*

1. During the Track Record Period, some of our finished products were delivered to location in the bonded zone of the PRC as designated by our customers and we understand that these customers will arrange for exports custom clearance and are treated as our indirect export sales from the PRC. These indirect export sales amounted to approximately HK\$36,566,000, HK\$31,026,000 and HK\$14,523,000 for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, respectively.
2. In terms of revenue contribution for 2014, Europe includes Belgium, the United Kingdom, Denmark, Austria and Germany.
3. Others, in terms of revenue contribution for 2014, includes Australia, Singapore, Turkey, Canada and South Africa.

Changes in the global or regional economies, are likely to have impact on the demand from our existing and potential customers. It is our policy and business direction not to rely on any single region/ country to reduce our business risk. Over the years, we have been continuing to diversify our customers base geographically.

### **Fluctuation of raw material price**

Our total material cost included in total cost of manufacturing accounted for significant portion of our cost of sales. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 the total material cost accounted for 70.0%, 68.7% and 62.5% of our cost of sales. Please refer to the sub-section headed “Cost of sales” of this section for details of the breakdown of our raw materials during the Track Record Period.

Among all types of raw materials and parts and components, copper, DC motors, semi-conductors, cable, plastic components, PCB, metal components and silicon steel together accounted for approximately 85.6%, 82.7% and 75.0% of our total material cost for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, respectively.

Usually, the price of our raw materials and parts and components may be affected by market demand and supply, suppliers’ business interruption, overall economic conditions and government control. It is our pricing strategy to try to pass on the increase in raw material costs to our customers, otherwise our Group’s financial condition would be affected.

During the Track Record we have not entered into any commodity future/forward contract to minimize the risk of increasing raw material cost.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the average unit purchase price of copper and silicon steel on our profits, assuming all other factors affecting our profit remain unchanged.

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(a) *Hypothetical fluctuations on average unit purchase price of copper*

	<b>Increase by 5% (HK\$'000)</b>	<b>Increase by 10% (HK\$'000)</b>	<b>Decrease by 5% (HK\$'000)</b>	<b>Decrease by 10% (HK\$'000)</b>
<b>Change in net profit</b>				
Year ended 31 December 2013	(1,648)	(3,191)	1,610	3,183
Year ended 31 December 2014	(1,138)	(2,284)	1,174	2,310
Eight months ended 31 August 2015	(2,336)	(2,890)	(1,230)	(676)

(b) *Hypothetical fluctuations on average unit purchase price of silicon steel*

	<b>Increase by 5% (HK\$'000)</b>	<b>Increase by 10% (HK\$'000)</b>	<b>Decrease by 5% (HK\$'000)</b>	<b>Decrease by 10% (HK\$'000)</b>
<b>Change in net profit</b>				
Year ended 31 December 2013	(468)	(932)	460	924
Year ended 31 December 2014	(204)	(437)	250	493
Eight months ended 31 August 2015	(2,157)	(2,532)	(1,409)	(1,034)

### Direct labour costs

We experienced an increase in direct labour costs during the Track Record Period due to general increase in wages. Our direct labour costs included in total cost of manufacturing increased from approximately HK\$23.0 million in 2013 to HK\$24.3 million in 2014 (representing an increase of about 5.7%), and accounted from approximately 15.0% and 16.5% of our total costs of sales, respectively, for each of the years ended 31 December 2013 and 2014. Nevertheless, according to China Statistics Year Book 2014, the average annual labour wages in the PRC for the manufacturing industry increased from approximately RMB31,000 in 2010 to RMB46,000 in 2013, representing a CAGR of approximately 14%. Our operation results and performance may be affected if the general labour wages in the PRC continue to increase and if we fail to effectively control our direct labour costs.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the direct labour cost on our profits, assuming all other factors affecting our profit remain unchanged.

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### *Hypothetical fluctuations on our direct labour cost*

	Increase by 5% (HK\$'000)	Increase by 10% (HK\$'000)	Increase by 15% (HK\$'000)	Increase by 20% (HK\$'000)	Decrease by 5% (HK\$'000)	Decrease by 10% (HK\$'000)	Decrease by 15% (HK\$'000)	Decrease by 20% (HK\$'000)
<b>Change in net profit</b>								
Year ended 31 December								
2013	(955)	(1,906)	(2,826)	(3,767)	947	1,898	2,820	3,761
Year ended 31 December								
2014	(968)	(1,964)	(2,951)	(3,939)	994	1,990	2,972	3,959
Eight months ended								
31 August 2015	(2,544)	(3,305)	(4,066)	(4,826)	(1,022)	(261)	500	1,260

### **Our ability to maintain product quality and meet customers' requirements**

Our business depends on delivering products of consistent quality which meet the specifications of customers and certain safety certification requirements. Our transformers and switching mode power supply are required to meet certain safety standards imposed by the relevant certification bodies in different countries.

Our products are inspected and tested by our quality control and assurance team in accordance with internal quality assurance procedures and overseas safety standard as required. If products failed to comply with quality standards and pass quality tests, such products will not be delivered to customers. Any changes in the relevant industry standards or governmental safety requirements, or failure to maintain or renew the relevant certifications will also affect our sales if our products do not meet the new standards or requirements. In order to maintain such certifications after they are issued, our Group must satisfy ongoing compliance requirements. Significant or unforeseeable defects may damage our reputation, results in loss of customers and future sales and expose our Group to claim by affected customers.

### **Foreign exchange contracts and its financial impact**

During the Track Record Period, we entered into a total of 12 foreign currency non-delivery forward contracts for RMB to minimise our exchange rate risk exposure. As at 31 December 2013, we had eight outstanding exchange forward contracts and they were all settled in January to August 2014. We pay USD and receive RMB on net settlement basis at maturity. Major terms of the eight foreign exchange forward contracts are as follows:

Notional amount	Maturity dates	Exchange rates
Buy RMB7,000,000	January 2014 to August 2014	Range from US\$1.00 = RMB6.2457 to US\$1.00 = RMB6.2949



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We recorded a gain on change of the fair value of the foreign currency forward contracts of approximate HK\$2.8 million for the year ended 31 December 2013 and a loss on change of the fair value of the foreign currency forward contracts of approximate HK\$0.7 million for the year ended 31 December 2014. Such gain and loss have been recognized in our consolidated statement of profit or loss and other comprehensive income.

From time to time, we review and closely monitor our exposure to any currency risk. We may adopt various measures to minimise such currency risk, including the entering into non-delivery foreign currency forward contracts or the adoption of other instruments and hedging policies. Since the exchange rate for RMB remains relatively stable recently, as at the Latest Practicable Date, we have not entered into or intended to enter into any foreign currency forward contracts or other instruments. If there is a foreseeable risk of significant currency fluctuations in the future, we may consider entering into foreign currency forward contracts or other instruments and/or adopt a formal hedging policy, in which case we will make appropriate disclosure to our shareholders in accordance with the GEM Listing Rules regarding such policy and the internal control measures so to avoid investments in financial products involving excessive risk.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### CRITICAL ACCOUNTING POLICIES

Certain accounting policies are significant to the preparation of our financial information. Those accounting policies are set forth in note 3 “Significant accounting policies” of the Accountants’ Report set out in Appendix I to this prospectus. The following paragraphs discuss certain significant accounting policies applied in preparing our Group’s financial information:

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Group; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and the costs incurred or to be incurred in respect of the transaction can be measured reliably. This is generally when title passes and the products have been delivered to the designated locations for the sale of transformers and switching mode power supplies, other electronic parts and components.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income

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from a financial asset is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### *Property, plant and equipment*

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The property, plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Over the shorter of term of the lease, or 5 years
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

### *Impairment on tangible assets other than goodwill*

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method.

### *Financial Instruments*

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### *Financial assets*

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instrument.

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### *Financial asset at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near term; or on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables which are assessed individually for impairment. Objective evidence of impairment for a receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 15 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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For financial assets carried at amortised cost, the amount of the impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

### *Other financial liabilities*

Other financial liabilities (including trade and other payables, amounts due to a subsidiary and related parties, loan from a related company and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

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### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

### **SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each 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, “Key sources of estimation uncertainty” of the Accountants’ Report of the Company in Appendix I to this prospectus.

In the application of the Group’s accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### ***Provisions***

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision, if any, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

In assessing whether provision is required and if so, the relevant amount of the provision, management uses their best effort to estimate the consideration that may be required to settle the present obligation at the end of the reporting period, taking into account significant assumptions and a number of factors such as the relevant facts and circumstances, legal advice and current enforcement practice of the relevant rules, of which ultimate realisation may be subject to changes. The Directors assess the need and adequacy of provisions at the end of each reporting period. If expected future cash outflow is different from that as originally estimated, the difference will be recognised in the profit or loss in the period in which the difference occurs.

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### *Estimated impairment of trade receivables and amounts due from related parties*

When there is objective evidence of impairment loss, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013 and 2014 and 31 August 2015, the carrying amount of trade receivables is HK\$27.4 million, HK\$28.8 million and HK\$32.2 million net of allowance for doubtful debts of HK\$1.6 million, HK\$1.6 million and HK\$1.6 million respectively. As at 31 December 2013 and 2014 and 31 August 2015, the carrying amount of amounts due from related parties is HK\$32.5 million, HK\$2.9 million and nil respectively.

### *Estimated allowance for inventories*

Included in the consolidated statements of financial position at 31 December 2013 and 2014 and the eight months ended 31 August 2015 are inventories with a carrying amount of HK\$35.5 million, HK\$38.5 million and HK\$29.5 million respectively. No allowance for inventories has been made during the Track Record Period. We assessed the recoverability of the amount based on an estimation of the net realisable value of the inventories which involves, inter-alia, the analyses of the status of the subsequent sales and the current market price of the inventories. If the actual net realisable values of the inventories are more or less than expected as a result of change in market condition and/or significant technologically change, material reversal of or provision for impairment losses may result.

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### RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth our statements of comprehensive income and other financial information for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, as derived from the accountants' report of our Company in Appendix I to this prospectus.

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Revenue	189,907	181,973	121,907	117,706
Cost of sales	<u>(153,793)</u>	<u>(147,523)</u>	<u>(98,684)</u>	<u>(93,009)</u>
Gross profit	36,114	34,450	23,223	24,697
Other income	2,107	1,184	872	428
Other gains and losses	1,848	(360)	(336)	(190)
Selling and distribution expenses	(4,888)	(4,724)	(2,977)	(3,170)
Administrative expenses	(21,926)	(20,856)	(13,855)	(13,001)
Other expenses	(14)	(918)	(3)	(7,879)
Finance costs	<u>(3,380)</u>	<u>(2,572)</u>	<u>(2,021)</u>	<u>(1,013)</u>
Profit (loss) before tax	9,861	6,204	4,903	(128)
Income tax (expense) credit	<u>(1,796)</u>	<u>(1,178)</u>	<u>(821)</u>	<u>(1,655)</u>
Profit (loss) and total comprehensive income (expense) for the year/period	<u>8,065</u>	<u>5,026</u>	<u>4,082</u>	<u>(1,783)</u>
Earnings (loss) per share — Basic (HK cents)	<u>5.76</u>	<u>3.59</u>	<u>2.92</u>	<u>(1.27)</u>

After adjusting for the income and expenses items of (i) commission income, (ii) professional fees, audit fees and setup cost in relation to Listing and deducting the unprovided amount of social insurance fund and housing provident fund contributions as if they had been paid during the Track Record Period, the adjusted net profit and adjusted net profit margin were approximately HK\$5.1 million and 2.7% respectively for 2013, and approximately HK\$3.7 million and 2.0% respectively for 2014. And, the total adjusted operating cash flow before changes in working capital for the two years ended 31 December 2014 was approximately HK\$20.2 million.



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<i>HKD'000</i>	<b>2013</b>	<b>2014</b>	<i>HKD'000</i>	<b>2013</b>	<b>2014</b>
Net profit per Accountants' Report	8,065	5,026	Operating cash flows before movements in working capital per Accountants' Report	12,690	11,826
Adjustment Items:- ( <i>note 1</i> )			Adjustment Items:- ( <i>note 1</i> )		
Social insurance and housing provident fund ( <i>note 2</i> )	(3,483)	(2,791)	Social insurance and housing provident fund ( <i>note 2</i> )	(3,483)	(2,791)
Commission income ( <i>note 3</i> )	(11)	—	Commission income ( <i>note 3</i> )	(11)	—
Professional fee in relation to listing ( <i>note 4</i> )	—	913	Professional fee in relation to listing ( <i>note 4</i> )	—	913
Audit fees in relation to listing ( <i>note 4</i> )	559	525	Audit fees in relation to listing ( <i>note 4</i> )	559	525
Setup cost in relation to listing ( <i>note 4</i> )	—	6	Setup cost in relation to listing ( <i>note 4</i> )	—	6
Adjusted net profit	5,130	3,679	Adjusted operating cash flow	9,755	10,479

*Note 1:* The Directors believe that these items (excluding the unprovided amount of social insurance fund and housing provident fund) arose outside the Company's ordinary and usual course of businesses.

*Note 2:* The Company paid approximately HK\$1.1 million in 2013 and HK\$2.0 million in 2014 for social insurance fund and housing provident fund (please refer to item staff retirement benefit contributions in Note 12 of Appendix I of this prospectus) and the unprovided amount of social insurance fund and housing provident fund was not actually incurred but determined on a theoretical basis (for the purpose of analysis). Please refer to the paragraph headed "Non-compliance incidents" in the section headed "Business" of this prospectus for details.

*Note 3:* The commission income, which refers to the commission received from a supplier for introducing a customer to the supplier, was another income which is non-recurring in nature.

*Note 4:* The professional fee, audit fees and setup cost were one-off expenses and were directly attributable to listing application.

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### Principal Statement of Comprehensive Income Components

#### Revenue

	Year ended 31 December						Eight months ended 31 August					
	2013			2014			2014			2015		
	Quantity sold	Revenue	% of Total revenue	Quantity sold	Revenue	% of Total revenue	Quantity sold	Revenue	% of Total revenue	Quantity sold	Revenue	% of Total revenue
	(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)	(units)	(HK\$'000)	(%)
	(unaudited)											
<b>Own products</b>												
<i>Transformers</i>												
Toroidal transformer	1,241,300	103,577	54.5	1,010,576	79,124	43.5	703,833	52,239	42.9	582,624	45,870	39.0
EI transformer	129,431	7,175	3.8	178,520	7,573	4.2	120,079	4,558	3.7	72,846	3,603	3.1
Ferrite transformer	175,238	2,630	1.4	173,165	2,220	1.2	66,693	1,249	1.0	324,668	1,935	1.6
<i>Sub-total:</i>	<u>1,545,969</u>	<u>113,382</u>	<u>59.7</u>	<u>1,362,261</u>	<u>88,917</u>	<u>48.9</u>	<u>890,605</u>	<u>58,046</u>	<u>47.6</u>	<u>980,138</u>	<u>51,408</u>	<u>43.7</u>
<i>Switching mode power supply</i>												
Switching Mode Power Supply	1,123,672	15,466	8.1	1,005,293	15,865	8.7	597,183	7,738	6.3	468,585	5,529	4.7
<b>OEM sales</b>												
<i>Other electronic parts and components</i>												
PCB assembly	665,517	33,212	17.5	809,044	35,517	19.5	519,532	21,776	17.9	731,179	30,080	25.6
Battery charger	174,930	19,812	10.5	216,922	24,226	13.3	140,436	16,651	13.7	176,870	19,709	16.7
Cable assembly	188,762	3,238	1.7	135,400	2,899	1.6	115,245	2,161	1.8	163,058	2,077	1.8
Musical instrument and equipment	4,987	2,899	1.5	25,570	12,845	7.1	16,215	8,590	7.0	6,107	3,943	3.3
Others (note)	666,229	1,898	1.0	741,312	1,704	0.9	570,279	6,945	5.7	707,448	4,960	4.2
<i>Sub-total:</i>	<u>1,700,425</u>	<u>61,059</u>	<u>32.2</u>	<u>1,928,248</u>	<u>77,191</u>	<u>42.4</u>	<u>1,361,707</u>	<u>56,123</u>	<u>46.1</u>	<u>1,784,662</u>	<u>60,769</u>	<u>51.6</u>
<b>Total</b>	<u>4,370,066</u>	<u>189,907</u>	<u>100.0</u>	<u>4,295,802</u>	<u>181,973</u>	<u>100.0</u>	<u>2,849,495</u>	<u>121,907</u>	<u>100.0</u>	<u>3,233,385</u>	<u>117,706</u>	<u>100.0</u>

*Note:* Others represented sales of plastic parts and other accessories.

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### Breakdown by customers

Our customers are either manufacturers who acquired our products for assembling into their own products or trading companies who will subsequent sell our products to other manufacturers.

	Year ended 31 December				Eight months ended 31 August	
	2013		2014		2015	
	% of total		% of total		% of total	
	<i>Revenue</i>	<i>revenue</i>	<i>Revenue</i>	<i>revenue</i>	<i>Revenue</i>	<i>revenue</i>
	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>
Manufacturers	168,991	89.0	162,979	89.6	101,947	86.6
Trading companies	<u>20,916</u>	<u>11.0</u>	<u>18,994</u>	<u>10.4</u>	<u>15,759</u>	<u>13.4</u>
Total:	<u>189,907</u>	<u>100.0</u>	<u>181,973</u>	<u>100.0</u>	<u>117,706</u>	<u>100.0</u>

	Year ended 31 December				Eight months ended 31 August	
	2013		2014		2015	
	% of total		% of total		% of total	
	<i>Revenue</i>	<i>revenue</i>	<i>Revenue</i>	<i>revenue</i>	<i>Revenue</i>	<i>revenue</i>
	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>
Own brand product customers	128,848	67.8	104,782	57.6	56,937	48.4
OEM customers	<u>61,059</u>	<u>32.2</u>	<u>77,191</u>	<u>42.4</u>	<u>60,769</u>	<u>51.6</u>
Total:	<u>189,907</u>	<u>100.0</u>	<u>181,973</u>	<u>100.0</u>	<u>117,706</u>	<u>100.0</u>

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### Breakdown by regions

	For the year ended 31 December				For the eight months ended 31 August			
	2013		2014		2014		2015	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
					(unaudited)			
<b>PRC sales (note 1)</b>								
PRC domestic sales	22,454	11.8	22,012	12.1	10,601	8.7	14,184	12.1
<b>HK sales</b>								
Hong Kong	25,447	13.4	27,370	15.0	17,859	14.6	31,477	26.7
<b>Export sales</b>								
<b>Direct export sales</b>								
Europe (note 2)	50,695	26.7	44,320	24.4	29,189	23.9	31,072	26.4
The United States	39,880	21.0	46,392	25.5	29,581	24.3	14,145	12.0
Others (note 3)	14,865	7.8	10,853	6.0	12,410	10.2	12,305	10.5
<b>Indirect export sales from the PRC (note 1)</b>								
	36,566	19.3	31,026	17.0	22,267	18.3	14,523	12.3
<b>Sub-total</b>	<u>142,006</u>	<u>74.8</u>	<u>132,591</u>	<u>72.9</u>	<u>93,447</u>	<u>76.7</u>	<u>72,045</u>	<u>61.2</u>
<b>Total:</b>	<u>189,907</u>	<u>100.0</u>	<u>181,973</u>	<u>100.0</u>	<u>121,907</u>	<u>100.0</u>	<u>117,706</u>	<u>100.0</u>

#### Notes:

- During the Track Record Period, some of our finished products were delivered to locations in the bonded zone of the PRC as designated by our customers and we understand that these customers will arrange for exports custom clearance and are treated as our indirect export sales from the PRC, the remaining sales in the PRC are treated as our PRC domestic sales or direct PRC sales.
- Europe, includes Belgium, the United Kingdom, Denmark, Austria and Germany.
- Others include Australia, Singapore, Turkey, Canada and South Africa.

### Overall

According to the Yubozhiye Report, the global sales value of transformers increased from US\$34.4 billion in 2013 to US\$40.4 billion in 2014. Notwithstanding such industry increasing trend, our revenue decreased from approximately HK\$189.9 million in 2013 to HK\$182.0 million in 2014 primarily due to the decrease in our sales volume of our toroidal transformer from approximately 1.2 million pieces in 2013 to approximately 1.0 million pieces in 2014 as a result of non-recurring of purchase orders received from three of our major customers in 2014 who principally purchased toroidal transformer in 2013. The revenue from our direct export sales decreased from approximately HK\$105.4 million in 2013 to HK\$101.6 million in 2014. The indirect export sales from the PRC also decreased from approximately HK\$36.6 million in 2013 to approximately HK\$31.0 million in 2014.

The three customers had a business relationship with our Group of 2 to 12 years up to 2013 and the reasons for them not placing recurring purchase orders with our Group are (i) one of our engineers left our Group in 2013 and he solicited away two of these customers by offering more competitive

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## FINANCIAL INFORMATION

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price; and (ii) to the best knowledge of our Directors, the toroidal transformer business of one of these customers was not performed well and such customer did not place purchase orders with our Group in 2014, 2015 and up to the Latest Practicable Date. Our Directors confirm that the non-recurring of purchase orders from these three customers are not due to any disputes with these customers or their dissatisfaction with our products. We do not expect any further loss of customers/sales to the departed engineer as such former employee was mainly responsible for serving the two lost customers during the course of his employment with our Group nor aware of any of our customers will leave our Group to follow such former employee. As a preventive measure, we have assigned senior employees, who are our executive Directors, senior engineers and senior sales staff (who have been with our Group for not less than five years) to follow up purchase orders with our customers. We have signed confidentiality, non-competition and non-solicitation agreements with the existing key employees which incorporated confidentiality obligation clauses and restrictive covenants on soliciting away business, customers and other employees where the agreement provides that the employee is subject to the confidentiality obligations during and after his employment, and the non-competition undertaking during and within 24 months after his employment; planned to sign confidentiality, non-competition and non-solicitation agreements with the new key employees, if any, and we have implemented an internal policy where (i) only designated personnel are allowed to contact customers; (ii) all customers' information obtained should be directed to the designated persons for handling; (iii) we will terminate the employment contracts with any employees who do not abide by the internal policy and/or take out the appropriate legal proceedings against such employees.

Our revenue decreased from approximately HK\$121.9 million for the eight months ended 31 August 2014 to HK\$117.7 million for the eight months ended 31 August 2015. Such decrease was primarily due to our pricing policy of not merely to follow the general trend of the market prices to overall reducing the selling prices of our products for purpose of increasing our sales. One of our aims is to maintain an acceptable profit margin to achieve a higher net profit.

As stated in the sub-section headed "Pricing strategy and policy" of the section headed "Business" of this prospectus, despite that we have not followed the general market trend in reducing the selling prices of all our products for the eight months ended 31 August 2015, we have not experienced loss of any of our major customers during this period. We continue to receive instructions from these major customers on the production of new model of products.

During the Track Record Period and up to the Latest Practicable Date, save for the loss of two customers to follow our former employee, we have not experienced the loss of any of our major customers. In light of the above, our Directors are of the view that the decrease in our revenue for the eight months ended 31 August 2015 did not have an adverse material effect on our market position, operation and financial conditions taken as a whole.

Our Directors consider that the decrease in our export sales to Europe in 2014 was principally due to the general depreciation of foreign currency, such as Euro against our principal settlement currency, USD. As a result, our customers may source from suppliers in other countries with favourable exchange rate to minimise their costs.

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Our direct PRC sales increased from approximately HK\$10.6 million for the eight months ended 31 August 2014 to HK\$14.2 million for the eight months ended 31 August 2015 primarily due to our effort in developing new customers in the PRC. Our non-PRC sales decreased from approximately HK\$111.3 million for the eight months ended 31 August 2014 to HK\$103.5 million for the eight months ended 31 August 2015 primarily due to the decrease in our export sales to the United States and indirect export sales. Our sales to the United States decreased from approximately HK\$29.6 million for the eight months ended 31 August 2014 to HK\$14.1 million for the eight months ended 31 August 2015. Our Hong Kong sales increased from approximately HK\$17.9 million for the eight months ended 31 August 2014 to HK\$31.5 million for the eight months ended 31 August 2015. The primarily reason for the decrease in our sales to the United States and the increase in our sales to Hong Kong for the eight months ended 31 August 2015 was primarily due to one of our top five customers, who have a business relationship with our Group for more than 10 years, has established a company in Hong Kong and some of the sales orders used to be placed by the customer's company in the United States were placed by the newly established Hong Kong company, and such sales were categorised as sales to Hong Kong. Our indirect export sales from the PRC decreased from approximately HK\$22.3 million for the eight months ended 31 August 2014 to HK\$14.5 million for the eight months ended 31 August 2015 primarily as a result of less demand from overseas customers.

### *Own products*

The revenue derived from sales of our own brand products (including transformers and switching mode power supply) decreased from approximately HK\$128.8 million in 2013 to HK\$104.8 million in 2014. The decrease was primarily due to the decrease in sales volume and revenue of our toroidal transformers as a result of non-recurring purchase order received from three major customers who principally purchased toroidal transformers in 2013. The revenue of our switching mode power supply increased from approximately HK\$15.5 million in 2013 to HK\$15.9 million in 2014 despite the sales volume of our switching mode power supply decreased from approximately 1.1 million units in 2013 to 1.0 million units in 2014. The reason for our increase in the revenue of our switching mode power supply in 2014 was primarily attributable to our sales of mid-power level switching mode power supply (i.e. power supply of 200W) which generally has a higher selling price.

The revenue derived from sales of our own brand products decreased from approximately HK\$65.8 million for the eight months ended 31 August 2014 to HK\$56.9 million for the eight months ended 31 August 2015. The decrease was primarily due to the general decrease in customers' orders as a result of our pricing policy not to merely follow the general trend of the market prices to overall reducing the selling prices for purpose of increasing the sale.

### *OEM products*

The revenue derived from sales of OEM products increased from approximately HK\$61.1 million in 2013 to HK\$77.2 million in 2014. Such increase was primarily due to an increase in the sales of our musical instrument and equipment from approximately HK\$2.9 million in 2013 to HK\$12.8 million in 2014. Such increase was principally attributable to increase in sales volume to existing customers and the addition of new customers for musical instrument and equipment, which was first launched in mid-2013.

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The revenue derived from sales of our OEM products increased to approximately HK\$60.8 million for the eight months ended 31 August 2015 from HK\$56.1 million for the eight months ended 31 August 2014 mainly attributable to the increase in revenue derived from sales of others products, which include the increased sales of steel core to one of our customers in the PRC.

### Pricing

The following table shows the highest, lowest unit price and average unit selling prices (all excluding value-added tax) of our products.

	Year ended 31 December						Eight months ended 31 August					
	2013			2014			2014			2015		
	<i>Lowest selling price per unit</i>	<i>Highest selling price</i>	<i>Average selling price (HK\$)</i>	<i>Lowest selling price per unit</i>	<i>Highest selling price</i>	<i>Average selling price (HK\$)</i>	<i>Lowest selling price per unit</i>	<i>Highest selling price</i>	<i>Average selling price (HK\$)</i>	<i>Lowest selling price per unit</i>	<i>Highest selling price</i>	<i>Average selling price (HK\$)</i>
<b>Own products</b>												
<b>Transformers</b>												
Toroidal transformer	24.1	1,143.7	83.4	23.3	1,143.7	78.3	23.3	1,143.7	75.2	23.3	1,588.2	72.0
EI transformer	14.8	715.8	55.4	15.6	697.9	42.4	15.6	697.9	37.9	15.6	697.9	51.7
Ferrite transformer	1.6	155.6	15.0	1.6	186.7	12.8	1.6	186.7	19.8	1.5	398.0	6.2
<b>Switching mode power supply</b>												
Switching Mode Power Supply	9.6	257.4	13.8	9.3	264.5	15.8	9.3	257.4	12.0	4.7	257.4	14.7
<b>OEM sales</b>												
<b>Other electronic parts and components</b>												
PCB assembly	4.6	298.3	64.6	6.2	298.3	43.9	6.2	298.3	44.5	6.2	325.0	42.7
Battery charger	33.1	493.8	113.3	59.2	486.0	111.7	62.4	486.0	113.5	51.1	529.8	105.4
Cable assembly	2.2	57.7	18.8	2.6	194.5	21.4	2.6	194.5	22.7	1.6	632.0	14.7
Musical instrument and equipment	54.6	1,760.4	580.8	66.0	2,232.9	502.4	66.0	2,232.9	504.5	58.5	2,486.1	599.4
Others (note)	—	—	—	—	—	—	—	—	—	—	—	—

*Note:*

We offer a diversified range of products and our selling prices are affected by a variety of factors and vary with the types of products, series and specifications and technology level requirement of the products. As the lowest and highest unit selling prices of our products fall within a large range, the average unit selling price of our products provides no indication as to the selling price and is included here for illustration purpose only.

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### Cost of Sales

Our cost of sales amounted to approximately HK\$153.8 million and HK\$147.5 million for each of the years ended 31 December 2013 and 2014, respectively and HK\$93.0 million for the eight months ended 31 August 2015. Cost of sales represents our direct costs of production, which primarily consists of material costs, direct labour, utilities, rental payment and inventory movement. Material costs include costs for raw materials and parts and components include copper, DC motors, semi-conductors, cable, plastic components, PCB, metal components and silicon steel, etc. Direct labour include wages and other benefits provided to our manufacturing employees. Inventory movement refers to the work-in-progress and finished goods at the beginning of the year less work-in-progress and finished goods at the end of the year. Below table set out a breakdown of our cost of sales by nature during the Track Record Period.

	Year ended 31 December				Eight months ended 31 August			
	2013		2014		2014		2015	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
					<i>(unaudited)</i>			
Material cost	107,722	70.0	101,337	68.7	66,018	66.9	58,151	62.5
Direct labour	23,019	15.0	24,322	16.5	23,833	24.1	20,390	21.9
Others (utilities, rental, etc.)	19,388	12.6	22,774	15.4	9,671	9.8	9,821	10.6
Total cost of manufacturing	150,129	97.6	148,433	100.6	99,522	100.8	88,362	95.0
Inventory movement	3,664	2.4	(910)	(0.6)	(838)	(0.8)	4,647	5.0
<b>Total cost of sales</b>	<b>153,793</b>	<b>100.0</b>	<b>147,523</b>	<b>100.0</b>	<b>98,684</b>	<b>100.0</b>	<b>93,009</b>	<b>100.0</b>

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, total material cost included in total cost of manufacturing was approximately HK\$107.7 million, HK\$101.3 million and HK\$58.2 million, which accounted for approximately 70.0%, 68.7% and 62.5% of our total cost of sales, respectively. For the year ended 31 December 2014, the decrease in the material cost was mainly attributable to a fall in copper price and quantity of copper we purchased from 585 tonnes in 2013 to 485 tonnes in 2014 as we purchased less raw material in view of the fall in orders received. The direct labour cost included in total cost of manufacturing increased from approximately HK\$23.0 million in 2013 to HK\$24.3 million in 2014 was primarily due to the increase in the wages of PRC workers and the direct labour cost included in total cost of manufacturing decreased from approximately HK\$23.8 million for the eight months ended 31 August 2014 to HK\$20.4 million for the eight months ended 31 August 2015 as a result of our effort in the continuing implementation of the policy of rewarding our manufacture staff by number of pieces made rather than on a fixed salary basis.



## FINANCIAL INFORMATION

The table below sets the breakdown of our total purchase of raw materials during the Track Record Period:

	Year ended 31 December				Eight months ended 31 August			
	2013		2014		2014		2015	
	% of total		% of total		% of total		% of total	
	purchase		purchase		purchase		purchase	
	of raw		of raw		of raw		of raw	
	HK\$'000	materials	HK\$'000	materials	HK\$'000	materials	HK\$'000	materials
	(unaudited)							
Copper	38,871	35.2	28,317	27.4	18,868	27.3	11,867	22.7
DC motors	9,363	8.5	13,089	12.7	7,694	11.1	8,026	15.4
Semi-conductors	6,112	5.5	8,373	8.1	5,110	7.4	2,651	5.1
Cable	9,624	8.7	8,022	7.7	4,913	7.1	3,139	6.0
Plastic components	9,452	8.6	9,004	8.7	5,608	8.1	5,878	11.3
PCB	5,907	5.4	7,712	7.5	2,180	3.2	1,320	2.5
Metal components	3,927	3.5	5,362	5.2	4,269	6.2	3,419	6.6
Silicon steel	11,277	10.2	5,646	5.4	4,207	6.1	2,803	5.4
Others (note)	15,861	14.4	17,884	17.3	16,246	23.5	13,075	25.0
Total purchase of raw materials	110,394	100.0	103,409	100.0	69,095	100.0	52,178	100.0

*Note:* Others comprise packaging materials, audio components, insulating varnish, industrial chemicals, electrical components and moulding.

Among all types of raw materials and parts and components, copper, DC motors, semi-conductors, cable, plastic components, PCB, metal components and silicon steel together accounted for approximately 85.6%, 82.7% and 75.0% of our total purchase of raw materials for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015, respectively while copper individually accounted for approximately 35.2%, 27.4% and 22.7% of our total purchase of raw materials, respectively.

During the Track Record Period, our yearly purchase price of copper recorded a decreasing trend from US\$7,682 per tonne in 2013 to US\$7,225 per tonne in 2014. Fluctuations in material costs will affect our cost of sales, profit and profit margin.

Silicon steel is used in the production of our toroidal transformer and EI transformer. Our purchase cost for silicon steel decreased from approximately 10.2% of our total purchase cost of raw materials for the year ended 31 December 2013 to 5.4% of our total purchase cost of raw materials for the year ended 31 December 2014 is primarily due to (i) the decrease in our production volume of toroidal transformer from approximately 1.2 million pieces in 2013 to approximately 1.1 million pieces in 2014; (ii) the decrease in our sales volume of toroidal transformer from approximately 1.2 million pieces in 2013 to 1.0 million pieces in 2014; and (iii) the decrease in average unit purchase

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price of silicon steel from approximately HK\$8,400 per tonne in 2013 to HK\$5,800 per tonne in 2014. Our purchase cost for silicon steel decreased from approximately 6.1% for the eight months ended 31 August 2014 to 5.4% for the eight months ended 31 August 2015 was primarily due to continuing decrease in purchase price of silicon steel.

DC motors are used as the parts and components for our PCB assembly. We purchased two major types of DC motors from our suppliers. The average unit purchase price for these two types of DC motors dropped by approximately 3.7% and 0.6% in 2014. The drop in the purchase price for these two major types of DC motors was not significant. Despite the slight drop in these average unit purchase prices, our purchase cost for DC motors increased from approximately 8.5% of our total purchase cost of raw materials for the year ended 31 December 2013 to 12.7% of our total purchase cost of raw materials for the year ended 31 December 2014, which was in line with (i) the increase in our production volume of PCB assembly of approximately 0.6 million pieces in 2013 to 0.8 million pieces in 2014; and (ii) the increases in our sales volume of PCB assembly of 0.7 million pieces in 2013 to 0.8 million pieces in 2014. Our purchase cost for DC motors increased from approximately HK\$7.7 million for the eight months ended 31 August 2014 to HK\$8.0 million for the eight months ended 31 August 2015, mainly because the increase in our sales volume of PCB assembly of approximately 0.2 million pieces.

Semi-conductors are used in the production of our switching mode power supply, battery charger and PCB assembly. We purchased about 160 types of semi-conductors from our suppliers. The lowest and highest unit purchase price of those semi-conductors fell within a large range. The unit purchase price for some key semi-conductors being sourced by us generally dropped by an average of approximately 6.6% in 2014. The drop in the general purchase price for these semi-conductors was not substantial. Despite the moderate drop in the general purchase price, our purchase cost for semi-conductors increased from approximately 5.5% of our total purchase cost of raw materials for the year ended 31 December 2013 to 8.1% of our total purchase cost of raw materials for the year ended 31 December 2014 and such increase was primarily due to increase in the production volume and sales volume of our PCB assembly and battery charger in 2014. Our purchase cost for semi-conductors decreased from approximately 7.4% for the eight months ended 31 August 2014 to 5.1% for the eight months ended 31 August 2015 and such decrease is in line with the decrease in sales volumes of switching mode power supply during this period.

One of our business strategies is to further automate our production process in order to (a) further enhance our production capacity and product quality; (b) mitigate the increasing labor costs in PRC; and (c) reduce training and administrative work due to high labour turnover rate.

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### Gross Profit and Gross Profit Margin

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, our gross profit was approximately HK\$36.1 million, HK\$34.5 million, HK\$23.2 million and HK\$24.7 million, respectively, and our gross profit margin was 19.0%, 18.9%, 19.0% and 21.0% respectively, for the years under review. The table below sets forth a breakdown of our gross profit and gross profit margin by product category for the years indicated:

	Year ended 31 December				Eight months ended 31 August			
	2013		2014		2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
<b>Transformers</b>								
- Toroidal transformer	21,170	20.4	16,076	20.3	10,831	20.7	10,375	22.6
- EI transformer	1,313	18.3	1,578	20.8	939	20.6	774	21.5
- Ferrite transformer	624	23.7	461	20.8	259	20.7	436	22.5
Sub-total	23,107	20.4	18,115	20.4	12,029	20.7	11,585	22.5
<b>Switching mode power supply</b>								
- Switching mode power supply	2,295	14.8	3,175	20.0	1,573	20.3	1,077	19.5
<b>Electronic parts and components and others</b>								
- PCB assembly	5,210	15.7	5,997	16.9	3,600	16.5	5,552	18.5
- Battery charger	3,667	18.5	4,078	16.8	2,985	17.9	3,796	19.3
- Musical instrument and equipment	535	18.4	2,214	17.2	1,430	16.6	717	18.2
- Cable assembly	715	22.1	565	19.5	424	19.6	385	18.5
- Others	585	30.9	306	18.0	1,182	17.0	1,585	32.0
Sub-total:	10,712	17.5	13,160	17.0	9,621	17.1	12,035	19.8
Overall:	36,114	19.0	34,450	18.9	23,223	19.0	24,697	21.0

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### *Gross profit*

Our gross profit for transformers decreased from approximately HK\$23.1 million in 2013 to HK\$18.1 million in 2014 primarily due to a decrease in sales for toroidal transformers, which was mainly due to the decrease in our sales volume of toroidal transformers from approximately 1.2 million pieces in 2013 to approximately 1.0 million pieces in 2014 as a result of the non-recurring of purchase orders received from three of our major customers in 2014 who principally purchased toroidal transformers in 2013. Our gross profit for transformers slightly decreased from approximately HK\$12.0 million for the eight months ended 31 August 2014 to approximately HK\$11.6 million for the eight months ended 31 August 2015 was primarily due to the continuing decrease in the price of major raw materials, such as silicon steel and copper, for transformer and subsequently the decrease in sales amount of our transformers.

Our gross profit for switching mode power supply increased from approximately HK\$2.3 million in 2013 to HK\$3.2 million in 2014. Such increase was primarily due to introduction of mid-level power switching mode supply, which generally sells at a higher selling price. Our gross profit for switching mode power supply decreased from approximately HK\$1.6 million for the eight months ended 31 August 2014 to approximately HK\$1.1 million for the eight months ended 31 August 2015 was primarily due to the decrease in sales volume from 597,183 units for the eight months ended 31 August 2014 to 468,585 units for the eight months ended 31 August 2015. Such decrease in sales volume was primarily due to less purchase orders for this category of products were received from customers in Europe due to the general depreciation of Euro against our principal settlement currency, USD in that period.

Our gross profit for electronic parts and components increased from approximately HK\$10.7 million in 2013 to HK\$13.2 million in 2014 was primarily due to the increase in our overall sales volume of this segment of products in particular musical instrument and equipment which increased from approximately HK\$0.5 million in 2013 to HK\$2.2 million in 2014. Such increase was primarily due to an increase in our sales volume from approximately 5,000 pieces in 2013 to 26,000 pieces in 2014 as a result of the increase in sales volume to our existing customers and addition of new customers for musical equipment. Our gross profit for electronic parts and components increased from approximately HK\$9.6 million for the eight months ended 31 August 2014 to approximately HK\$12.0 million for the eight months ended 31 August 2015 was primarily due to the increase in the sales volume of others products.

### *Gross profit margin*

We recorded a stable gross profit margin for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015 of approximately 19.0%, 18.9%, 19.0% and 21.0%, respectively.

The gross profit margin for our transformer products remained stable for each of the years ended 31 December 2013 and 2014 at 20.4%. The gross profit margin for our transformer products increased from approximately 20.7% for the eight months ended 31 August 2014 to 22.5% for the eight months

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ended 31 August 2015 was primarily due to the increase in gross profit margin of our toroidal transformers as a result of the continuing decrease in the price of major raw materials, such as silicon steel and copper, for transformer and our reluctance to reduce our selling price for purpose of increasing our sales.

The gross profit margin of our switching mode power supply increased from approximately 14.8% in 2013 to 20.0% in 2014 primarily due to our introduction of mid-level power switching mode power supply in 2014, which compared with low-level power switching mode power supply, generally sells at a higher selling price. The gross profit margin for our switching mode power supply decreased from approximately 20.3% for the eight months ended 31 August 2014 to 19.5% for the eight months ended 31 August 2015 was primarily due to the weak Euro currency, the demand for mid-level switching mode power supply from one of our European customer has reduced.

We recorded a stable gross profit margin of our electronic parts and components of approximately 17.5% and 17.0% in 2013 and 2014, respectively. The gross profit margin of our battery charger decreased from approximately 18.5% in 2013 to 16.8% in 2014, the gross profit margin of our musical instrument and equipment decreased from approximately 18.4% in 2013 to 17.2% in 2014 and the gross profit margin of our cable assembly decreased from approximately 22.1% in 2013 to 19.5% in 2014 were primarily due to the increase in direct labour cost for the manufacturing staff for these products. The gross profit margin for our electronic parts and components increased from approximately 17.1% for the eight months ended 31 August 2014 to approximately 19.8% for the eight months ended 31 August 2015 primarily due to (i) the increase in sales volumes of PCB assembly, battery chargers and cable assembly; and (ii) the increase of sales of products with higher profit margin within the categories of battery chargers, musical instrument and equipment and cable assembly. As others comprise various products with minimal transaction amount, the gross profit margin in this category is for illustration purpose.

For the year ended 31 December 2013, our products with higher gross profit margins were ferrite transformer, cable assembly and toroidal transformer, the respective sales value of which amounted to approximately 1.4%, 1.7% and 54.5% of our total sales. For the year ended 31 December 2014, our products with higher gross profit margins were ferrite transformer, EI transformer and toroidal transformer, the respective sales value of which amounted to approximately 1.2%, 4.2% and 43.5% of our total sales. For the eight months ended 31 August 2015, our products with higher gross profit margins were toroidal transformer, ferrite transformer and EI transformer, the respective revenue of which amounted to approximately 39.0%, 1.6% and 3.1% of our total revenue.

During the Track Record Period, toroidal transformers were having higher gross profit margins and contributed a significant amount to our total sales as they represent the major product of our Group. We have more established production facilities and mature production technique for our toroidal transformer products, which lower the production costs and increase the profit margins for our toroidal transformer products.

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### Other Income

Other income comprises sales of scrap materials, interest income derived from a related party, government grant, bank interest income, compensation received from a supplier and commission income. Scrap material mainly include scrap metal, wire ends, plastic and carton boxes that are generated/ accumulated during our production process and cannot be reused/recycled in production. We usually arrange recycling companies (which are authenticated by municipal government to conduct such business) to purchase and pick up those scrap material to earn minimal returns. During the Track Record Period, all such transactions with recycling company are conducted in cash. The recycling companies are independent third party. Interest income from a related party was due to loans advanced to companies controlled by our Controlling Shareholders and/or his close family members. The non-recurring government grant refers to a grant approved and provided by He Yuan City Foreign Trade and Economic Cooperation Bureau (河源市對外貿易經濟合作局) of as subsidies and support for exporting enterprises located in the high-technology development zone of He Yuan. Those grants are provided to us in arrear and is not recurrent in nature. The grant was general nature and without any impositions of conditions on its application, and was granted in accordance with the local government's policy on 2013. Our Directors were not aware of the offerings of similar grant to companies by the local PRC government in 2014, and such grant was considered non-recurring in nature. Though the government grant was non-recurring in nature, such amount represented the support by the local government on exporting enterprises located in high-technology development zone of He Yuan. As such, such amount is treated as income arose in the Company's usual and ordinary course of exporting business. Commission income refers to the commission received from a supplier for introducing a customer to the supplier. The compensation was received from a supplier due to quality problem of raw materials purchased by the Group. Forfeiture of customer deposits refers to a customer who paid deposits but who subsequently did not request for delivery of the products. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, our other income amounted to approximately HK\$2.1 million, HK\$1.2 million, HK\$0.9 million and HK\$0.4 million, respectively. The following table sets out a breakdown of our other income for the years/periods under review.

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Interest income from a related party	648	370	346	—
Government grant	490	—	—	—
Sales of scrap materials	937	755	498	372
Bank interest income	21	39	28	56
Commission income	11	—	—	—
Compensation received from a supplier	—	5	—	—
Forfeiture of customer deposits	—	15	—	—
Total	<u>2,107</u>	<u>1,184</u>	<u>872</u>	<u>428</u>

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### Other gains and losses

Other gains and losses comprises change in fair value of financial derivatives, impairment loss on trade receivables, foreign exchange loss or gain (net), and loss on disposal of property, plant and equipment. Financial derivatives represent foreign currency forward contracts which we utilized to limit our foreign currency exchange exposure as our revenue is mainly denoted in USD whilst our costs are mainly denoted in RMB. In view of the relatively stable exchange rate of RMB against USD/HKD, in 2014 we ceased to enter into such kind of derivative contracts. Further information will be mentioned in this section under paragraph headed “Financial derivative assets” below. The impairment loss on trade receivables recorded in 2013 and 2014 are in relation to a provision of RMB596,000 made in relation to a court proceeding with our customer. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, our other gains and losses was approximately HK\$1.8 million, HK\$(0.4) million, HK\$(0.3) million and HK\$(0.2) million, respectively. The following table set out a breakdown of our other gains and losses for the years/periods under review.

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Change in fair value of financial derivatives	2,810	(659)	(659)	—
Impairment loss on trade receivables	(757)	—	—	—
Foreign exchange (loss), gain, net	(200)	330	354	(190)
Loss on disposal of property, plant and equipment	<u>(5)</u>	<u>(31)</u>	<u>(31)</u>	<u>—</u>
	<u>1,848</u>	<u>(360)</u>	<u>(336)</u>	<u>(190)</u>

### Selling and distribution expenses

Selling distribution expenses mainly comprises terminal charges, transportation and packaging, commission, staff costs and advertising. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, our selling and distribution expenses was approximately HK\$4.9 million, HK\$4.7 million, HK\$3.0 million and HK\$3.2 million, respectively. Selling and distribution expenses for each of the years ended 31 December 2013 and 2014 and the

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eight months ended 31 August 2014 and 2015, our selling and distribution expenses represented 2.6%, 2.6%, 2.4% and 2.7% of our revenue. The following table set out a breakdown of our selling and distribution expenses for the years/periods under review.

	Year ended 31 December				Eight months ended 31 August			
	2013		2014		2014		2015	
	<i>HK\$'000</i>	<i>% to total</i>	<i>HK\$'000</i>	<i>% to total</i>	<i>HK\$'000</i>	<i>% to total</i>	<i>HK\$'000</i>	<i>% to total</i>
					<i>(unaudited)</i>			
Terminal charges	1,686	34.5	1,755	37.2	1,178	39.6	831	26.2
Transportation and packaging	1,570	32.1	1,438	30.4	1,015	34.1	1,310	41.3
Commission	682	14.0	537	11.4	290	9.7	391	12.3
Staff costs	406	8.3	344	7.3	193	6.5	132	4.2
Advertising	311	6.3	249	5.2	178	6.0	200	6.3
Travelling expenses	121	2.5	129	2.7	99	3.3	255	8.1
Others	112	2.3	272	5.8	24	0.8	51	1.6
Total	<u>4,888</u>	<u>100.0</u>	<u>4,724</u>	<u>100.0</u>	<u>2,977</u>	<u>100.0</u>	<u>3,170</u>	<u>100.0</u>

As shown in above table, majority of our selling and distribution expenses relate to terminal charges as well as transportation and packaging expenses.

Terminal charges refer to the administration and handling charges paid in relation to our export sales and such charges are normally based on the number of transactions. Terminal charges amounted to approximately HK\$1.7 million, HK\$1.8 million, HK\$1.2 million and HK\$0.8 million representing approximately 34.5%, 37.2%, 39.6% and 26.2% of our total selling and distribution expenses for each of the years ended 31 December 2013 and 2014, and the eight months ended 31 August 2014 and 2015 respectively. The latest decrease for the eight months ended 31 August 2015 was primarily due to the decrease in sales volume in 2014 and the decrease in sales amount.

Transportation and packaging expenses are mainly incurred in the delivery of our products to customers. Transportation and packaging expenses amounted to approximately HK\$1.6 million, HK\$1.4 million, HK\$1.0 million and HK\$1.3 million, representing approximately 32.1%, 30.4%, 34.1% and 41.3% of our total selling and distribution expenses for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, respectively. The decrease in such expense for the year 2014 was primarily due to the decrease in our sales volume in 2014 and the increase in such expense for the eight months ended 31 August 2015 when comparing to the corresponding period in 2014 was primarily due to increase in the sales amount for the eight months ended 31 August 2015.

The decrease in selling and distribution expenses in 2014 resulted from a decrease in commission from approximately HK\$0.7 million in 2013 to HK\$0.5 million in 2014 primarily due to a decline in sales in 2014 and therefore we paid less commission to our sales staff. The commission was increased from HK\$0.3 million for the eight months ended 31 August 2014 to HK\$0.4 million for the eight



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months ended 31 August 2015. The increase of our commission for the eight months ended 31 August 2015 was primarily due to commission paid to our PRC sales staff as a result of our increase in PRC sales during this period. The increase in selling and distribution expenses for the eight months ended 31 August 2015 was resulted from an increase in transportation and packaging expenses.

Staff costs mainly comprised basic salary and social welfare contribution paid to our sales staff. Staff costs amounted to approximately HK\$0.4 million, HK\$0.3 million, HK\$0.2 million and HK\$0.1 million, representing approximately 8.3%, 7.3%, 6.5% and 4.2% of our total selling and distribution expenses for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, respectively.

Other selling and distribution expenses mainly consisted of sample charges, storage charges, entertainment, telephone expenses, depreciation, moulding expenses and rework payment.

### Administrative expenses

Administrative expenses mainly comprises staff cost, rent and rates, travelling, utilities as well as research and development expenses. For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, our administrative expenses was approximately HK\$21.9 million, HK\$20.9 million, HK\$13.9 million and HK\$13.0 million, respectively. Administrative expenses for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015 represented approximately 11.5%, 11.5%, 11.4% and 11.0% of our total revenue, respectively. The following table set out a breakdown of our administrative expenses for the years/periods under review.

	Year ended 31 December				Eight months ended 31 August			
	2013		2014		2014		2015	
	<i>HK\$'000</i>	<i>% to total</i>	<i>HK\$'000</i>	<i>% to total</i>	<i>HK\$'000</i>	<i>% to total</i>	<i>HK\$'000</i>	<i>% to total</i>
	<i>(unaudited)</i>							
Staff cost	13,392	61.1	12,568	60.3	7,907	57.1	7,155	55.0
Rent and rates	1,666	7.6	1,676	8.0	1,115	8.0	1,133	8.7
Travelling	1,706	7.8	1,383	6.6	189	1.4	109	0.8
Utilities	1,058	4.8	1,214	5.8	778	5.6	604	4.7
Research and development	143	0.7	42	0.2	—	—	486	3.7
Audit fees	667	3.0	627	3.0	—	—	24	0.2
Bank charges	575	2.6	555	2.7	325	2.3	305	2.4
Repair and maintenance	397	1.8	489	2.3	63	0.5	32	0.2
Entertainment	541	2.5	438	2.1	86	0.6	201	1.6
Depreciation & amortisation	369	1.7	438	2.1	314	2.3	278	2.1
Legal and professional fees	158	0.7	116	0.6	134	1.0	88	0.7
Others	1,254	5.7	1,310	6.3	2,944	21.2	2,586	19.9
<b>Total</b>	<b>21,926</b>	<b>100.0</b>	<b>20,856</b>	<b>100.0</b>	<b>13,855</b>	<b>100.0</b>	<b>13,001</b>	<b>100.0</b>

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Staff cost represented the major portion of our administrative expenses and accounted for approximately 61.1%, 60.3%, 57.1% and 55.0% of our total administrative expenses for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, respectively. We generally pay our staff salaries and bonus. Staff cost decreased from approximately HK\$13.4 million in 2013 to approximately HK\$12.6 million in 2014 and from approximately HK\$7.9 million for the eight months ended 31 August 2014 to HK\$7.2 million for the eight months ended 31 August 2015 was primarily due to the decline in the number of staff and therefore salary and bonus payment to our staff that are allocated to the administrative expenses in 2014 and the decrease in the number of our administration staff in the PRC for the eight months ended 31 August 2015 due to streaming our internal organisation structure.

Research and development expense decreased from approximately HK\$143,000 in 2013 to HK\$42,000 in 2014 was mainly due to the research and development of mid-to-high power level switching mode power supply that can be applied in musical instrument and equipment was mainly conducted in 2013. Research and development expense increased from nil for the eight months ended 31 August 2014 to HK\$0.5 million for the eight months ended 31 August 2015 was primarily due to research and development of new products, such as amplifier board and power supply board.

Other administrative expenses mainly consisted of environmental expenses, certification and testing charges, other tax, office expenses, postage and courier, insurance, computer expenses, low value consumables, printing, copier and stationery, business registration fees and agency fee.

### Finance costs

Our finance costs comprise interest on bank borrowings, also included a minimal interest paid to a related company. Our finance costs were HK\$3.4 million, HK\$2.6 million, HK\$2.0 million and HK\$1.0 million for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015. The following table set out a breakdown of our finance costs for the years/periods under review.

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(unaudited)</i>			
Interest on bank borrowings wholly repayable within five years	3,282	2,521	1,970	1,013
Interest on loan from a related company	98	51	51	—
	<u>3,380</u>	<u>2,572</u>	<u>2,021</u>	<u>1,013</u>

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### Income tax expense

Income tax consists of current tax and deferred income tax by our company. The following table sets forth a breakdown of our taxation expenses for the years/periods under review. The following table set out a breakdown of our income tax expenses for the years/periods under review.

	Year ended 31 December		Eight months ended 31 August
	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000
Current tax:			
Hong Kong Profits Tax	1,354	1,477	817
PRC Enterprise Income Tax	373	—	838
Overprovision of Hong Kong Profits Tax in prior year	<u>(80)</u>	<u>—</u>	<u>—</u>
	1,647	1,477	1,655
Deferred tax	<u>149</u>	<u>(299)</u>	<u>—</u>
	<u>1,796</u>	<u>1,178</u>	<u>1,655</u>

Current tax primarily comprises Hong Kong Profits Tax payable by our operating company for sales entered in Hong Kong and the PRC tax payable by our PRC subsidiary, respectively. Deferred tax liability comprises mainly changes in fair value of financial derivative assets.

Under Hong Kong law, our operating company in Hong Kong is subject to Hong Kong income tax at the statutory Hong Kong corporate income tax rate of 16.5%.

Under the EIT, the tax rate of our PRC subsidiary is 25% from 1 January 2008 onwards.

Our income tax expenses (credit) for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 were approximately HK\$1.8 million, HK\$1.2 million and HK\$1.7 million, respectively. Our effective tax rates (being income tax expense divided by profit/loss before tax without taking into account the listing expenses) for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 were approximately 18.2%, 16.6% and 21.4%, respectively.

The deferred taxation for the two years ended 31 December 2014 is wholly related to the tax effect on the change in fair value of financial derivative assets.

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Our Directors confirmed that (i) our Group has made all required tax filings under the relevant tax laws and regulations in Hong Kong and has paid all outstanding tax liabilities due as at 31 December 2014 and (ii) that our Group is not subject to any dispute with the tax authorities in Hong Kong as at 31 December 2014.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### **Eight months ended 31 August 2015 compared to eight months ended 31 August 2014**

##### *Revenue*

Our revenue decreased by approximately HK\$4.2 million, or 3.4%, from approximately HK\$121.9 million for the eight months ended 31 August 2014 to approximately HK\$117.7 million for the eight months ended 31 August 2015. Such decrease was primarily due to our reluctance to reduce the selling prices of our products for purpose of increasing our sales.

##### *Cost of sales*

Our cost of sales decreased by approximately HK\$5.7 million, or 5.8%, from approximately HK\$98.7 million for the eight months ended 31 August 2014 to approximately HK\$93.0 million for the eight months ended 31 August 2015. Such decrease in cost of sales was mainly due to the decrease in material prices and reduction of direct labour cost.

##### *Gross profit and gross profit margin*

Our gross profit increased by approximately HK\$1.5 million, or 6.5%, from approximately HK\$23.2 million for the eight months ended 31 August 2014 to approximately HK\$24.7 million for the eight months ended 31 August 2015. Such increase in gross profit was mainly due to our strategy to increase margin by maintaining the selling price under material cost reduction.

Our gross profit margin increased from approximately 19.0% for the eight months ended 31 August 2014 to approximately 21.0% for the eight months ended 31 August 2015. Such increase in our gross profit margin was mainly due to the decrease in cost of sales for the eight months ended 31 August 2015.

##### *Other income*

Our other income decreased by approximately HK\$0.5 million, from approximately HK\$0.9 million for the eight months ended 31 August 2014 to approximately HK\$0.4 million for the eight months ended 31 August 2015. Such decrease in other income was mainly due to (i) the decrease in interest income from a related party from HK\$0.3 million for the eight months ended 31 August 2014 to nil for the eight months ended 31 August 2015; and (ii) the decrease in income from sales of scrap materials from HK\$0.5 million for the eight months ended 31 August 2014 to HK\$0.4 million for the eight months ended 31 August 2015.

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### *Other gains and losses*

Our other gains and losses decreased by approximately HK\$0.1 million from approximately HK\$0.3 million for the eight months ended 31 August 2014 to approximately HK\$0.2 million for the eight months ended 31 August 2015. Such decrease in other gains and losses was mainly due to the recognition of a loss on a change in fair value of the foreign currency forward contracts for the eight months ended 31 August 2014.

### *Selling and distribution expenses*

Our selling and distribution expenses increased by approximately HK\$0.2 million from approximately HK\$3.0 million for the eight months ended 31 August 2014 to approximately HK\$3.2 million for the eight months ended 31 August 2015. The increase was primarily due to the increase in transportation and packaging charges and commission as a result of increase in sales amount and commission paid to our PRC sales staff.

### *Administrative expenses*

Our administrative expenses decreased by approximately HK\$0.9 million from approximately HK\$13.9 million for the eight months ended 31 August 2014 to approximately HK\$13.0 million for the eight months ended 31 August 2015. Such decrease in administrative expenses was mainly due to decrease in number of administration staff.

### *Other expenses*

Our other expenses increased by approximately HK\$7.9 million from approximately HK\$3,000 for the eight months ended 31 August 2014 to approximately HK\$7.9 million for the eight months ended 31 August 2015. Such increase in other expenses was mainly due to the payment for professional fee for our Listing exercise.

### *Finance costs*

Our finance costs decreased by HK\$1.0 million from approximately HK\$2.0 million for the eight months ended 31 August 2014 to approximately HK\$1.0 million for the eight months ended 31 August 2015. Such decrease in finance costs was mainly due to decrease in bank borrowings.

### *Income tax expenses*

Our income tax expenses increased by HK\$0.9 million from income tax credit of approximately HK\$0.8 million for the eight months ended 31 August 2014 to income tax expense of approximately HK\$1.7 million for the eight months ended 31 August 2015. Such increase in income tax expenses was mainly due to increase in gross profit and decrease in finance costs.

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### *Loss for the period*

As a result of the above, we record a loss of approximately HK\$1.8 million for the eight months ended 31 August 2015.

### **Year ended 31 December 2014 compared to year ended 31 December 2013**

#### *Revenue*

Our revenue decreased by HK\$7.9 million, or 4.2%, from approximately HK\$189.9 million for the year ended 31 December 2013 to HK\$182.0 million for the year ended 31 December 2014. Such decrease in revenue was mainly due to a fall in our sales volume of toroidal transformer as a result of the non-recurring of purchase orders received from our three major customers in 2014 who principally purchased toroidal transformer in 2013. The revenue from our direct export sales decreased from approximately HK\$105.4 million in 2013 to HK\$101.6 million in 2014. The indirect export sales from the PRC also decreased from approximately HK\$36.6 million in 2013 to HK\$31.0 million in 2014.

The decrease in our sales volume in 2014 was primarily attributable to the decrease in sales volume of our toroidal transformer from approximately 1.2 million pieces in 2013 to 1.0 million pieces in 2014 as a result of the non-recurring of purchase orders received from three of our major customers in 2014 who principally purchased toroidal transformer in 2013. The three customers had a business relationship with our Group of 2 to 12 years up to 2013 and the reasons for them not placing recurring purchase orders with our Group are (i) one of our engineers left our Group in 2013 and he solicited away two of these customers by offering more competitive price; and (ii) to the best knowledge of our Directors, the toroidal transformer business of one of these customers was not performed well and such customer did not place purchase orders with our Group in 2014. Our Directors confirm that the non-recurring of purchase orders from these three customers are not due to any disputes with these customers or their dissatisfaction with our products.

#### *Cost of sales*

Our cost of sales decreased by HK\$6.3 million, or 4.1%, from approximately HK\$153.8 million for the year ended 31 December 2013 to HK\$147.5 million for the year ended 31 December 2014 in line with the decline in our revenue. Such decrease in cost of sale was mainly due to the decrease in our material costs resulting from the decrease in our sales volume and material cost, in particular copper in 2014, partially off-set by an increase in our direct labour cost in 2014. In particular, our sales volume of our toroidal transformer dropped from approximate 1.2 million units in 2013 to 1.0 million units in 2014 and this led to the decrease in our expenses reflected in profit and loss of (i) copper from approximately HK\$38.9 million in 2013 to HK\$28.3 million in 2014; and (ii) silicon steel from approximately HK\$11.3 million in 2013 to HK\$5.6 million in 2014, both being the major raw materials for toroidal transformers.

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### *Gross profit and gross profit margin*

As a result of the above-mentioned, our gross profit decreased by HK\$1.6 million, or 4.4%, from approximately HK\$36.1 million for the year ended 31 December 2013 to HK\$34.5 million for the year ended 31 December 2014. Our gross profit margin slightly decreased from approximately 19.0% for the year ended 31 December 2013 to 18.9% for the year ended 31 December 2014, primarily due to the increase in the gross profit margin for switching mode power supply in 2014, which was partially off-set by the decrease in the gross profit margin for transformers and electronic parts and components in 2014.

The gross profit margin for our transformer products maintained at 20.4% for each of the years ended 31 December 2013 and 2014.

The gross profit margin of our switching mode power supply increased from approximately 14.8% in 2013 to 20.0% in 2014 primarily due to our introduction of mid-level power switching mode power supply in 2014.

We recorded a stable gross profit margin of our electronic parts and components of approximately 17.5% and 17.0% in 2013 and 2014, respectively. The gross profit margin of our battery charger decreased from approximately 18.5% in 2013 to 16.8% in 2014, the gross profit margin of our musical instrument and equipment decreased from approximately 18.4% in 2013 to 17.2% in 2014 and the gross profit margin of our cable assembly decreased from approximately 22.1% in 2013 to 19.5% in 2014 were primarily due to increase in direct labour costs.

### *Other income*

Our other income decreased by HK\$0.9 million from approximately HK\$2.1 million for the year ended 31 December 2013 to HK\$1.2 million for the year ended 31 December 2014. Such decrease in other income was mainly due to (i) no government grant was received in 2014; (ii) the decrease in sales of scrap materials from HK\$0.9 million in 2013 to HK\$0.8 million in 2014 due to decreasing in quantity produced; and (iii) the decrease in interest income from a related party from HK\$0.6 million in 2013 to HK\$0.4 million in 2014 as the loan from the related company was fully settled in 2014.

### *Other gains and losses*

We recorded a gain of approximately HK\$1.8 million for the year ended 31 December 2013 to a loss of HK\$0.4 million for the year ended 31 December 2014. Such change in other gains and losses was mainly due to recognition of a gain on the change in fair value of the foreign currency forward contracts of approximately HK\$2.8 million for the year ended 31 December 2013 and a loss of approximately HK\$0.7 million for the year ended 31 December 2014.

### *Selling and distribution expenses*

Our selling and distribution expenses decreased by HK\$0.2 million, from approximately HK\$4.9 million for the year ended 31 December 2013 to HK\$4.7 million for the year ended 31 December 2014. Such decrease in selling and distribution expenses was mainly due to a fall in transportation and packaging expenses and staff cost to our sales staff as we sold less transformers in 2014 due to a decrease in the export sales.

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### *Administrative expenses*

Our administrative expenses decreased by HK\$1.0 million, from approximately HK\$21.9 million for the year ended 31 December 2013 to HK\$20.9 million for the year ended 31 December 2014. Such decrease in administrative expenses was mainly due to reduction the decrease in staff cost from approximately HK\$13.4 million in 2013 to HK\$12.6 million in 2014. The decrease was due to the decline in the number of staff and therefore the salary and bonus payment to our staff that are allocated to administrative expenses.

### *Other expenses*

Our other expenses increased by HK\$0.9 million, from approximately HK\$0.01 million for the year ended 31 December 2013 to HK\$0.9 million for the year ended 31 December 2014. Such increase in other expenses was mainly due to prepayment of the professional fee for our Listing exercise.

### *Finance Costs*

Our finance costs decreased by HK\$0.8 million, from approximately HK\$3.4 million for the year ended 31 December 2013 to HK\$2.6 million for the year ended 31 December 2014. Such decrease in finance costs was mainly due to the repayment of an interest-bearing loan of approximately HK\$2.1 million to a related party in 2014.

### *Income tax expenses*

Our income tax expenses decreased by HK\$0.6 million, from approximately HK\$1.8 million for the year ended 31 December 2013 to HK\$1.2 million for the year ended 31 December 2014. Such decrease in income tax expenses was mainly due to the decrease in assessable profit of the PRC subsidiary because of the decrease in sales in 2014 and the reversal of deferred tax liability arisen from the change in fair value of financial derivative assets.

### *Profit for the year*

As a result of the above-mentioned, our profit decreased by HK\$3.1 million, from approximately HK\$8.1 million for the year ended 31 December 2013 to HK\$5.0 million for the year ended 31 December 2014.



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### NET CURRENT ASSETS AND SELECTED ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our current assets, current liabilities and selected items of the consolidated statements of financial position of our Group as at the dates indicated:

	As at 31 December		As at 31 August	As at 31 December
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)
<b>Current Assets</b>				
Inventories	35,471	38,453	29,545	25,612
Trade and other receivables and prepayments	27,492	29,422	36,052	33,314
Amounts due from related parties	32,478	2,913	—	—
Financial derivative assets	1,814	—	—	—
Prepaid income tax	—	12	121	203
Pledged bank deposits	13,026	11,049	9,033	9,089
Bank balances and cash	7,101	6,652	4,468	10,430
	<u>117,382</u>	<u>88,501</u>	<u>79,219</u>	<u>78,648</u>
<b>Current Liabilities</b>				
Trade and other payables and accruals	20,010	28,347	22,749	19,037
Amounts due to related parties	8,679	—	151	—
Loan from a related company	2,065	—	—	—
Bank borrowings	52,395	21,190	17,450	20,777
Income tax payable	1,648	438	1,081	522
	<u>84,797</u>	<u>49,975</u>	<u>41,431</u>	<u>40,336</u>
<b>Net Current Assets</b>	<u>32,585</u>	<u>38,526</u>	<u>37,788</u>	<u>38,312</u>

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### Net Current Assets

Our net current assets increased by HK\$5.9 million, from approximately HK\$32.6 million for the year ended 31 December 2013 to HK\$38.5 million for the year ended 31 December 2014. Such increase in net current assets was mainly due to partial repayment of secured bank borrowings which is set off by the settlement of substantial amounts due from related parties.

Our net current assets slightly decreased by approximately HK\$0.7 million from approximately HK\$38.5 million as at 31 December 2014 to approximately HK\$37.8 million as at 31 August 2015. The decrease was primarily due to the decrease in current assets was greater than the decrease in current liabilities. And our net current assets slightly increased by approximately HK\$0.5 million from approximately HK\$37.8 million as at 31 August 2015 to approximately HK\$38.3 million as at 31 December 2015. The increase was primarily due to the further decrease in current liabilities.

Our current assets decreased from approximately HK\$88.5 million as at 31 December 2014 to approximately HK\$79.2 million as at 31 August 2015. The decrease was primarily due to the decrease in inventories from approximately HK\$38.5 million as at 31 December 2014 to HK\$29.5 million as at 31 August 2015. Our inventories decreased from approximately HK\$38.5 million as at 31 December 2014 to approximately HK\$29.5 million as at 31 August 2015, mainly due to reduction in finished goods level and a better control on our inventory level. We have explored and switched to local suppliers of silicon steel and plastic. This shortened the general production lead-time, and therefore we need not shelve much stock-on-hand. Our trade and other receivables and prepayments increased from approximately HK\$29.4 million as at 31 December 2014 to approximately HK\$36.1 million as at 31 August 2015, mainly due to the increase in trade receivables of approximately HK\$3.4 million and the increase in prepayments of approximately HK\$3.2 million. Our pledged bank deposits and bank balances and cash decreased from approximately HK\$11.0 million and HK\$6.7 million, respectively, as at 31 December 2014 to approximately HK\$9.0 million and HK\$4.5 million, respectively as at 31 August 2015.

Our current liabilities decreased from approximately HK\$50.0 million as at 31 December 2014 to approximately HK\$41.4 million as at 31 August 2015 mainly due to the decrease in trade and other payable and accruals and the decrease in bank borrowings. Our current liabilities further decreased from approximately HK\$41.4 million as at 31 August 2015 to approximately HK\$40.3 million as at 31 December 2015 was primarily due to the decrease in trade and other payables and accruals of approximately HK\$3.7 million. Our trade and other payables and accruals decreased from approximately HK\$28.3 million as at 31 December 2014 to approximately HK\$22.7 million as at 31 August 2015, mainly due to the decrease in trade payables from approximately HK\$23.5 million as at 31 December 2014 to HK\$14.8 million as at 31 August 2015 as a result of the extension of the credit period in 2014 after negotiation with certain major suppliers because additional time was required to verify the accuracy of such payments in preparation for the audit for the Listing. Our short-term bank borrowings decreased from approximately HK\$21.2 million as at 31 December 2014 to approximately HK\$17.5 million as at 31 August 2015, mainly due to the decrease in (i) trust receipt loans from approximately HK\$8.5 million as at 31 December 2014 to approximately HK\$7.7 million as at 31 August 2015; (ii) factoring loans from approximately HK\$9.6 million as at 31 December 2014 to approximately HK\$8.8 million as at 31 August 2015; and (iii) bank overdraft from approximately HK\$2.7 million as at 31 December 2014 to approximately HK\$0.5 million as at 31 August 2015.

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### Inventories

Our inventories comprise raw materials, work-in-progress and finished goods. The following table set out a breakdown of our inventories as at the respective balance sheet dates:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2013</b>	<b>2014</b>	<b>31 August</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	13,029	15,101	10,840
Work-in-progress	19,604	15,400	16,181
Finished goods	<u>2,838</u>	<u>7,952</u>	<u>2,524</u>
	<u>35,471</u>	<u>38,453</u>	<u>29,545</u>

Our inventories increased by HK\$3.0 million, from approximately HK\$35.5 million for the year ended 31 December 2013 to HK\$38.5 million for the year ended 31 December 2014. Such increase in inventories was mainly attributable to an increase in stocks in finished good since the Chinese New Year Holiday in 2015 fell in late of February 2015, which was a later date than that of 2014, which fell in end of January 2014, and customers usually requested us to deliver finished goods before the holidays.

Our raw materials balance decreased from approximately HK\$15.1 million as at 31 December 2014 to HK\$10.8 million as at 31 August 2015 was primarily due to decrease in stocking of raw materials. Our raw materials balance increased from approximately HK\$13.0 million as at 31 December 2013 to HK\$15.1 million as at 31 December 2014. Such increase was in line with the increase of our inventory in finished goods and work-in-progress as at 31 December 2014.

As at 30 November 2015, approximately HK\$1.9 million, or 76.6%, of our finished goods as at 31 August 2015 has been sold or utilized.

The following table set out our inventories turnover days for the periods under review.

	<b>Year ended 31 December</b>		<b>Eight months ended</b>
	<b>2013</b>	<b>2014</b>	<b>31 August</b>
			<b>2015</b>
Average inventories turnover days <sup>(note)</sup>	85	90	88

*Note:* Average inventories turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant year/period and multiplied by 360 days for a year or 240 days for the eight-month period.

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The average inventory turnover days slightly decreased from 90 days for the year ended 31 December 2014 to 88 days for the eight months ended 31 August 2015. The average inventory turnover days slightly increased from 85 days for the year ended 31 December 2013 to 90 days for the year ended 31 December 2014, primarily as a result of a decline in our revenue due to the increase in inventory level in 2014 as a result of the Chinese New Year in 2015 fell on a later date than that in 2014 and a moderate increase in raw materials and finished good, due to reason mentioned above.

### Trade and other receivables and prepayments

Our trade and other receivables and prepayments primarily represent outstanding amounts receivable by us from our customers less any allowance for doubtful debts. Our trade and other receivables and prepayments slightly increased by 6.9% from HK\$27.5 million as at 31 December 2013 to HK\$29.4 million as at 31 December 2014 mainly due to the increase in trade receivables by HK\$1.4 million and increase in deposits, prepayments and other tax recoverable by HK\$0.5 million. The increase in trade receivables is due to cut off time. The increase in deposits and prepayments were due to increase in other tax recoverable by HK\$0.7 million. The other tax recoverable refers to the export value-added tax refund which was recovered in an arrear basis. Our trade and other receivables and prepayments increased from approximately HK\$29.4 million as at 31 December 2014 to approximately HK\$36.1 million as at 31 August 2015 was mainly due to the increase in prepayments for listing expense.

The following table set out a breakdown of our trade and other receivables at the end of each reporting period:

	<b>As at 31 December</b>	<b>As at</b>
	<b>2013</b>	<b>31 August</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	27,388	32,209
Less: allowance for doubtful debts	<u>(1,563)</u>	<u>(1,563)</u>
	25,825	30,646
Deposits	295	263
Prepayments	706	3,911
Other receivables	364	723
Other tax recoverable	<u>302</u>	<u>509</u>
	<u>27,492</u>	<u>36,052</u>

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In general, we offer an average credit period of 15 to 90 days to our customers, mainly on credit and settled by bank transfer. The following is an aged analysis of trade receivables presented based on the invoice dates at the end of each reporting period.

	<b>As at 31 December</b>		<b>As at</b>
	<b>2013</b>	<b>2014</b>	<b>31 August</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 90 days	24,874	24,257	28,790
91 - 180 days	563	2,742	1,048
181 - 365 days	345	256	808
Over 1 year	43	—	—
	<u>25,825</u>	<u>27,255</u>	<u>30,646</u>

To cope with the possibilities of uncollected receivables, we have entered into several factoring arrangements with our banks so that the collection risks are shifted to the banks. Details of the factoring arrangements, please refer to the sub-section headed “Factoring arrangements” of the section headed “Business” of this prospectus.

As at 30 November 2015, approximately HK\$28.9 million, or 94.2%, of our trade receivables as at 31 August 2015 has been collected.

Regarding the trade receivables from the customers, we would continue to enter into factoring arrangements with the banks to minimize our credit exposure. Our factoring loans were made with recourse or, for those non-recourse, the relevant factoring agreements of which contained protective provisions that could exclude certain credit risks under certain circumstances. We recognise from our banks that a significant amount of those factoring loans was insured. Our credit risk has been greatly reduced but not to the extent that the liability can be de-recognised immediately upon entering into the factoring agreements from the accounting perspective. Given that our bank balances and cash was at a thin level (or approximately HK\$4.5 million as at 31 August 2015), we consider that any delay in settlement or non-payment of trade receivables by our customers (being approximately HK\$30.6 million or 7 times of our bank balances and cash as at 31 August 2015) would adversely affect our cash flow position. As such, we shall closely monitor our cash position to ensure that such delay or default in settlement would not lead to our inability to meet our payment obligation in the future.

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The following table set out our average trade and other receivables turnover days for the years/period under review.

	Year ended 31 December		Eight months ended
	2013	2014	31 August 2015
Average trade and other receivables turnover days <sup>(note)</sup>	58	56	67

*Note:* Average trade and other receivables turnover days equal to the average of the opening and closing balances of trade and other receivables of the relevant period divided by revenue of the relevant year and multiplied by 360 days for each of the years ended 31 December 2013 and 2014, or 240 days for the eight-month period.

The average trade and other receivables turnover days increased from 56 days for the ended 31 December 2014 to 67 days for the eight months ended 31 August 2015. Such increase was mainly due to normal fluctuation of customers' payment leadtime. The average trade and other receivables turnover days slightly decreased from 58 days for the year ended 31 December 2013 to 56 days for the year ended 31 December 2014, primarily as a result of our fall in revenue due to the decrease in sales volume of our toroidal transformer from approximately 1.2 million pieces in 2013 to 1.0 million pieces in 2014 as a result of the non-recurring of purchase orders received from three of our major customers in 2014 who principally purchased toroidal transformer in 2013 and a moderate increase in trade and other receivables due to increase in trade receivables of approximately HK\$1.4 million in 2014 and the decrease in revenue in 2014.

The following table set out the movement in allowance for doubtful debts for the years under review:

	As at 31 December		As at
	2013	2014	31 August 2015
	HK\$'000	HK\$'000	HK\$'000
Movement in the allowance for doubtful debts			
At the beginning of the year/period	806	1,563	1,563
Allowance for doubtful debts	<u>757</u>	<u>—</u>	<u>—</u>
At the end of the year/period	<u>1,563</u>	<u>1,563</u>	<u>1,563</u>

We did not provide for impairment loss for past due over 1 year given the continuous subsequent settlement from the customers.

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### Amount due from related parties

As at 31 December 2013 and 2014, the amounts due from Directors and companies controlled by our Controlling Shareholders and/or their close family members were approximately HK\$32.5 million and HK\$2.9 million. The amount due from Mr. Chung Chi Hang, Larry of HK\$7.7 million as at 31 December 2013 was unsecured, interest bearing at the prevailing interest rate and repayable on demand. The amount due from Yield Speed Limited (a company controlled by our Controlling Shareholders) of HK\$19.1 million as at 31 December 2013 was unsecured, interest-free and repayable on 30 September 2014. The remaining of the amount due were unsecured, interest-free and repayable upon demand.

### Financial derivative assets

We have held financial assets that are classified as financial assets at fair value through profit or loss, all are foreign currency forward contracts entered into with banks in Hong Kong during the Track Record Period. Such non-delivery forward contracts are entered into to limit our foreign exchange exposure. The following tables set out the balance of our balances of financial derivative assets at the end of each reporting period:

	As at 31 December		As at
	2013	2014	31 August
	HK\$'000	HK\$'000	2015
			HK\$'000
Derivatives not under hedge accounting:			
Fair value of foreign currency forward contracts	1,814	—	—

Major terms of the eight foreign exchange forward contracts were as follows:

2013 Notional amount	Maturities with multiple settlement dates	Exchange rates
Buy RMB7,000,000	January 2014 to August 2014	Range from US\$1 = RMB6.2457 To US\$1 = RMB6.2949

In view of the relatively stable exchange rate of RMB against USD/HKD in 2014, we ceased to enter into such kind of derivative contracts.

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### Pledged bank deposits and bank balances and cash

As at the end of each reporting period, we have the following pledged bank deposits and bank balances and cash denominated in foreign currencies:

	As at 31 December		As at
	2013	2014	31 August
	HK\$'000	HK\$'000	2015
			HK\$'000
HK\$	13,477	13,581	10,299
RMB	2,234	1,606	1,497
EUR	—	31	27
GBP	—	—	288
	<u>15,711</u>	<u>15,218</u>	<u>12,111</u>

Our banks balances and cash are mainly kept in commercial banks in HK and PRC.

### Trade and other payables and accruals

Trade and other payables and accruals comprises payment we owe to our suppliers. The following table set out a breakdown of our trade and other payables and accruals as at the end of each reporting period:

	As at 31 December		As at
	2013	2014	31 August
	HK\$'000	HK\$'000	2015
			HK\$'000
Trade payables	15,566	23,476	14,802
Accrued expenses	3,756	4,429	7,268
Customer deposits	408	347	432
Other tax payables	76	95	77
Other payables	<u>204</u>	<u>—</u>	<u>170</u>
	<u>20,010</u>	<u>28,347</u>	<u>22,749</u>

Our trade and other payables and accruals increased from HK\$20.0 million as at 31 December 2013 to HK\$28.3 million as at 31 December 2014 due to an increase in trade payables and accrued expenses. The trade payables increased from approximately HK\$15.6 million as at 31 December 2013 to HK\$23.5 million as at 31 December 2014 was primarily due to the purchase of raw materials and



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parts and components for production plan up to February 2015 (i.e. the average production lead time from customers' confirmation of purchase orders to delivery) and the extension of the credit period in 2014 after negotiation with certain major suppliers because additional time was required to verify the accuracy of such payments in preparation for the audit for the Listing. Since the Chinese New Year for 2013 fell in end of January 2013 and therefore less raw materials were purchased as at the end of 2013. Our trade and other payables and accruals decreased from approximately HK\$28.3 million as at 31 December 2014 to approximately HK\$22.7 million as at 31 August 2015 primarily due to (i) decrease in trade payables from approximately HK\$23.5 million as at 31 December 2014 to approximately HK\$14.8 million as at 31 August 2015 (given the aforesaid extension of the credit period in 2014); and (ii) the increase in accrued expenses from approximately HK\$4.4 million as at 31 December 2014 to approximately HK\$7.3 million as at 31 August 2015.

The accrued expenses mainly consisted of accrued rentals and utilities, which increased from approximately HK\$3.8 million as at 31 December 2013 to HK\$4.4 million as at 31 December 2014 primarily due to the increase in accrued rentals of approximately RMB441,000 at 31 December 2014 and the increase in accrued electricity of RMB262,000 at 31 December 2014. The increase in accrued expenses from approximately HK\$4.4 million as at 31 December 2014 to approximately HK\$7.3 million as at 31 August 2015 was primarily due to increase of listing expenses.

As at 30 November 2015, approximately HK\$13.7 million, or 92.3%, of our trade payables as at 31 August 2015 has been settled.

For those suppliers who grant us a credit term, the credit period granted generally ranges from 30 to 60 days. The following is an aged analysis of trade payables based on the invoice date at the end of each reporting period.

	<b>As at 31 December</b>		<b>As at</b>
	<b>2013</b>	<b>2014</b>	<b>31 August</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 90 days	15,031	22,562	14,173
91 - 180 days	136	475	124
181 - 365 days	66	84	413
Over one year	<u>333</u>	<u>355</u>	<u>92</u>
	<u>15,566</u>	<u>23,476</u>	<u>14,802</u>

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The following table set out our average trade and other payables turnover days for the years/period under review.

	Year ended 31 December		Eight months ended
	2013	2014	31 August 2015
Average trade and other payables turnover days <sup>(note)</sup>	49	59	66

*Note:* Average trade and other payables turnover days equal to the average of the opening and closing balances of trade and other payables of the relevant period divided by cost of sales of the relevant year and multiplied by 360 days for each of the years ended 31 December 2013 and 2014, or 240 days for the eight-month period.

The average trade and other payables turnover days increased from 59 days for the year ended 31 December 2014 to 66 days for the eight months ended 31 August 2015. Such increase was primarily due to normal fluctuation of the payment leadtime of customers and corresponding slight adjustment in the settlement of our payables.

### Amount due to related parties and loan from a related company

As at 31 December 2013, the amounts due to companies controlled by our Controlling Shareholders and/or his close family members were approximately HK\$8.7 million and a revolving loan from a company controlled by our Controlling Shareholders and/or his close family was approximately HK\$2.1 million. The amounts due to related parties were unsecured, interest-free and repayable on demand. The revolving loan balance was unsecured, interest bearing at prime rate of 5% and was repayable in one year. All these balances were fully settled in 2014. As at 31 August 2015, we had an amount due to related parties of HK\$0.2 million which represented the outstanding rental payable to He Yuan T-Lab and such balance was fully settled in September 2015.

Our Directors and/or companies controlled by our Controlling Shareholders and/or his close family members had provided guarantees for banking facilities granted to our Group.

All the amounts due to and from our related parties, and loan due to our related party and the guarantees provided by our Directors, companies controlled by our Controlling Shareholders and/or his close family members as set out in note 30 to the Accountants' Report as set out in Appendix I had been settled and discharged prior to the Listing.

The Directors confirm that the current practice adopted by the Group complies with the requirement of the relevant accounting standards.

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### LIQUIDITY AND CAPITAL RESOURCES

Our primary use of cash is to fund our working capital requirements, property, plant and equipment and to repay loans and related interest expenses. We have funded our business primarily using proceeds from cash generating from our operating activities. We also rely on bank borrowings to finance our operations. Upon listing, our sources of liquidity will be satisfied using a combination of cash generated from operating activities, bank loans and the net proceeds from the Placing and other fund raised from the capital markets from time to time.

### Expected financial resources of our Group

The Directors further submit that as at 31 October 2015, the Group has obtained loan facilities of approximately HK\$60.7 million and the following sets forth further information of such facilities:

Date of obtaining the facilities	Nature of lender	Contractual maturity date	Unutilized balance of		Approximate total amount repayable in 2015	Approximate total amount repayable in 2016	Confirmation from lender	
			Facility amount	the loan facility			for renewal upon maturity	Secured by pledged deposit
			(HK\$ 'million)	(HK\$ 'million)	(HK\$ 'million)	(HK\$ 'million)		(HK\$ 'million)
<b>Bank Loan</b>								
8 Nov 2012	Straight line loan from a commercial bank A	7 Nov 2017	2.0	—	0.08	0.82	No (Note 2)	N/A
4 May 2015	Revolving loan from a commercial bank B	16 Dec 2015	2.0 (in total)	—	0.6	—	Yes	4.0 (Note 3)
4 May 2015	Revolving loan from a commercial bank B	28 Dec 2015		—	1.0	—	Yes	4.0 (Note 3)
4 May 2015	Revolving loan from a commercial bank B	30 Nov 2015		—	0.4	—	Yes	4.0 (Note 3)
<b>Factoring loans</b>								
29 Oct 2010	A commercial bank A	N/A	11.7	6.5	5.2	—	Yes	N/A
30 Apr 2014	A commercial bank B	N/A	15.0	12.9	2.1	—	Yes	N/A

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Date of obtaining the facilities	Nature of lender	Contractual maturity date	Unutilized		Approximate total amount repayable in 2015  (HK\$ 'million)	Approximate total amount repayable in 2016  (HK\$ 'million)	Confirmation from lender for renewal upon maturity	Secured by pledged deposit  (HK\$ 'million)
			Facility	the loan				
			amount	facility				
Trust receipt loans								
12 Jul 2015	A commercial bank A	11 Nov 2015	11.5 (in total)	10.5 (in total)	0.1	—	(Note 1)	3.0 (Note 4)
23 Jul 2015	A commercial bank A	11 Nov 2015			0.9	—	(Note 1)	
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19 Oct 2015	A commercial bank B	20 Nov 2015			0.5	—	(Note 1)	4.0 (Note 3)
29 Sep 2015	A commercial bank B	27 Nov 2015	4.0 (in total)	3.4 (in total)	0.01	—	(Note 1)	
8 Oct 2015	A commercial bank B	28 Dec 2015			0.03	—	(Note 1)	
29 Oct 2015	A commercial bank B	28 Dec 2015			0.06	—	(Note 1)	
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1 Sep 2015	A commercial bank C	30 Dec 2015			0.4	—	(Note 1)	2.0 (Note 5)
2 Sep 2015	A commercial bank C	31 Dec 2015			0.1	—	(Note 1)	
11 Sep 2015	A commercial bank C	11 Jan 2016	8.0 (in total)	3.8 (in total)	0.2	—	(Note 1)	
18 Sep 2015	A commercial bank C	18 Jan 2016			0.8	—	(Note 1)	
18 Sep 2015	A commercial bank C	18 Jan 2016			0.1	—	(Note 1)	
22 Oct 2015	A commercial bank C	19 Feb 2016			0.2	—	(Note 1)	
16 Oct 2015	A commercial bank C	18 Jan 2016			0.8	—	(Note 1)	
10 Jul 2015	A commercial bank C	9 Nov 2015			0.2	—	(Note 1)	
22 Jul 2015	A commercial bank C	19 Nov 2015			0.4	—	(Note 1)	
25 Aug 2015	A commercial bank C	23 Dec 2015			0.9	—	(Note 1)	
4 Aug 2015	A commercial bank C	2 Dec 2015			0.1	—	(Note 1)	

## FINANCIAL INFORMATION

Date of obtaining the facilities	Nature of lender	Contractual maturity date					Confirmation	
			Facility amount  (HK\$ 'million)	Unutilized balance of the loan facility  (HK\$ 'million)	Approximate total amount repayable in 2015  (HK\$ 'million)	Approximate total amount repayable in 2016  (HK\$ 'million)	from lender for renewal upon maturity	Secured by pledged deposit  (HK\$ 'million)
Bank overdraft								
17 Feb 2011	A commercial bank A	N/A	0.5	0.5	N/A	N/A	Yes	3.0 (Note 4)
15 Oct 2012	A commercial bank A	N/A	3.0	2.3	0.7	N/A	Yes	Under small-to-medium enterprise scheme
30 Apr 2014	A commercial bank B	N/A	1.0	0.6	0.4	N/A	Yes	4.0 (Note 3)
14 Dec 2006	A commercial bank C	N/A	2.0	2.0	N/A	N/A	Yes	2.0 (Note 5)
	Total:		60.7	42.5	16.28	0.82		

*Notes:*

1. Maturity of trust receipt loan is in accordance with each relevant import documentary credit. Normally, a company must repay each trust receipt loan before its maturity. In July 2015, commercial bank A, B and C confirmed in writing that they intend to continue to offer to us the facilities.
2. This straight line loan is a term loan and with fixed monthly repayment schedule. Thus there is no renewal provision when it is fully repaid.
3. The HK\$4.0 million refers to the total deposit pledged with commercial bank B for all the loan facilities it granted to our Group.
4. The HK\$3.0 million refers to the total deposit pledged with commercial bank A for all the loan facilities it granted to our Group.
5. The HK\$2.0 million refers to the total deposit pledged with commercial bank C for all the loan facilities it granted to our Group.

As confirmed by our Directors, during the Track Record Period and up to 31 October 2015, we had pledged a total deposit of HK\$9.0 million to secure loan facilities. Our Directors confirmed that we have not experienced any material difficulty or obstacle in obtaining financing and loan facilities from commercial banks, revolving the loans granted under the loan facilities upon their respective expiry dates, any default in payment on borrowings, or breach of any financial covenants. We have not received any notice from commercial banks for early payment of outstanding loans, for withdrawal or downsizing the amount of borrowings. We expect to continue obtaining proceeds from bank and other loans and we do not expect that we will encounter any material difficulty in securing loans from banks and other financial institutions. None of our borrowings and facilities are subject to fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

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### Cash Flow

As at 31 December 2013 and 2014, 31 August 2014 and 2015, we had cash and cash equivalents of HK\$7.1 million, HK\$6.7 million, HK\$4.3 million and HK\$4.5 million, respectively. The following table sets out a summary of our cash flow for the financial years under review:

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Net cash from (used in) operating activities	19,201	13,707	1,716	(1,331)
Net cash (used in) from investing activities	(16,120)	30,766	19,370	4,179
Net cash from (used in) financing activities	<u>813</u>	<u>(44,922)</u>	<u>(23,856)</u>	<u>(5,032)</u>
Net increase (decrease) in cash and cash equivalents	3,894	(449)	(2,770)	(2,184)
Cash and cash equivalents as at beginning of year/period	<u>3,207</u>	<u>7,101</u>	<u>7,101</u>	<u>6,652</u>
Cash and cash equivalents as at end of year/period	<u>7,101</u>	<u>6,652</u>	<u>4,331</u>	<u>4,468</u>

Given that our cash and cash equivalents was approximately HK\$4.5 million as at 31 August 2015, any possible unfavourable changes in certain external factors, including but not limited to, (i) a delay in settlement or non-payment of trade receivables by our customers, (ii) early payment of trade payables to our suppliers, and/or (iii) a non-renewal of loans by our banks, would adversely affect our cash flow position. Notwithstanding that we have some unused bank facilities, we shall closely monitor our cash position to ensure that we can meet our payment obligation and have sufficient working capital for our business operation in the future.

As at 31 October 2015, the amount of our unutilised and unrestricted banking facilities (referring to the available bank overdraft and revolving loan) amounted to approximately HK\$5.4 million.

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### **Net cash from (used in) operating activities**

We recorded a net cash generated from operating activities of HK\$19.2 million for the year ended 31 December 2013, primarily reflecting our profit before tax of HK\$9.9 million, as adjusted for by (i) a decrease in inventories of approximately HK\$2.0 million due to the Chinese New Year fell in end of January 2014 and less raw materials were purchased as at 31 December 2013 and (ii) a decrease in trade and other receivables of approximately HK\$6.0 million due to we managed to deliver our finished products as far as possible by end of December 2013.

We recorded a net cash generated from operating activities of HK\$13.7 million for the year ended 31 December 2014, primarily reflecting our profit before tax of HK\$6.2 million, as adjusted for by (i) an increase in inventories of approximately HK\$3.0 million due to increase in stocking of finished goods and (ii) an increase in trade and other receivables of approximately HK\$1.9 million, both due to the Chinese New Year of 2015 fell on a later date than that of 2014.

We recorded a net cash used in operating activities of approximately HK\$1.3 million for the eight months ended 31 August 2015, primarily reflecting our loss before tax of approximately HK\$0.1 million as adjusted for by (i) decrease in inventories of HK\$8.9 million due to decrease in material and finished goods stock; (ii) an increase in trade and other receivables and prepayments of HK\$6.6 million mainly due to increase in prepayment for the listing expenses and normal fluctuation of customers' payment leadtime; (iii) decrease in trade and other payables and accruals of approximately HK\$5.6 million; and (iv) an increase in amount due to a related party of HK\$0.2 million which represented the balance of rental payable to He Yuan T-Lab.

Our Directors confirmed that the net cash outflow for the eight months ended 31 August 2015 did not have a material impact on our working capital sufficiency.

### **Net cash used in/from investing activities**

We recorded a net cash used in investing activities of HK\$16.1 million for the year ended 31 December 2013, reflecting cash inflows primarily due to net advances to related parties and acquisition of property, plant equipment and placement of pledged bank deposits, and was partly offset by interest income received from banks.

We recorded a net cash generating from investing activities of HK\$30.8 million for the year ended 31 December 2014, reflecting net repayment from related parties when relevant balances settled in June 2014.

We recorded a net cash from investing activities of approximately HK\$4.2 million for the eight months ended 31 August 2015, primarily reflecting repayment from a related party and partly offset by acquisition of property, plant and equipment.

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### Net cash used in/from financing activities

We recorded a net cash generating from financing activities of HK\$0.8 million for the year ended 31 December 2013, reflecting cash inflows primarily due to repayment of bank borrowings of approximately HK\$206.7 million and related interest paid of approximately HK\$3.4 million, and was offset by new bank loans raised of HK\$205.3 million and net advances and loans from related parties and related company of approximately HK\$5.5 million.

We recorded a net cash used in financing activities of HK\$44.9 million for the year ended 31 December 2014, reflecting net repayment of bank borrowings and net repayment to related parties and related company.

We recorded a net used in financing activities of approximately HK\$5.0 million for the eight months ended 31 August 2015, primarily due to new bank borrowings of HK\$165.8 million and offset by repayment of bank borrowings of HK\$169.8 million and interest expenses paid of HK\$1.0 million.

### CAPITAL EXPENDITURE

#### *Historical Capital Expenditures*

For each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 and 2015, we incurred capital expenditures in respect of the additions of property, plant and equipment in the amount of HK\$3.5 million, HK\$1.2 million, HK\$0.7 million and HK\$0.8 million, respectively. The following table sets out our financial capital expenditures during the years under reviewed:

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Plant and Machinery	1,869	338	718	787
Leasehold improvement	918	551	—	—
Furniture, fixtures and other equipment	554	306	—	19
Motor vehicles	152	—	—	—
<b>Total</b>	<u>3,493</u>	<u>1,195</u>	<u>718</u>	<u>806</u>



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The capital expenditures incurred in each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 primarily related to upgrading/ replacing plant and machinery leasehold improvement and purchase/replace of furniture, fixtures and other equipment.

### CONTRACTUAL COMMITMENTS

#### *Operating Lease Commitments*

During the Track Record Period, we leased three properties under operating leases for our office and factory premises. These leases are negotiated for a term of one to five years and rentals are fixed for the lease term. The table below set out our future minimum lease payment under non-cancellable operating leases which fall due as follows:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2013</b>	<b>2014</b>	<b>31 August</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2015</i>
			<i>HK\$'000</i>
Within one year	3,001	3,069	3,113
In the second to fifth year inclusive	<u>5,370</u>	<u>3,005</u>	<u>959</u>
	<u>8,371</u>	<u>6,074</u>	<u>4,072</u>

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### INDEBTEDNESS

The following table sets out our borrowings as at 31 December 2013, 2014, as at 31 August 2015 and 31 December 2015, being the Latest Practicable Date for determining our indebtedness:

	As at 31 December		As at 31 August	As at 31 December
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)
Bank loan	17,640	1,231	967	2,831
Trust receipt loans	11,600	8,490	7,724	6,869
Factoring loans	14,550	9,620	8,785	8,995
Bank overdraft	<u>9,837</u>	<u>2,680</u>	<u>526</u>	<u>2,490</u>
	<u>53,627</u>	<u>22,021</u>	<u>18,002</u>	<u>21,185</u>
Bank borrowings which are secured by:				
Assets held by the Group	31,146	20,789	16,509	15,864
Property held by an independent third party	16,028	—	—	—
Deposits held by a related party	<u>4,842</u>	<u>—</u>	<u>—</u>	<u>—</u>
	52,016	20,789	16,509	15,864
Unsecured bank borrowings	<u>1,611</u>	<u>1,232</u>	<u>1,493</u>	<u>5,321</u>
	<u>53,627</u>	<u>22,021</u>	<u>18,002</u>	<u>21,185</u>
The maturities of the above loans are as follows*:				
Within one year	52,395	21,190	17,450	20,777
More than one year but within two years	469	423	439	408
More than two years but within five years	<u>763</u>	<u>408</u>	<u>113</u>	<u>—</u>
	<u>53,627</u>	<u>22,021</u>	<u>18,002</u>	<u>21,185</u>

\* The amounts are based on scheduled repayment date set out in loan agreements.

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The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings as at 31 December 2013 and 2014 and as at 31 August 2015 and 31 December 2015, respectively, are as follows:

	<b>31 December 2013</b>	<b>31 December 2014</b>	<b>31 August 2015</b>	<b>31 December 2015 (unaudited)</b>
Effective interest rates (per annum):				
Variable-rate borrowings	<u>2.75%-7.8%</u>	<u>2.69%-6.75%</u>	<u>3.25%-6.75%</u>	<u>3.25%-6.75%</u>

As at 31 December 2013 and 2014 and as at 31 August 2015 and 31 December 2015, being the Latest Practicable Date for the purpose of indebtedness statement in this prospectus, all the utilised bank facilities were guaranteed by our Controlling Shareholders, their close family members or an Independent Third Party. The guarantee given by our connected persons will be fully released upon Listing.

Our Directors confirm that, as at 31 December 2015, save as disclosed above and in Appendix I of this prospectus and apart from intra-group liabilities, we did not have any outstanding borrowings and indebtedness, any loan capital issued and outstanding or agreed to be issued, bank overdraft, loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities.

### Amounts due from/to related parties/Loan from a related company

The following table sets out the balances of amounts due from/to related parties and loan from a related company as at the end of each reporting period:

	<b>As at 31 December</b>		<b>Maximum balance outstanding Year ended 31 December</b>		<b>Eight months ended 31 August 2015</b>
	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Amounts due from related parties:</b>					
Chung Chi Hang Larry	13,212	—	15,016	14,740	—
Chung Tin Shing	6	—	6	13	—
Kammi Home Appliance Company Ltd.	161	—	161	161	—
Yield Speed Ltd.	19,089	—	19,089	19,089	—
Update Industrial Ltd.	10	—	10	10	—
T-Lab Electronics & Plastics (He Yuan) Co., Ltd.	—	2,913	4,525	3,781	—
	<u>32,478</u>	<u>2,913</u>			

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The amount due from T-Lab Electronics & Plastics (He Yuan) Co., Ltd. at 31 December 2014 has been fully settled in March 2015.

Included in amount due from Mr. Chung Chi Hang, Larry at 31 December 2013 was an interest-bearing portion of HK\$7,700,000 which was unsecured, interest bearing at People's Bank of China plus a premium and repayable on demand. Included in amount due from Yield Speed Ltd. amounted to HK\$19,065,000 at 31 December 2013, which was unsecured, interest-free and repayable on 30 September 2014. Other than the abovementioned, the remaining amounts due from related parties are unsecured, interest-free and repayable on demand.

	<b>At 31 December 2013</b>	<b>2014</b>	<b>At 31 August 2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Amounts due to related parties:</b>			
T-Lab Electronics & Plastics (He Yuan) Co., Ltd.	6,699	—	151
T-Lab Holdings Ltd.	<u>1,980</u>	<u>—</u>	<u>—</u>
	<u>8,679</u>	<u>—</u>	<u>151</u>

The amounts due to related parties are unsecured, interest-free and repayable on demand. The balance at 31 August 2015 represented the outstanding rental payable to He Yuan T-Lab, which was settled in September 2015.

	<b>At 31 December 2013</b>	<b>2014</b>	<b>At 31 August 2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loan from a related company</b>			
Berich Finance Services Limited	<u>2,065</u>	<u>—</u>	<u>—</u>

At 31 December 2013, the revolving loan balance was unsecured, interest bearing at prime rate of 5% and was repayable within one year. The outstanding loan balance was fully repaid in June 2014.

### IMPACT OF EXPENSES RELATING TO LISTING TO THE PROFITS AND LOSS ACCOUNT OF THE GROUP AFTER LISTING

We incurred total listing expenses (including underwriting commission) of approximately HK\$17.0 million in preparation of the Placing and Listing during the Track Record Period. Upon Listing, approximately HK\$8.2 million and HK\$3.1 million would be paid to various professional parties in addition as expenses relating to the Listing and will be charged to the comprehensive profit or loss account of the Group for the year ended 31 December 2015 and for the year ending 31 December 2016. Approximately 21.8% of the listing expense, or approximately HK\$4.8 million in relation to the Placing are expected to be capitalized. Our Directors have confirmed that save for the expenses relating to the Listing of approximately HK\$12.2 million to be recognised upon Listing, there have been no material non-recurring items to be paid by the Group.

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In light of the above listing expenses and increase in administrative expenses after listing, we expect our Group's financial performance for the year ended 31 December 2015 will significantly decline. Please refer to the risk factor headed "Profit warning — the financial results of the Group for the year ended 31 December 2015 and for the year ending 31 December 2016 will be materially adversely affected by one-off listing expenses and expected increase in administrative expenses of the Group" in the section headed "Risk factors" of this prospectus.

### Contingent liability

Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Group since 31 August 2015.

### Off-Balance Sheet Arrangements

As at the Latest Practicable Date, the Directors confirm the Company did not have any off-balance sheet arrangements or contingents.

### SUFFICIENCY OF WORKING CAPITAL

Our Directors confirm that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including internally generated funds, available banking facilities and the estimated net proceeds of the Placing, our Group has sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Our Directors confirm that there have been no material changes in our Group's indebtedness and contingent liabilities since 31 August 2015.

### SELECTED FINANCIAL RATIOS DISCUSSION

The following table sets out certain financial ratios at the end of each of the financial year indicated:

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014 (unaudited)	2015
Net profit margin <sup>(1)</sup>	4.2%	2.8%	3.3%	N/A
Adjusted net profit margin after excluding the gain/loss attributable to fair change in the foreign forward contracts <sup>(2)</sup>	2.8%	3.1%	3.9%	N/A
Current ratio <sup>(3)</sup>	1.4	1.8	N/A	1.9
Quick ratio <sup>(4)</sup>	1.0	1.0	N/A	1.2
Gearing ratio <sup>(5)</sup>	0.7	0.5	N/A	0.5
Debt to equity ratio <sup>(6)</sup>	2.1	1.1	N/A	0.9
Interest coverage ratio <sup>(7)</sup>	3.9	3.4	3.4	0.9
Return on total assets <sup>(8)</sup>	6.3%	5.1%	N/A	N/A
Return on equity ratio <sup>(9)</sup>	19.2%	10.7%	N/A	N/A

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### *Note*

1. Net profit margin equals to profit and total comprehensive income for the year/period divided by revenue for the year/period.
2. During the Track Record Period, we entered into a total of 12 foreign currency non-delivery forward contracts for RMB to minimise our exchange rate risk exposure. We recorded a gain on change in fair value of financial derivatives amounted to approximately HK\$2.8 million for the year ended 31 December 2013 and a loss on change in fair value of approximately HK\$0.7 million for the year ended 31 December 2014 and a loss on change in fair value of approximately HK\$0.7 million for the eight months ended 31 August 2014. For details of these foreign currency forward contracts, please refer to the paragraph headed “Foreign exchange contracts and its financial impact” in the section headed “Financial information” of this prospectus, and note 9 to Accountant’s Report as set out in Appendix I to this prospectus.
3. Current ratio equals to total current assets divided by total current liabilities as at the end of each reporting period.
4. Quick ratio equals to total current assets less inventories divided by total current liabilities as at the end of each reporting period.
5. Gearing ratio equals to total liabilities divided by total assets as at the end of each reporting period.
6. Debt to equity equals to total liabilities divided by total equity as at the end of each reporting period.
7. Interest coverage ratio is calculated by profit before interest and tax divided by the finance cost for the corresponding year/period.
8. Return on total assets equals profit and total comprehensive income for the year/period divided by the closing balance of total assets multiplied by 100%.
9. Return on equity equals profit and total comprehensive income for the year/period divided by the closing balance of total equity multiplied by 100%.

### **Net profit margin**

Our net profit margin decreased from 4.2% for the year ended 31 December 2013 to approximately 2.8% for the year ended 31 December 2014, mainly due to payment of listing expenses, the recognition of a loss on the change of fair value of the foreign currency forward contracts and the decrease in revenue in 2014.

To improve our net profit margin, one of our business strategies is to further automate our production process in order to (a) further enhance our production capacity and product quality; (b) mitigate the impact of the increasing labour costs in the PRC; and (c) to develop and launch products with higher selling prices. With an aim to provide more initiatives and increase our production efficiency as a whole, around 2013, we have commenced to pay certain of our manufacturing staff based on the number of pieces made instead of on a fixed salary basis. We launched mid-level power switching mode power supply in 2014. We also develop and launch new products including (i) high power switching mode power supply of 500W and 1000W; (ii) amplifier board of 500W and 1000W; and (iii) digital signal processing board for use in musical equipment for broadcasting.

### **Current ratio and quick ratio**

Our current ratio improved from 1.4 for the year ended 31 December 2013 to approximately 1.8 for the year ended 31 December 2014 and approximately 1.9 for the eight months ended 31 August 2015, mainly due to (i) the repayment of amount due to related parties of approximately HK\$2.1 million during the eight months ended 31 August 2014; (ii) the recognition of a gain on the change of fair value of the foreign currency forward contracts; and the increase in finished goods inventory in 2014. Our quick ratio remained stable at around 1.0 for the two years ended 31 December 2014 and

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approximately 1.2 for the eight months ended 31 August 2015, mainly due to the reduction in current assets mainly due to settlement of amount due from related parties was fully offset by reduction of current liabilities after payment of secured bank borrowings and settlement of amount due to related parties and loan from a related company.

### **Gearing ratio and debt-to-equity ratio**

Our gearing ratio, slightly decreased from 0.7 for the year ended 31 December 2013 to approximately 0.5 for the year ended 31 December 2014 and the eight months ended 31 August 2015, mainly due to (i) the repayment of amount due to related parties of approximately HK\$2.1 million in 2014; and (ii) net repayment of bank borrowings in 2014.

Our debt-to-equity ratio sharply decreased from 2.1 for the year ended 31 December 2013 to approximately 1.1 for the year ended 31 December 2014 and further decreased to 0.9 for the eight months ended 31 August 2015, mainly due to reduction in current liabilities after the bank loans and related parties balances were partially settled in 2014.

### **Interest coverage ratio**

Our interest coverage ratio, slightly decreased from 3.9 for the year ended 31 December 2013 to approximately 3.4 for the year ended 31 December 2014, mainly due to partial repayment of bank loans in 2014, and further decreased to 0.9 for the eight months ended 31 August 2015, mainly due to the drop in profit before tax which was primarily due to payment of professional fees.

### **Return on total assets**

Our return on assets decreased from 6.3% for the year ended 31 December 2013 to approximately 5.1% for the year ended 31 December 2014, mainly due to decrease in our profit for the year in 2014. Our profit and total comprehensive income decreased by approximately HK\$3.1 million from approximately HK\$8.1 million for the year ended 31 December 2013 to approximately HK\$5.0 million for the year ended 31 December 2014. Our total assets moderately decreased from approximately HK\$128.3 million for the year ended 31 December 2013 to approximately HK\$97.8 million for the year ended 31 December 2014. Such decrease in total assets was mainly due to repayment of amounts due from related parties.

### **Return on equity**

Our return on equity for each of the years ended 31 December 2013 and 2014 were approximately 19.2% and 10.7% respectively.

## **PROPERTY INTERESTS AND PROPERTY VALUATION**

Particulars of our property interests are set out in Appendix IV to this prospectus. Asset Appraisal Limited has valued the properties leased by us as at 31 December 2015. The text of the letter, summary of valuations and valuation certificate issued by Asset Appraisal Limited are set forth in Appendix IV to this prospectus.

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### FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICY

We are exposed to various types of financial risks, including interest rate risk, credit risk and liquidity risk, in our normal course of business. We manage our exposure to these and other market risks through regular operating and financing activities.

#### Credit risk

As at 31 December 2013 and 2014 and 31 August 2015, our maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge obligations by the counter parties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

We do not have any significant concentration of credit risk on trade receivables, as it comprises a large number of customers, spread across diverse industries and geographical areas. The credit risk on bank balances is limited because all our counterparties are reputable banks in Hong Kong and PRC.

In order to minimise the credit risk, we have credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our directors consider our Group's credit risk is significantly reduced.

#### Liquidity risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents we believe is adequate to finance our operations and mitigate the effects of fluctuations in cash flows. We monitor the utilisation of bank borrowings and ensures compliance with loan covenants.

During the Track Record Period, we rely on bank borrowings as major source of liquidity. As at 31 December 2013 and 2014 and 31 August 2015, the Group has available unutilised trade finance bank loan facilities of approximately HK\$57,888,000, HK\$54,263,000 and HK\$33,581,000 respectively and bank overdraft facilities of HK\$503,000, HK\$376,000 and HK\$5,973,000 respectively.

The following table details our Group's remaining contractual maturity for our non-derivative financial liabilities. Such table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which we can be required to pay. The table includes both



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interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

### Liquidity

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December 2013 HK\$'000
<b>At 31 December 2013</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	15,770	—	—	15,770	15,770
Amounts due to related parties	—	8,679	—	—	8,679	8,679
Bank borrowings - variable rate	4.78%	37,494	15,712	1,260	54,466	53,627
Loan from a related company - variable rate	5.00%	26	2,108	—	2,134	2,065
		<u>61,969</u>	<u>17,820</u>	<u>1,260</u>	<u>81,049</u>	<u>80,141</u>

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December 2014 HK\$'000
<b>At 31 December 2014</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	23,476	—	—	23,476	23,476
Bank borrowings - variable rate	4.00%	21,017	711	882	22,610	22,021
		<u>44,493</u>	<u>711</u>	<u>882</u>	<u>46,086</u>	<u>45,497</u>

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 August 2015 HK\$'000
<b>At 31 August 2015</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	14,972	—	—	14,972	14,972
Amount due to a related party	—	151	—	—	151	151
Bank borrowings - variable rate	4.19%	17,287	344	572	18,203	18,002
		<u>32,410</u>	<u>344</u>	<u>572</u>	<u>33,326</u>	<u>33,125</u>

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### Currency risk

We have certain foreign currency sales and purchases transactions denominated in Renminbi, Hong Kong dollars, Euro dollars and British Pound, which expose us to foreign currency risk. We currently have no foreign currency hedging policy and management monitors the foreign exchange exposure by closely monitoring the movement of foreign currency rates.

The carrying amounts of our Group's foreign currency denominated monetary assets and monetary liabilities at the end of each of the reporting years are as follows:

	Assets			Liabilities		
	As at			As at		
	31 August			31 August		
	2013	2014	2015	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi ("RMB")	17,035	9,613	10,621	24,822	12,543	6,700
HK\$	20,690	15,345	12,364	26,299	15,088	9,659
British Pound ("GBP")	319	—	732	—	—	387
Euro Dollars ("EUR")	—	31	27	—	—	—

Mr. Yu Siu Ming, our financial controller, and the executive Directors have been involved in approving foreign currency forward contracts entered into by us. All the foreign currency forward contracts entered into by us during the Track Record Period were reviewed and approved by Mr. Yu Siu Ming and the executive Directors. Mr. Yu Siu Ming has over 16 years of relevant experience. For details of the biographies of Mr. Yu Siu Ming and the executive Directors, please refer to the section headed "Directors and senior management" of this prospectus.

During the Track Record Period and as at the Latest Practicable Date, save the above foreign currency forward contracts, we have not entered into any hedging activities and therefore have not formulated and adopted a hedging policy. From time to time, we will review and closely monitor our risk to any currency risk and if a hedging activity is considered to be an appropriate instrument, we will formulate and adopt a hedging policy to monitor the hedging strategies before proceeding for any hedging activity.

It intends that the hedging policy will cover aspects including approving procedures, factors to be taken into accounts in determining whether to adopt a hedging activity, the overall position limit, the risk assessment guidelines and the ongoing monitoring.

### *Sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase and decrease in US\$ against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign

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currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit or loss whether US\$ strengthen 5% against the relevant currency. For a 5% weakening of US\$ against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

In the opinion of the management of the Group, the sensitivity analysis of currency risk exposure of, HK\$ is not presented as it is pegged with US\$, the average change in foreign exchange rate will not have significant impact on the profit or loss for the year/period.

	RMB			GBP			EUR		
		Eight months ended			Eight months ended			Eight months ended	
		31 August			31 August			31 August	
	2013	2014	2015	2013	2014	2015	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Post-tax profit or loss for the year/period	282	146	(156)	(13)	—	(14)	—	(2)	(1)

### Interest rate risk

Our Group is exposed to cash flow interest rate risk in relation to the pledged bank deposits, bank balances, variable-rate amount due from a related party, bank borrowings and loan from a related company. The directors of the Company consider that the changes in interest rates of bank balances have no significant impact to the Group due to the low interest rates and short-term maturities and therefore no sensitivity analysis is presented for bank balances.

### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for pledged bank deposits, variable-rate amount due from a related party, bank borrowings and loan from a related Group at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit or loss for years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 would decrease/increase by HK\$142,000, HK\$46,000 and HK\$25,000 respectively.

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### DIVIDEND AND DIVIDEND POLICY

The payment and the amount of any dividends, if paid, would depend on the 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. Holders of the Shares 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.

During the Track Record Period, we declared nil dividends. The Company intends to distribute not less than 20% of the Group's net profit for a given year as dividends after listing but subject to, among other things, our operation needs, earnings, financial condition and any other factors our Directors may consider relevant. Currently, in light of the non-recurring listing expenses and increase in administrative expenses after listing, we estimated a loss for the year ended 31 December 2015 and we did not declare dividend for the year ended 31 December 2015.

### LOSS ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2015

Our Directors believe that, on the bases as set out in "Appendix III — Loss estimate for the year ended 31 December 2015" to this prospectus, our loss attributable to equity owners of our Company for the year ended 31 December 2015, which has taken into account of the expected listing expenses to be incurred during the year ended 31 December 2015 of approximately HK\$8.2 million, is unlikely to be more than HK\$0.8 million. On the assumption that a total of 200,000,000 Shares were in issue during the year ended 31 December 2015 assuming that the Placing and the Capitalisation Issue had been completed on 1 January 2015, the estimated loss per Share for 2015 is unlikely to be more than HK\$0.4 cents.

### DISTRIBUTABLE RESERVES

As at 31 December 2013 and 2014 and 31 August 2015, we had retained profit of approximately HK\$39.1 million, HK\$44.1 million and HK\$42.4 million respectively. The distributable reserves represent the retained profit included in reserves attributable to owners of the Company.

### NO SIGNIFICANT INTERRUPTIONS

Our Directors have confirmed that there have been no interruptions in our business that may have had a significant effect on our results of operations and financial position in the last 12 months.

### DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

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 17.15 to 17.21 of the GEM Listing Rules.

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The statement of unaudited pro forma adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Placing on the audited consolidated net tangible assets less liabilities of our Group as if the Placing had taken place on 31 August 2015.

The statement of unaudited pro forma adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group as at 31 August 2015 or any future date following the Placing.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of our Group is based on the audited consolidated net tangible assets of our Group attributable to owners of the Company as at 31 August 2015 as shown in the accountants' report on the financial information for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 of our Group (the "Accountants' Report"), the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	<b>Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 August 2015 HK\$'000 (Note 1)</b>	<b>Estimated net proceeds received by our Company from the Placing HK\$'000 (Note 2)</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company HK\$'000 (Note 3)</b>	<b>Unaudited pro forma adjusted consolidated net tangible asset of our Group attributable to owners of our Company per Share HK\$ (Note 4)</b>
Based on the Placing Price of HK\$0.50 per Share	<u>45,243</u>	<u>21,892</u>	<u>67,135</u>	<u>0.34</u>
Based on the Placing Price of HK\$0.60 per Share	<u>45,243</u>	<u>27,712</u>	<u>72,955</u>	<u>0.36</u>

*Notes:*

1. The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 August 2015 is based on the net assets of our Group attributable to owners of our Company as extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the issue of the Placing Shares pursuant to the Placing are based on 60,000,000 new Shares at the Placing Price of lower limit and upper limit of HK\$0.50 and HK\$0.60 per Placing Share, respectively, after deduction of the underwriting commissions and fees and other related fees expenses payable by

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## FINANCIAL INFORMATION

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our Group in connection with the Placing, other than those expenses which had been recognized in profit or loss in the period up to 31 August 2015. The calculation of such estimated net proceeds does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares referred to in the sub-section headed “General mandate to issue Shares” or the sub-section headed “General mandate to repurchase Shares” of the section headed “Share capital” of this prospectus.

3. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company does not take into account the effect of any trading result and other transactions of our Group entered into subsequent to 31 August 2015.
4. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is arrived at on the basis that 200,000,000 Shares were in issue assuming that the Placing and the Capitalisation Issue had been completed on 31 August 2015 and does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares referred to in the sub-section headed “General mandate to issue Shares” or the sub-section headed “General mandate to repurchase Shares” of the section headed “Share capital” of this prospectus.

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## STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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### OUR BUSINESS OBJECTIVES

Our objective is to further enhance our market presence in the market and increase our product portfolio by leveraging on our competitive strengths.

### BUSINESS STRATEGIES

Please refer to the sub-section headed “Our business strategies” in the section headed “Business” of this prospectus for details of our business strategies to achieve our business objectives.

### IMPLEMENTATION PLANS

In order to implement our business strategies and objectives, below are our implementation plans from the Latest Practicable Date up to 31 December 2017.

Investors should note that the following implementation plans are formulated on the bases and assumptions referred to in the sub-section headed “Bases and key assumptions” in this section. These bases and assumptions are inherently subject to uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed “Risk factors” in this prospectus. Our actual course of business may vary from the business objective set out in this prospectus. There is no assurance that our plans will materialise in accordance with our expected time frame or that our objective will be accomplished. Whilst the actual course of events may invariably encounter unforeseeable changes and fluctuations, we shall use our best endeavours to anticipate changes, yet allowing for flexibility to implement the following plans.

In addition to the existing design engineer in the United States as referred to in the section headed “Business — Our business strategies” of this prospectus, our Group plans to recruit more engineers in the United States and the PRC in 2016. Our Group will continue to attend trade fairs to promote its existing and new products. Apart from attending the AES trade fair in November 2015 and 2016 and 2017, our Group will also take part in CWIEME Berlin in 2016 and 2017 to promote its reactors and transformers. Resources will also be placed in obtaining international safety standards for the Group’s amplifier and power supply board. To support our business objective to develop high power supply board and reactors, our Group will also purchase additional equipment for the development of such products.

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## STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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From Latest Practicable Date to 30 June 2016

Business strategies	Implementation activities	Source of funding (HK\$'million)
<b><i>Development and launch new products</i></b>		
(a) high power switching mode power supply, amplifier board and digital signal processing board (note 1)	<ul style="list-style-type: none"> <li>- commence the design and testing of (i) 100W, 250W, 1,500W and 2,000W amplifier board; (ii) 100W, 250W, 1,500W and 2,000W power supply board; and (iii) digital signal processing board (medium class)</li> <li>- fine tuning and testing of samples</li> <li>- apply and obtain relevant safety standard certification</li> <li>- explore and identify potential customers</li> <li>- secure customers' purchase orders</li> <li>- preparation of materials for pilot run and first mass production</li> <li>- participate in trade fair to promote the product</li> <li>- place advertisement in industry magazines</li> <li>- recruit more engineers to develop the products of different level of power</li> </ul>	3.15 (net proceeds from Placing)
(b) reactors	<ul style="list-style-type: none"> <li>- explore and identify potential customers</li> <li>- preparation of materials for pilot run and mass production</li> <li>- promote the new product in trade fair such as CWIEME Berlin and magazine</li> <li>- apply and obtain relevant safety standard certification</li> <li>- secure customers' purchase orders</li> </ul>	1.4 (net proceeds from Placing)
<b><i>Solidify established customer relationship and widen our customer base and promote our existing products</i></b>		
	<ul style="list-style-type: none"> <li>- sales and marketing staff visit our existing customers</li> <li>- explore and identify potential customers</li> <li>- introduce our products to potential customers</li> <li>- exchange market information with customers</li> </ul>	0.8 (net proceeds from Placing)
<b><i>Improve our production technology and efficiency</i></b>		
	<ul style="list-style-type: none"> <li>- review the efficiency of our manufacturing staff</li> <li>- identify the relevant production process which will be replaced by automation and implement automation</li> <li>- review the policy of paying our staff by number of pieces made and target to increase such portion to 95% of our manufacturing staff</li> <li>- study the feasibility of increasing the automation of our production process</li> </ul>	0.8 (net proceeds from Placing)



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## STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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From 1 July 2016 to 31 December 2016

<b>Business strategies</b>	<b>Implementation activities</b>	<b>Source of funding (HK\$'million)</b>
<b><i>Development and launch new products</i></b>		
(a) high power switching mode power supply, amplifier board and digital signal processing board	<ul style="list-style-type: none"> <li>- place effort in secure more customers through participating in trade fairs such as AES and CWIEME Berlin and advertisement</li> <li>- receive feedbacks from customers and market on the product</li> <li>- improve and enhance the product</li> </ul>	1.75 (net proceeds from Placing)
(b) reactors	<ul style="list-style-type: none"> <li>- place effort in secure more customers through participating in trade fairs such as CWIEME Berlin and advertisement</li> <li>- purchase of equipment for reactors</li> <li>- receive feedbacks from customers and market on the product</li> </ul>	0.6 (net proceeds from Placing)
<hr/>		
<b><i>Solidify established customer relationship and widen our customer base and promote our existing products</i></b>	<ul style="list-style-type: none"> <li>- sales and marketing staff visit our existing customers</li> <li>- explore and identify potential customers</li> <li>- introduce products to potential customers</li> <li>- exchange market information with customers</li> </ul>	0.6 (net proceeds from Placing)
<hr/>		
<b><i>Improve our production technology and efficiency</i></b>	<ul style="list-style-type: none"> <li>- review the effectiveness of automation</li> <li>- continue the automation process</li> </ul>	0.6 (net proceeds from Placing)

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## STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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From 1 January 2017 to 30 June 2017

Business strategies	Implementation activities	Source of funding (HK\$'million)
<b><i>Development and launch new products</i></b>		
(a) high power switching mode power supply, amplifier board and digital signal processing board (note 2)	<ul style="list-style-type: none"> <li>- commence the design and testing of (i) 3,000W, 5,000W and 10,000W amplifier board; (ii) 3,000W, 5,000W and 10,000W power supply board; and (iii) digital signal processing board (high class)</li> <li>- continue to improve and enhance the product</li> <li>- purchase of equipment for high power supply and amplifier board</li> <li>- diversify the model of the product leveraging on the existing product experience</li> </ul>	1.75 (net proceeds from Placing)
(b) reactors	<ul style="list-style-type: none"> <li>- continue to improve and enhance the product</li> <li>- diversify the model of the product leveraging on the existing product experience</li> </ul>	0.6 (net proceeds from Placing)
<b><i>Solidify established customer relationship and widen our customer base and promote our existing products</i></b>		
	<ul style="list-style-type: none"> <li>- sales and marketing staff visit our existing customers</li> <li>- explore and identify potential customers</li> <li>- introduce our potential new products to customers</li> <li>- exchange market information with customers, in particular, on the new products</li> </ul>	0.3 (internal resources)
<b><i>Improve our production technology and efficiency</i></b>		
	<ul style="list-style-type: none"> <li>- review the effectiveness of our automation</li> <li>- continue the automation process</li> </ul>	0.2 (internal resources))

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## STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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**From 1 July 2017 to 31 December 2017**

<b>Business strategies</b>	<b>Implementation activities</b>	<b>Source of funding (HK\$'million)</b>
<b><i>Development and launch new products</i></b>		
(a) high power switching mode power supply, amplifier board and digital signal processing board	- continue to improve and enhance the product - continue to diversify the model of the product leveraging on the existing product experience	1.75 (net proceeds from Placing)
(b) reactors	- continue to improve and enhance the product - continue to diversify the model of the product leveraging on the existing product experience	0.6 (net proceeds from Placing)
<b><i>Solidify established customer relationship and widen our customer base and promote our existing products</i></b>		
	- sales and marketing staff visit our existing customers - explore and identify potential customers - introduce our products to potential customers - exchange market information with customers	0.2 (internal resources)
<b><i>Improve our production technology and efficiency</i></b>		
	- review the effectiveness of our automation - continue the automation process	0.2 (internal resources)

*Notes:*

1. In 2016, the Group targets to develop (i) 100W, 250W, 1,500W and 2,000W amplifier board; (ii) 100W, 250W, 1,500W and 2,000W power supply board; and (iii) digital signal processing board (medium class).
2. In 2017, the Group targets to develop (i) 3,000W, 5,000W and 10,000W amplifier board; (ii) 3,000W, 5,000W and 10,000W power supply board; and (iii) digital signal processing board (high class).

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## STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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### BASES AND KEY ASSUMPTIONS

We have adopted the following principal assumptions in the preparation of the future plans up to 31 December 2017:

- there will be no material adverse change in the existing political, legal, fiscal, market or economic conditions in the PRC and countries where we export our products;
- there will be no material change in the bases or rates of taxation and duties in Hong Kong and other places where any member of our Group operates or will operate or incorporate;
- the Placing will be completed in accordance with and as described in the section headed “Structure and conditions of the Placing” in this prospectus;
- the product has obtained the necessary standard certifications;
- our Directors and key senior management will continue to be involved in the development of our existing and future development and we will be able to retain our key management personnel;
- we will be able to retain key personnel and be able to recruit additional key personnel when required;
- there will be no change in the funding requirement for each of the business strategies described;
- our Group will not be materially affected by any risk factors as set out in the section headed “Risk factors” of this prospectus; and
- we will have sufficient financial resources for its future growth when required.

### USE OF PROCEEDS

We estimate that the net proceeds from the Placing (after deduction of underwriting fees and estimated expenses payable by us in relation to the Placing, and assuming an Placing Price of HK\$0.55 per Placing Share, being the mid-point of the indicative Placing Price range of HK\$0.50 to HK\$0.60) are approximately HK\$16.0 million (to be received upon the Listing). Our Directors intend to apply the net proceeds from the Placing for the following purposes:

- (a) approximately HK\$11.6 million, representing approximately 72% of the net proceeds from the Placing for the investment cost for the design and development of the new product, namely high power switching mode power supply for audio equipment and reactors, as to approximately HK\$2.2 million as promotion and marketing costs, HK\$2.1 million as design and development costs, HK\$5.1 million for material preparation and HK\$2.2 million for machinery and equipment cost;

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## STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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- (b) approximately HK\$1.4 million, representing approximately 9% of the net proceeds from the Placing for the promotion of existing products and solidifying the relationship with existing customers;
- (c) approximately HK\$1.4 million, representing approximately 9% of the net proceeds from the Placing for increasing the automation level of existing production facilities; and
- (d) approximately HK\$1.6 million, representing approximately 10% of the net proceeds from the Placing, will be used towards working capital and other general corporate purposes.

If the Placing Price is fixed at HK\$0.60, being the high end of the stated Placing Share range, our net proceeds will be increased by approximately HK\$2.9 million. Our Directors currently intend to use such additional proceeds for the above uses in the proportions stated above.

If the Placing Price is fixed at HK\$0.50, being the low end of the stated Placing Price range, our net proceeds will instead be decreased by approximately HK\$2.9 million. Our Directors currently intend to reduce our use of proceeds proportionately as earmarked.

To the extent that the net proceeds to us from the Placing are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments.

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## UNDERWRITING

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### UNDERWRITER

Guotai Junan Securities (Hong Kong) Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company is offering the Placing Shares for subscription by way of Placing, on and subject to the terms and conditions in the Underwriting Agreement and this prospectus, at the Placing Price.

Subject to, among other conditions, the GEM listing division of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus, the Placing Price being agreed between the Bookrunner and Lead Manager and us in accordance with the Underwriting Agreement, and to certain other conditions set out in the Underwriting Agreement being fulfilled or waived on or before the dates and times specified in the Underwriting Agreement, the Underwriter has agreed to subscribe for or purchase or procure subscribers or purchasers for the Placing Shares on the terms and conditions of the Underwriting Agreement and this prospectus.

#### Grounds for termination

The obligations of the Underwriter to subscribe or procure subscribers for the Placing Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Bookrunner and Lead Manager (for itself and on behalf of the Sponsor and the Underwriter) shall have the right, in its sole and absolute discretion, to terminate with immediate effect the Underwriting Agreement if it sees fit by giving notice to the Company, upon the occurrence of any of the following events at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (A) there has come to the notice of the Bookrunner and Lead Manager:
  - (a) that any statement contained in any offer documents, was when it was issued, or has become, untrue, incorrect or misleading in any material respect, including where any estimate, forecast, expression of opinion, intention or expectation expressed in any offer document is not, in the sole and absolute opinion of the Bookrunner and Lead Manager, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
  - (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Bookrunner and Lead Manager in its sole and absolute opinion to be material in the context of the Placing; or

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## UNDERWRITING

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- (c) any material breach of any of the obligations imposed upon any party to the Underwriting Agreement (in each case, other than on the Bookrunner and Lead Manager or the Underwriter); or
  - (d) any event, act or omission which gives or is likely to give rise to any liability of the Warrantors (as defined in the Underwriting Agreement) under the Underwriting Agreement; or
  - (e) any change or development involving a prospective change in the conditions, assets, liabilities, business affairs, prospects, profits, losses or the financial or trading position or performance of our Company or any member of our Group taken as a whole considered by the Bookrunner and Lead Manager in its sole and absolute opinion to be material in the context of the Placing; or
  - (f) any of the warranties contained in the Underwriting Agreement is, or would when repeated be, untrue, incorrect or misleading in any material respect; or
  - (g) our Company withdraws any of the offer documents (and/or any other documents used in connection with the offering of the Placing Shares) or the Placing; or
  - (h) any person (other than the Bookrunner and Lead Manager or the Underwriter) 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; or
  - (i) approval by the GEM listing division of the Stock Exchange of the Listing of, and permission to deal in, our Shares in issue and to be issued under the Placing is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (B) there shall develop, occur, exist or come into effect:
- (a) any event, or series of events, in the nature of force majeure beyond the reasonable control of the Underwriter (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, earthquake, nuclear leakage, volcanic eruption, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza (including H7N9 and H5N1), swine influenza (H1N1), Ebola virus disease or such related/mutated forms) or interruption or delay in transportation; or

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## UNDERWRITING

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- (b) any change or development involving a prospective change, or any event or series of events likely to result in or representing any material adverse change or development or a prospective material adverse change or development, in local, regional, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in any stock or bond markets, money and foreign exchange markets and inter-bank markets, or a material fluctuation in the exchange rate of the Hong Kong dollar against any foreign currency, or any interruption in monetary or trading or securities settlement or clearance service or procedures or a material development of the Hong Kong dollar or Renminbi against any foreign currencies), in or affecting Hong Kong or anywhere in the world; or
- (c) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any governmental authority (“**Laws**”) or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application of any laws by any court or other competent authority in or affecting any of Hong Kong, the PRC, the United States, the European Union (or any member thereof), the Cayman Islands, or any other jurisdiction relevant to any member of our Group (together, the “**Specific Jurisdictions**”); or
- (d) (i) any moratorium, suspension, limitation or restriction on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange or Tokyo Stock Exchange; or (ii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the United States federal or New York state level or otherwise), Japan, London, the European Union (or any member thereof), the PRC or any other jurisdiction relevant to any member of our Group declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in any of the Specific Jurisdictions; or
- (e) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the Specific Jurisdictions; or
- (f) (i) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investments Laws in any of the Specific Jurisdictions; or (ii) any change or development involving a prospective change in taxation in any Specific Jurisdiction adversely affecting an investment in our Shares; or
- (g) any change or development involving a prospective change in, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or



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## UNDERWRITING

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- (h) any litigation or claim being threatened or instigated against our Company, any member of our Group or any of the Warrantors (as defined in the Underwriting Agreement) considered by the Bookrunner and Lead Manager in its sole and absolute opinion to be material in the context of the Placing; or
- (i) a Director being charged with an indictable offence or prohibited by the operation of law or otherwise disqualified from taking part in the management of a company; or
- (j) the chairman or chief executive officer or chief financial officer of our Company vacating his office; or
- (k) the commencement by any governmental, regulatory or political body or organization of any action against a Director in his capacity as such or an announcement by any governmental, regulatory or political body or organization that it intends to take any such action; or
- (l) a prohibition (including governmental or regulatory prohibition) on our Company for whatever reason from allotting or offering the Placing Shares pursuant to the terms of the Placing; or
- (m) non-compliance of this prospectus (and/or any other documents used in connection with the offering of the Placing Shares) or any aspect of the Placing with the GEM Listing Rules or any other Laws; or
- (n) save and except with the consent of the Bookrunner and Lead Manager, the issue or requirement to issue by our Company of a supplement or amendment to this prospectus (or any other documents used in connection with the offering of the Placing Shares) pursuant to the Companies Ordinance or the GEM Listing Rules; or
- (o) a valid demand by any creditor for repayment or payment of any indebtedness of a material amount 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; or
- (p) a petition or an order is presented for the winding-up or liquidation of our Company or any member of our Group, 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 to take 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,

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## UNDERWRITING

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which in each case or in aggregate in the sole and absolute opinion of the Sole Bookrunner and Lead Manager (1) is or will or is likely to have a material adverse effect in, or affecting, the assets, business, results of operations, prospects, Shareholders' equity, position or condition, financial or otherwise of our Company or our Group or any members of our Group taken as a whole; or (2) has or will have or likely to have a material adverse effect on the success of the Placing; or (3) makes or will make or is likely to make it impracticable, inadvisable or inexpedient for the Placing to proceed or the delivery of the offer Shares on the terms and in the manner contemplated by the offer documents to be made; or (4) has or will have or likely to have the effect of making any part of the Underwriting Agreement (including underwriting) and/or the Placing incapable of performance or implementation as envisaged.

### Undertakings

Pursuant to the Underwriting Agreement, our Company has undertaken to and covenanted with each of the Sponsor, the Bookrunner and Lead Manager and the Underwriter that our Company will not, and each of our Controlling Shareholder and executive Directors has undertaken to the Sponsor, the Bookrunner and Lead Manager and the Underwriter that it/he will procure our Company not to, without the prior written consent of the Bookrunner and Lead Manager and unless in compliance with the requirements of the GEM Listing Rules, except for the issue of Shares under the Placing, the grant of any option under the Share Option Scheme or the issue of Shares upon exercise of any option granted under the Share Option Scheme:

- (a) at any time during the period after the date of the Underwriting Agreement up to and including the date falling six months from the Listing Date (the **"First Six-month Period"**), offer, accept subscription for, pledge, lend, assign, mortgage, charge, allot, issue, sell, 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, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of the share capital or other securities of our Company or any of its subsidiaries or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive, or interests in, such share capital or securities or any interest therein, or any derivatives with the shares of our Company or of any of its subsidiaries as underlying securities); or
- (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 such share capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) and (b) above; or
- (d) at any time during the six-month period commencing on the date on which the First Six-month Period expires (the **"Second Six-month Period"**) enter into any of the

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## UNDERWRITING

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transactions described in paragraphs (a), (b) and (c) above, or agree or contract to or publicly announce any intention to enter into any such transactions, such that our Controlling Shareholder would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company,

whether any of the foregoing transactions described above is to be settled by delivery of share capital or such other securities, in cash or otherwise or publicly disclose that our Company will or may enter into any transaction described above.

In the event our Company enters into any transaction specified in sub-paragraphs (a), (b) and (c) above during the Second Six-month Period (whether or not such transaction will be completed in the aforesaid period), it shall take all reasonable steps to ensure that any such transaction, agreement, or as the case may be, announcement or other acts of our Company will not create a disorderly or false market in the securities of our Company.

Our Controlling Shareholders have undertaken to and covenanted with each of our Company, the Sponsor, the Bookrunner and Lead Manager and the Underwriter that, without the prior written consent of the Bookrunner and Lead Manager and unless in compliance with the requirements of the GEM Listing Rules, they shall not, and shall procure that none of its relevant registered holder(s), associates and companies controlled by it and any nominee or trustee holding in trust for it shall:

- (a) at any time during the First Six-month Period, (i) offer, pledge, charge, sell, contract to 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, lend or otherwise transfer or dispose of, either directly or indirectly, any shares or other securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such shares or such securities); or (ii) 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 shares or other securities of our Company or any interest therein, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise; or (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (i) and (ii) above; or (iv) announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (i), (ii) and (iii) above;
- (b) at any time during the Second Six-month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any shares or other securities of our Company or any interest therein held by it or any of its associates or companies controlled by it or any nominee or trustee holding in trust for it if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholder would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company,

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## UNDERWRITING

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and in the event that it enters into any transaction specified in sub-paragraph (a) above during the Second Six-month Period (whether or not such transaction will be completed in the aforesaid period), it shall take all reasonable steps to ensure that any such transaction, agreement or, as the case may be, announcement will not create a disorderly or false market in the securities of our Company.

Our Controlling Shareholders have further undertaken to and covenanted with each of our Company, the Sponsor, the Bookrunner and Lead Manager, the Underwriter and the Stock Exchange that:

- (a) in the event that it pledges or charges any of its direct or indirect interest in any shares or other securities of our Company pursuant to Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange under Rule 13.18(4) of the GEM Listing Rules at any time during the First Six-month Period and the Second Six-month Period, it will immediately inform our Company, the Sponsor and the Bookrunner and Lead Manager, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any of its interests in our shares or other securities of our Company under sub-paragraph (a) above, it must inform our Company, the Sponsor and the Bookrunner and Lead Manager immediately in the event that it becomes aware that any pledgee or chargee has disposed of or intends to dispose of such interest and of the number of our shares and other securities of our Company affected.

Our Company will also inform the Stock Exchange as soon as our Company has been informed of the above matters (if any) by our Controlling Shareholders and disclose such matters by way of announcement in accordance with GEM Listing Rules as soon as possible after being so informed by our Controlling Shareholder.

Our Company, our Controlling Shareholders and our executive Directors have agreed to indemnify the Underwriter from certain losses which they may suffer, including losses arising from their performance of their obligations under the Underwriting Agreement and any breach by our Company, our Controlling Shareholders or our executive Directors of the Underwriting Agreement.

### **Fees, commission and expenses**

Pursuant to the Underwriting Agreement, the Placing Shares are being offered for subscription, subject to the terms and conditions in this prospectus, at the Placing Price of HK\$0.50 to HK\$0.60 per Share. The Underwriter will receive an underwriting commission of 3.8% of the aggregate Placing Price of all Placing Shares (out of which it will pay any praecipium), which are to be borne by our Company.

Assuming the Placing Price is HK\$0.55 (being the mid-point of the stated range of the Placing Price, the total fees and expenses relating to the Placing and Listing (including the GEM Listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, and printing) and underwriting commission, are estimated to be approximately HK\$16.0 million and HK\$0.99 million

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## UNDERWRITING

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respectively of which approximately HK\$0.9 million were charged to our profit and loss account for the year ended 31 December 2014 and approximately HK\$8.2 million and HK\$3.1 million of listing expense will be reflected in profit and loss account for the year ended 31 December 2015 and for the year ending 31 December 2016. The Sponsor's fee in relation to the Listing are approximately HK\$3.5 million.

### SPONSOR'S INTERESTS

Save as provided for under the Underwriting Agreement, neither the Sponsor nor any of its close associates has or may, as a result of the Placing, have any interest in any securities of our Company or any other member of our Group (including rights to subscribe for such securities).

Neither the Sponsor nor any of its close associates will accrue any material benefit as a result of the successful outcome of the Placing, other than the following:

- (a) by way of a praecipium to be paid to the Sponsor pursuant to the Underwriting Agreement;
- (b) by way of sponsor's fee to be paid to the Sponsor for acting as the sponsor of the Placing;  
and
- (c) by way of service fee to be paid to the Sponsor for acting as the compliance advisor of the Group upon Listing.

None of the directors and employees of the Sponsor has any directorship in our Company or any other companies comprising our Group.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### PLACING PRICE

The Placing Price will not be more than HK\$0.60 per Placing Share (and expected to be not less than HK\$0.50 per Placing Share). Subscribers, when subscribing for the Placing Shares, shall pay the Placing Price plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. Assuming the Placing Price of HK\$0.50 or HK\$0.60 per Placing Share (being the lowest and highest prices of indicative Placing Price range respectively), investors shall pay HK\$2,525.20 and HK\$3,030.23 for every board lot of 5,000 Placing Shares.

The Placing Price will be determined by the Price Determination Agreement expected to be entered into between our Company and the Bookrunner and Lead Manager on the Price Determination Date which is expected to be on or about Thursday, 18 February 2016, and in any event, not later than Monday, 22 February 2016. If our Company and the Bookrunner and Lead Manager are unable to reach an agreement on the Placing Price by the Price Determination Date or such later date as may be agreed between our Company and the Bookrunner and Lead Manager, the Placing will not become unconditional and will lapse.

Prospective investors of the Placing Shares should be aware that the Placing Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative range of the Placing Price stated in this prospectus.

The determination of Placing Price, the level of indication of interests in the Placing and the basis of allocation of the Placing Shares will be announced on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.keenoccean.com.hk](http://www.keenoccean.com.hk) on or before 9:00 a.m. on Tuesday, 23 February 2016.

### THE PLACING

The Placing comprises 60,000,000 Placing Shares conditionally offered by our Company. Our Company is offering 60,000,000 new Shares for subscription and/or sale by way of private placements to professional, institutional and/or other investors. The Placing Shares will represent 30% of our Company's enlarged issued share capital immediately after completion of the Placing and the Capitalisation Issue.

Pursuant to the Placing, it is expected that the Underwriter or selling agents nominated by them, on behalf of our Company will conditionally place the Placing Shares at the Placing Price (plus a 1% brokerage fee, a 0.005% Stock Exchange trading fee and a 0.0027% SFC transaction levy) with selected professional, institutional and/or other investors in Hong Kong and elsewhere in the world outside the United States. Professional, institutional and/or other investors generally include brokers, dealers, high net worth individuals and companies (including fund managers) whose ordinary business involves dealing and investing in shares and other securities.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### Basis of Allocation

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell our Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of our Company and our Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that no more than 50% of our Shares in public hands at the time of the Listing will be owned by the three largest public Shareholder. No allocations of the Placing Shares will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

The Placing is subject to the conditions as stated in subsection “Conditions of the Placing” in this section.

### CONDITIONS OF THE PLACING

The Placing is conditional upon, among other things:

- (a) the listing division of the Stock Exchange granting Listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein including any Shares which may fall to be issued upon exercise of the options that may be granted under the Share Option Scheme;
- (b) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sponsor and the Bookrunner and Lead Manager and the Underwriting Agreement not being terminated in accordance with its terms or otherwise prior to 8:00 a.m. (Hong Kong time) on the Listing Date). Details of the Underwriting Agreement, their conditions and grounds for termination, are set out in the section headed “Underwriting” in this prospectus; and
- (c) the Price Determination Agreement between our Company and the Bookrunner and Lead Manager being entered into on or before the Price Determination Date.

The consummation of the Placing is conditional upon, among other things, the Placing becoming unconditional and not having been terminated in accordance with their respective terms.

If such conditions have not been fulfilled or waived by the Bookrunner and Lead Manager prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.keenocan.com.hk](http://www.keenocan.com.hk) on the next business day following such lapse.

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## **STRUCTURE AND CONDITIONS OF THE PLACING**

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### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in our Shares on GEM are expected to commence at 9:00 a.m. on Wednesday, 24 February 2016 under the stock code of 8070. Shares will be traded in board lots of 5,000 Shares each.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Application has been made to the Stock Exchange for listing of, and permission to deal in, the Placing Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in our Shares and our Company complies 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 our Shares on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. 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 necessary arrangements have been made for our Shares to be admitted into CCASS.

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 stockbrokers or other professional advisor for details of those settlement arrangements and how such arrangements will affect their rights and interest.



*The following is the text of a report from the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guidelines 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

17 February 2016

The Directors  
Keen Ocean International Holding Limited

LY Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Keen Ocean International Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), for each of the two years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 (the "Track Record Period") for inclusion in the prospectus of the Company dated 17 February 2016 in connection with the proposed placing and listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Prospectus").

The Company, which acts as an investment holding company, was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 19 December 2014. Pursuant to a group reorganisation, as more fully explained in the section headed "Reorganisation" to the Prospectus (the "Reorganisation"), the Company became the holding company of the Group on 23 December 2014. Other than the transactions relating to the Reorganisation, the Company has not carried out any business since the date of its incorporation.

Particulars of the Company's subsidiaries at the end of each reporting period and at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Attributable equity interest held by the Company as at			Date of this report	Issued and fully paid share capital/ registered capital	Principal activities
		31 December 2013	31 December 2014	31 August 2015			
Keen Ocean Electronics Company Limited ("Keen Ocean Electronics")	The British Virgin Islands (the "BVI") 5 December 2014	N/A	100%	100%	100%	US\$200	Investment holding

**APPENDIX I****ACCOUNTANTS' REPORT**

Name of subsidiary	Place and date of incorporation/ establishment	Attributable equity interest held by the Company as at			Date of this report	Issued and fully paid share capital/ registered capital	Principal activities
		31 December 2013	31 August 2014	2015			
Keen Ocean Industrial Limited ("Keen Ocean Industrial")	Hong Kong 17 May 2000	100%	100%	100%	100%	HK\$3,000,000	Trading of transformers, switching mode power supply, electronic parts and components
He Yuan Sky Wealth Electronics & Plastic Co. Ltd. ("He Yuan Sky Wealth") 河源天裕電子塑膠有限公司 (note)	The People's Republic of China (the "PRC") 24 November 2010	100%	100%	100%	100%	US\$3,500,000	Manufacture and trading of transformers, switching mode power supply, electronic parts and components
T-Lab Industrial (Holdings) Ltd. ("T Lab Industrial")	Hong Kong 15 August 1996	100%	100%	100%	100%	HK\$6	Inactive

*Note:* He Yuan Sky Wealth is a wholly foreign owned enterprise with limited liability. The English translation name is for identification only.

Except for Keen Ocean Electronics, all of the above subsidiaries are indirectly held by the Company. All companies now comprising the Group have adopted 31 December as their financial year end date.

As at the date of this report, no statutory financial statements have been prepared for the Company and Keen Ocean Electronics since their respective dates of incorporation which were incorporated in the jurisdictions where there are no statutory audit requirements. We have, however, reviewed all relevant transactions of the Company and Keen Ocean Electronics since their respective dates of incorporation and carried out such procedures as we considered necessary for inclusion of the financial information relating to the Group.

The statutory financial statements of the Company's other subsidiaries for the Track Record Period were prepared in accordance with relevant accounting principles and financial reporting framework applicable to Hong Kong and the PRC, whichever is applicable, and were audited by the following certified public accountants registered in Hong Kong and the PRC, whichever is applicable.

Name of company	Financial year end	Name of auditor
Keen Ocean Industrial	Year ended 31 December 2013	Deloitte Touche Tohmatsu
	Year ended 31 December 2014	Deloitte Touche Tohmatsu

<b>Name of company</b>	<b>Financial year end</b>	<b>Name of auditor</b>
He Yuan Sky Wealth	Year ended 31 December 2013	Guangdong Detai Certified Public Accountants
	Year ended 31 December 2014	Guangdong Detai Certified Public Accountants
T-Lab Industrial	Year ended 31 December 2013	Choy Sik Fai Certified Public Accountants
	Year ended 31 December 2014	Choy Sik Fai Certified Public Accountants

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group for the Track Record Period in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have also examined the Underlying Financial Statements in accordance with Auditing Guidance 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of Section A below, without adjustments.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation sets out in note 1 of section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Company as at 31 December 2014 and 31 August 2015 and of the Group as at 31 December 2013, 31 December 2014 and 31 August 2015 and of the consolidated financial performance and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the eight months ended 31 August 2015 together with the notes thereon have been extracted from the Group’s unaudited financial information for the same period (the “31 August 2014 Financial Information”) which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 31 August 2014 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the HKICPA. Our review of the 31 August 2014 Financial Information consists of making enquires, primarily of persons responsible for financial and

accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 August 2014 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 31 August 2014 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with the HKFRSs.

## A. FINANCIAL INFORMATION

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	The Group			
		Year ended		Eight months	
		31 December		ended 31 August	
		2013	2014	2014	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Revenue	7	189,907	181,973	121,907	117,706
Cost of sales		<u>(153,793)</u>	<u>(147,523)</u>	<u>(98,684)</u>	<u>(93,009)</u>
Gross profit		36,114	34,450	23,223	24,697
Other income	8	2,107	1,184	872	428
Other gains and losses	9	1,848	(360)	(336)	(190)
Selling and distribution expenses		(4,888)	(4,724)	(2,977)	(3,170)
Administrative expenses		(21,926)	(20,856)	(13,855)	(13,001)
Other expenses	10	(14)	(918)	(3)	(7,879)
Finance costs	11	<u>(3,380)</u>	<u>(2,572)</u>	<u>(2,021)</u>	<u>(1,013)</u>
Profit (loss) before tax	12	9,861	6,204	4,903	(128)
Income tax expense	13	<u>(1,796)</u>	<u>(1,178)</u>	<u>(821)</u>	<u>(1,655)</u>
Profit (loss) and total comprehensive income (expense) for the year/period		<u>8,065</u>	<u>5,026</u>	<u>4,082</u>	<u>(1,783)</u>
Earnings (loss) per share — Basic (HK cents)	16	<u>5.76</u>	<u>3.59</u>	<u>2.92</u>	<u>(1.27)</u>

## STATEMENTS OF FINANCIAL POSITION

		The Group			The Company	
		As at 31 December 2013	As at 31 December 2014	As at 31 August 2015	As at 31 December 2014	As at 31 August 2015
	NOTES	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current Assets</b>						
Investment in a subsidiary	18	—	—	—	1	1
Property, plant and equipment	17	10,946	9,331	8,007	—	—
		10,946	9,331	8,007	1	1
<b>Current Assets</b>						
Inventories	19	35,471	38,453	29,545	—	—
Trade and other receivables and prepayments	20	27,492	29,422	36,052	304	3,312
Amounts due from related parties	30	32,478	2,913	—	—	—
Financial derivative assets	21	1,814	—	—	—	—
Prepaid income tax		—	12	121	—	—
Pledged bank deposits	22	13,026	11,049	9,033	—	—
Bank balances and cash	22	7,101	6,652	4,468	—	—
		117,382	88,501	79,219	304	3,312
<b>Current Liabilities</b>						
Trade and other payables and accruals	23	20,010	28,347	22,749	—	—
Amount due to a subsidiary	18	—	—	—	1,218	12,105
Amounts due to related parties	30	8,679	—	151	—	—
Loan from a related company	30	2,065	—	—	—	—
Bank borrowings	24	52,395	21,190	17,450	—	—
Income tax payable		1,648	438	1,081	—	—
		84,797	49,975	41,431	1,218	12,105
<b>Net Current Assets (Liabilities)</b>		32,585	38,526	37,788	(914)	(8,793)
<b>Total Assets less Current Liabilities</b>		43,531	47,857	45,795	(913)	(8,792)
<b>Non-current liabilities</b>						
Bank borrowings	24	1,232	831	552	—	—
Deferred tax liability	27	299	—	—	—	—
		1,531	831	552	—	—
<b>Net Assets (Liabilities)</b>		42,000	47,026	45,243	(913)	(8,792)
<b>Capital and Reserves</b>						
Share capital	25	3,000	—	—	—	—
Reserves	26	39,000	47,026	45,243	(913)	(8,792)
<b>Total Equity</b>		42,000	47,026	45,243	(913)	(8,792)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				
	Share capital	Special reserve	Retained profits	Translation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note)			
At 1 January 2013	3,000	—	31,045	(110)	33,935
Profit and total comprehensive income for the year	—	—	8,065	—	8,065
At 31 December 2013	3,000	—	39,110	(110)	42,000
Profit and total comprehensive income for the year	—	—	5,026	—	5,026
Shares issued (note 25)	—	—	—	—	—
Effect of Reorganisation	(3,000)	3,000	—	—	—
At 31 December 2014	—	3,000	44,136	(110)	47,026
Loss and total comprehensive expense for the period	—	—	(1,783)	—	(1,783)
At 31 August 2015	—	3,000	42,353	(110)	45,243
At 1 January 2014	3,000	—	39,110	(110)	42,000
Profit and total comprehensive income for the period	—	—	4,082	—	4,082
At 31 August 2014 (unaudited)	3,000	—	43,192	(110)	46,082

*Note:* The special reserve represents the nominal value of the share capital of Keen Ocean Industrial at the date on which it was acquired by Keen Ocean Electronics and the consideration was settled by way of issue of 100 ordinary shares by Keen Ocean Electronics to the Company pursuant to the Reorganisation.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
<b>OPERATING ACTIVITIES</b>				
Profit (loss) before tax	9,861	6,204	4,903	(128)
Adjustments for:				
Depreciation	2,166	2,769	1,852	2,130
Interest income	(669)	(409)	(374)	(56)
Finance costs	3,380	2,572	2,021	1,013
Loss on disposal of property, plant and equipment	5	31	31	—
Change in fair value of financial derivatives	(2,810)	659	659	—
Impairment loss on trade receivables	757	—	—	—
Operating cash flows before movements in working capital	12,690	11,826	9,092	2,959
Decrease (increase) in inventories	2,049	(2,982)	(868)	8,908
Decrease (increase) in trade and other receivables and prepayments	6,048	(1,930)	(3,548)	(6,630)
Decrease in financial derivative assets	1,906	1,155	1,155	—
(Decrease) increase in trade and other payables and accruals	(2,079)	8,337	(3,481)	(5,598)
Increase in amount due to a related party	—	—	—	151
Cash generated from (used in) operations	20,614	16,406	2,350	(210)
Income tax paid	(1,413)	(2,699)	(634)	(1,121)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>19,201</b>	<b>13,707</b>	<b>1,716</b>	<b>(1,331)</b>
<b>INVESTING ACTIVITIES</b>				
Interest received	669	409	374	56
Acquisition of property, plant and equipment	(3,493)	(1,195)	(718)	(806)
Advances to related parties	(40,226)	(5,427)	(695)	—
Repayment from related parties	28,720	34,992	16,402	2,913
Withdrawal of pledged bank deposits	—	11,022	8,007	2,022
Placement of pledged bank deposits	(2,005)	(9,045)	(4,000)	(6)
Proceeds on disposal of property, plant and equipment	215	10	—	—
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(16,120)</b>	<b>30,766</b>	<b>19,370</b>	<b>4,179</b>
<b>FINANCING ACTIVITIES</b>				
Advances from related parties	6,992	5,361	—	—
Repayment to related parties	(1,535)	(14,040)	(8,679)	—
New bank borrowings raised	205,344	244,550	193,543	165,755
Repayment of bank borrowings	(206,705)	(276,156)	(204,634)	(169,774)
Loan from a related company	1,297	—	—	—
Repayment to a related company	(1,200)	(2,065)	(2,065)	—
Interest paid	(3,380)	(2,572)	(2,021)	(1,013)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>813</b>	<b>(44,922)</b>	<b>(23,856)</b>	<b>(5,032)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,894</b>	<b>(449)</b>	<b>(2,770)</b>	<b>(2,184)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD</b>	<b>3,207</b>	<b>7,101</b>	<b>7,101</b>	<b>6,652</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, represented by bank balances and cash</b>	<b>7,101</b>	<b>6,652</b>	<b>4,331</b>	<b>4,468</b>



**NOTES TO THE FINANCIAL INFORMATION****1. BASIC OF PRESENTATION OF FINANCIAL INFORMATION AND GROUP REORGANISATION**

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 19 December 2014. Its ultimate and immediate holding company is Cyber Goodie Limited (“Cyber Goodie”) which was incorporated in the BVI and wholly owned by Mr. Chung Chi Hang Larry (the “Controlling Shareholder”). The address of the Company’s registered office and the principal place of business is disclosed in the paragraph headed “Corporate Information” to the Prospectus.

Keen Ocean Industrial was established on 17 May 2000 and was 90% and 10% owned by Cyber Goodie and Mr. Chung Tin Shing respectively immediately prior to the Reorganisation. Pursuant to the Reorganisation as set out in the section headed “Reorganisation” in the Prospectus, the Company was incorporated on 19 December 2014 and 1 share was transferred from the subscriber of the Company to Cyber Goodie and became the wholly-owned subsidiary of Cyber Goodie. On the same date, the Company issued 8,999 shares and 1,000 shares to Cyber Goodie and Mr. Chung Tin Shing respectively and thereafter the Company was 90% and 10% owned by Cyber Goodie and Mr. Chung Tin Shing respectively. On 5 December 2014, Keen Ocean Electronics was incorporated and on 22 December 2014, 100 shares were allotted and issued to the Company and became the wholly-owned subsidiary of the Company. On 23 December 2014, Keen Ocean Electronics acquired 100% equity interest in Keen Ocean Industrial from the shareholders of Keen Ocean Industrial and in exchange for which Keen Ocean Electronics allotted and issued 100 shares to the Company and thereafter Keen Ocean Industrial becomes the wholly-owned subsidiary of Keen Ocean Electronics and the Company becomes the holding company of the Group.

Pursuant to the above Reorganisation, which was principally completed by establishing the Company and Keen Ocean Electronics as the parents of Keen Ocean Industrial, the Company has become the holding company of the companies now comprising the Group since 23 December 2014. These subsidiaries are under the common control of the Controlling Shareholder throughout the Track Record Period or since their respective dates of incorporation, where this is a shorter period.

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 of the Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment of the relevant companies now comprising the Group, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2013 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

The functional currency of the Company is United States dollars ("US\$") and the presentation currency of the Company is Hong Kong dollars ("HK\$") as the directors of the Company consider that it is easier to monitor the financial performance of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted the HKFRSs issued by the HKICPA that are effective for the Group's financial year beginning on 1 January 2015.

At the date of this report, the HKICPA has issued the following new and revised HKFRSs which are not yet effective:

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

Except as described below, the directors of the Company anticipate that the application of the above new and revised HKFRSs will have no material impact on Financial Information of the Group.

**HKFRS 15 “Revenue from contracts with Customer”**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may affect the amounts reported and related disclosures. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

**3. SIGNIFICANT ACCOUNTING POLICIES**

Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### **Basic of consolidation**

The Financial Information incorporates the financial statements of the Group entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost less any identified impairment losses on the statement of financial position of the Company. The results of the subsidiary are accounted for by the Company on the basis of dividends received or receivable during the year/period.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

**Leasing**

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

***The Company as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as an expenses when employees have rendered service entitling them to the contributions.

**Government grant**

Government grants are not recognised until there is a reasonable assurance that the Group will comply with conditions attaching to them and that the grants will be received. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit (loss) before tax' as reported in the consolidated statements of profit or loss and other comprehensive income because income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss.

### **Impairment on tangible assets other than goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method.

### **Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.



Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### *Financial assets*

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instrument.

### *Financial asset at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 6.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables which are assessed individually for impairment. Objective evidence of impairment for a receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 15 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

***Other financial liabilities***

Other financial liabilities (including trade and other payables, amounts due to a subsidiary and related parties, loan from a related company and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when and only when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each 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.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision, if any, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

In assessing whether provision is required and if so, the relevant amount of the provision, management uses their best effort to estimate the consideration that may be required to settle the present obligation at the end of the reporting period, taking into account significant assumptions and a number of factors such as the relevant facts and circumstances, legal advice and current enforcement practice of the relevant rules, of which ultimate realisation may be subject to changes. The directors of the Company assesses the need and adequacy of provisions at the end of each reporting period. If expected future cash outflow is different from that as originally estimated, the difference will be recognised in the profit or loss in the period in which the difference occurs.

**Estimated impairment of trade receivables and amounts due from related parties**

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013 and 2014 and 31 August 2015, the carrying amount of trade receivables is HK\$27,388,000, HK\$28,818,000 and HK\$32,209,000, net of allowance for doubtful debts of HK\$1,563,000, HK\$1,563,000 and HK\$1,563,000 respectively. As at 31 December 2013 and 2014 and 31 August 2015, the carrying amount of amounts due from related parties is HK\$32,478,000, HK\$2,913,000 and nil respectively.

**Estimated allowance for inventories**

Included in the consolidated statements of financial position at 31 December 2013 and 2014 and 31 August 2015 are inventories with a carrying amount of HK\$35,471,000, HK\$38,453,000 and HK\$29,545,000 respectively. No allowance for inventories has been made during the Track Record Period. Management assessed the recoverability of the amount based on an estimation of the net realisable value of the inventories which involves, inter-alia, the analyses of the status of the subsequent sales and the current market price of the inventories. If the actual net realisable values of the inventories are more or less than expected as a result of change in market condition and/or significant technologically change, material reversal of or provision for impairment losses may result.

**5. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of debt, which include bank borrowings, amounts due to related parties and loan from a related company disclosed in notes 24 and 30, respectively, and equity of the Group, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As a part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors of the Company, the Company will balance its overall capital structure through new share issues, the issue of new debt or the redemption of existing debt.

**6. FINANCIAL INSTRUMENTS****6a. Categories of financial instruments**

	<b>The Group</b>			<b>The Company</b>	
	<b>As at</b>	<b>As at</b>	<b>As at 31</b>	<b>As at</b>	
	<b>31 December</b>	<b>31 August</b>	<b>December</b>	<b>31 August</b>	
	<b>2013</b>	<b>2014</b>	<b>2014</b>	<b>2015</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial assets</b>					
Loans and receivables (including cash and cash equivalents)	78,794	48,162	44,870	—	—
Derivative financial instruments	<u>1,814</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Financial liabilities</b>					
Amortised cost	<u>80,141</u>	<u>45,497</u>	<u>29,400</u>	<u>1,218</u>	<u>12,105</u>

**6b. Financial risk management objectives and policies**

The Group's major financial instruments include trade and other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash, trade and other payables, amounts due to related parties, loan from a related company and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest risk and commodity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk***Currency risk*

The sales of the Group are mainly denominated in US\$. However, the Group has certain foreign currency sales and purchases transactions denominated in Renminbi, Hong Kong dollars, Euro dollars and British Pound, which exposes the Group to foreign currency risk. The Group currently have no foreign currency hedging policy and management monitors the foreign exchange exposure by closely monitoring the movement of foreign currency rates.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each of the reporting period are as follows:

	Assets			Liabilities		
	As at 31 December 2013 HK\$'000	As at 31 August 2014 HK\$'000	As at 31 August 2015 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 August 2014 HK\$'000	As at 31 August 2015 HK\$'000
Renminbi ("RMB")	17,035	9,613	10,621	24,822	12,543	6,700
HK\$	20,690	15,345	12,364	26,299	15,088	9,659
British Pound ("GBP")	319	—	732	—	—	387
Euro Dollars ("EUR")	—	31	27	—	—	—

*Sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase and decrease in US\$ against the relevant foreign currencies. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit or decrease in loss whether US\$ strengthen 5% against the relevant currency. For a 5% weakening of US\$ against the relevant currency, there would be an equal and opposite impact on the profit or loss and the balances below would be negative.

In the opinion of the management of the Group, the sensitivity analysis of currency risk exposure of HK\$ is not presented as it is pegged with US\$, the average change in foreign exchange rate will not have significant impact on the profit or loss for the year/period.

	RMB			GBP			EUR		
	Year ended		Eight months ended	Year ended		Eight months ended	Year ended		Eight months ended
	31 December	31 August	31 August	31 December	31 August	31 August	31 December	31 August	31 August
	2013	2014	2015	2013	2014	2015	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Post-tax profit or loss for the year/ period	282	146	(156)	(13)	—	(14)	—	(2)	(1)

### *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to the pledged bank deposits, bank balances, variable-rate amount due from a related party, bank borrowings and loan from a related company. The directors of the Company consider that the changes in interest rates of bank balances have no significant impact to the Group due to the low interest rates and short-term maturities and therefore no sensitivity analysis is presented for bank balances.

### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for pledged bank deposits, variable-rate amount due from a related party, bank borrowings and loan from a related Group at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit or loss for the years ended 31 December 2013 and 31 December 2014 and eight months ended 31 August 2015 would decrease/increase by approximately HK\$142,000, HK\$46,000 and HK\$25,000 respectively.

### **Credit risk**

As at 31 December 2013 and 2014 and 31 August 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counter parties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances and pledged bank deposits is limited because the counterparties are reputable banks in Hong Kong and PRC.

The concentration of credit risk on bank balance and pledged bank deposits is not significant because the funds are deposited in more than five banks with high credit ratings and the individual balances in each bank are not significant to the Group.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

Apart from Customer A and Customer D, the key customers of the Group (see note 7), Chung Chi Hang Larry and Yield Speed Ltd., concentration of credit risk to any other counterparty did not exceed 5% of the total current assets of the Group at the end of each reporting period. The outstanding balances from Chung Chi Hang Larry and Yield Speed Ltd. were fully settled before 31 December 2014. The Customer A and Customer D are reputable manufacturers in the industry and good repayment history and the concentration of credit risk is not considered as significant to the Group.

### **Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as significant source of liquidity. The Group has available unutilised trade finance bank facilities of approximately HK\$57,888,000, HK\$54,263,000 and HK\$33,581,000 at 31 December 2013 and 2014 and 31 August 2015 respectively and bank overdraft facilities of HK\$503,000, HK\$376,000 and HK\$5,973,000 at 31 December 2013 and 2014 and 31 August 2015 respectively. Details of bank borrowings are set out in note 24.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.



The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

### Liquidity

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December 2013 HK\$'000
<b>At 31 December 2013</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	15,770	—	—	15,770	15,770
Amounts due to related parties	—	8,679	—	—	8,679	8,679
Bank borrowings - variable rate	4.78%	37,494	15,712	1,260	54,466	53,627
Loan from a related company - variable rate	5.00%	26	2,108	—	2,134	2,065
		<u>61,969</u>	<u>17,820</u>	<u>1,260</u>	<u>81,049</u>	<u>80,141</u>

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December 2014 HK\$'000
<b>At 31 December 2014</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	23,476	—	—	23,476	23,476
Bank borrowings - variable rate	4.00%	21,017	711	882	22,610	22,021
		<u>44,493</u>	<u>711</u>	<u>882</u>	<u>46,086</u>	<u>45,497</u>

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 August 2015 HK\$'000
<b>At 31 August 2015</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	—	14,972	—	—	14,972	14,972
Amount due to a related party	—	151	—	—	151	151
Bank borrowings - variable rate	4.19%	17,287	344	572	18,203	18,002
		<u>32,410</u>	<u>344</u>	<u>572</u>	<u>33,326</u>	<u>33,125</u>

**6c. Fair value**

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments is calculated using quoted prices whenever possible. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing model for optional derivatives.

***Fair value measurements******Financial assets measured at fair value on a recurring basis***

At 31 December 2013, the financial derivative assets comprising foreign currency forward contracts of HK\$1,814,000 were measured subsequent to initial recognition at fair value at the end of each reporting period, which were grouped into Level 2 fair value measurements. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The fair value of the foreign currency forward contracts are determined based on valuation provided by the counterparty financial institutions, which is measured using discounted cash flow analysis based on, inter alia, the applicable exchange rate and yield curves of relevant interest rates and contracted interest rates.

The foreign currency forward contracts require net settlement.

During the Track Record Period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

**7. REVENUE AND SEGMENT INFORMATION**

Revenue represents the fair value of amounts received and receivable for goods sold by the Group to outside customers, less discount. The Group's operation is solely derived from the manufacture and sale of transformers, switching mode power supply, electronic parts and components during the Track Record Period. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Company) reviews the overall results and financial position of the Group as a whole prepared based on same accounting policies set out in note 3. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

An analysis of the Group's revenue from its major products is as follows:

	Year ended		Eight months ended	
	31 December		31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Sales of transformers	113,382	88,917	58,046	51,408
Sales of switching mode power supply	15,466	15,865	7,738	5,529
Sales of electronic parts and components	<u>61,059</u>	<u>77,191</u>	<u>56,123</u>	<u>60,769</u>
	<u>189,907</u>	<u>181,973</u>	<u>121,907</u>	<u>117,706</u>

### Geographical information

The Group's operation is located in PRC (country of domicile). Information about the Group's revenue is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers				Non-current Assets		
	Eight months ended				As at		
	Year ended		31 August		31 December		31 August
	2013	2014	2014	2015	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					<i>(unaudited)</i>		
Hong Kong	25,447	27,370	17,859	31,477	948	865	735
PRC	59,020	53,038	32,868	28,707	9,998	8,466	7,272
Europe	50,695	44,320	29,189	31,072	—	—	—
United States	39,880	46,392	29,581	14,145	—	—	—
Others	<u>14,865</u>	<u>10,853</u>	<u>12,410</u>	<u>12,305</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>189,907</u>	<u>181,973</u>	<u>121,907</u>	<u>117,706</u>	<u>10,946</u>	<u>9,331</u>	<u>8,007</u>

The sales to PRC customers included indirect export sales amounting to approximately HK\$36,566,000, HK\$31,026,000, HK\$22,267,000 (unaudited) and HK\$14,523,000 for the years ended 31 December 2013 and 31 December 2014 and eight months ended 31 August 2014 and 2015 respectively.

**Information about major customers**

Revenues from customers during the Track Record Period contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 December		Eight months ended 31 August	
	2013 HK\$'000	2014 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000
Customer A <sup>1</sup>	32,987	28,914	21,338	13,667
Customer B <sup>2</sup>	28,173	26,465	18,047	N/A <sup>3</sup>
Customer C <sup>2</sup>	19,559	21,001	14,459	15,399
Customer D <sup>2</sup>	N/A <sup>4</sup>	N/A <sup>4</sup>	N/A <sup>4</sup>	19,414
	<u>80,719</u>	<u>76,380</u>	<u>53,844</u>	<u>48,480</u>

<sup>1</sup> Revenue from sales of transformers

<sup>2</sup> Revenue from sales of electronic parts and components

<sup>3</sup> Customer B did not contribute over 10% of the total revenue of the Group for the eight months ended 31 August 2015.

<sup>4</sup> Customer D did not contribute over 10% of the total revenue of the Group for each of the two years ended 31 December 2013 and 2014 and the eight months ended 31 August 2014 (unaudited).

**8. OTHER INCOME**

	Year ended 31 December		Eight months ended 31 August	
	2013 HK\$'000	2014 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000
Interest income from a related party	648	370	346	—
Government grant	490	—	—	—
Sales of scrap materials	937	755	498	372
Bank interest income	21	39	28	56
Commission income	11	—	—	—
Compensation received from a supplier	—	5	—	—
Forfeiture of customer deposits	—	15	—	—
	<u>2,107</u>	<u>1,184</u>	<u>872</u>	<u>428</u>

## 9. OTHER GAINS AND LOSSES

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Change in fair value of financial derivatives	2,810	(659)	(659)	—
Impairment loss on trade receivables	(757)	—	—	—
Foreign exchange (loss) gain, net	(200)	330	354	(190)
Loss on disposal of property, plant and equipment	(5)	(31)	(31)	—
	<u>1,848</u>	<u>(360)</u>	<u>(336)</u>	<u>(190)</u>

## 10. OTHER EXPENSES

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Professional fee in relation to listing	—	913	—	7,879
Others	14	5	3	—
	<u>14</u>	<u>918</u>	<u>3</u>	<u>7,879</u>

## 11. FINANCE COSTS

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Interest on bank borrowings wholly repayable within five years	3,282	2,521	1,970	1,013
Interest on loan from a related company	98	51	51	—
	<u>3,380</u>	<u>2,572</u>	<u>2,021</u>	<u>1,013</u>

## 12. PROFIT (LOSS) BEFORE TAX

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Profit before tax has been arrived at after charging:				
Auditor's remuneration	667	627	—	—
Depreciation of plant and equipment	2,166	2,769	1,852	2,130
Cost of inventories sold	151,581	145,983	98,135	92,559
Minimum lease payment paid under operating leases	2,996	3,080	2,036	2,002
Research and development expenses	420	893	606	486
Directors' emoluments				
- Salaries and other benefits	924	824	507	699
- Retirement benefit contributions	30	32	21	31
	<u>954</u>	<u>856</u>	<u>528</u>	<u>730</u>
Staff salaries and other benefits	40,871	42,943	25,837	20,319
Staff retirement benefit contributions (Note)	<u>1,103</u>	<u>1,979</u>	<u>1,528</u>	<u>2,637</u>
	<u>41,974</u>	<u>44,922</u>	<u>27,365</u>	<u>22,956</u>
Total staff costs (including directors' emoluments)	<u>42,928</u>	<u>45,778</u>	<u>27,893</u>	<u>23,686</u>

*Note:* Historically and during the Track Record Period, He Yuan Sky Wealth failed to promptly make registration of, nor make full contributions to the social insurance plans and the housing provident fund for their employees. The total amount of social insurance payments and housing provident fund contributions that He Yuan Sky Wealth failed to make during each of the years ended 31 December 2013 and 2014 were HK\$3.6 million and HK\$2.8 million respectively. Starting from December 2014, the Group has made contributions to the social insurance plans and the housing provident fund for all their employees based on the rates agreed with the relevant authorities. For the eight months ended 31 August 2015 and for the year ended 31 December 2015, the difference in the social insurance payments and housing provident fund contributions, based on the actual salaries of He Yuan Sky Wealth and the amount of wages agreed with the relevant social insurance authorities, is HK\$0.6 million and HK\$0.8 million (unaudited), respectively. The PRC legal advisers advised He Yuan Sky Wealth that it may be subject to a daily late charge of 0.05% in addition to the outstanding social insurance payments, and a fine ranging from 100% to 300% of the total outstanding social insurance payments in addition to such amount underpaid if the outstanding social insurance is still not paid within the time limit stipulated by the relevant social insurance authority. The PRC legal advisers also advised He Yuan Sky Wealth that it may be subject to a fixed fine ranging from RMB10,000 to RMB50,000 in addition to the outstanding housing provident fund contributions underpaid if the employer failed to rectify such non-compliance within a specified period of time. The representative of the Group has visited certain competent officers of the relevant authorities and reported such non-compliant incidents to them. The directors of the Company have, taking into account (i) the results of such visits, and (ii) confirmations from the competent officers of the relevant authorities, and (iii) the relevant facts and circumstances, and (iv) advice sought from the Group's PRC legal advisers, considered that it is not probable for the Company to be requested to pay such outstanding amounts and the relevant fine and penalty, therefore, no provision has been made as at each reporting date and during the Track Record Period.

## 13. INCOME TAX EXPENSE

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Current tax:				
Hong Kong Profits Tax	1,354	1,477	1,120	817
PRC Enterprise Income Tax	373	—	—	838
Overprovision of Hong Kong Profits Tax in prior year	(80)	—	—	—
	1,647	1,477	1,120	1,655
Deferred tax (note 27)	149	(299)	(299)	—
	<u>1,796</u>	<u>1,178</u>	<u>821</u>	<u>1,655</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit during the Track Record Period.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

The income tax expense for the Track Record Period can be reconciled to the profit (loss) before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Profit (loss) before tax	<u>9,861</u>	<u>6,204</u>	<u>4,903</u>	<u>(128)</u>
Tax (credit) at Hong Kong Profits Tax rate of 16.5%	1,627	1,024	809	(21)
Tax effect of income not taxable for tax purpose	(1)	—	—	—
Tax effect of expense not deductible for tax purpose	120	177	22	1,354
Tax effect of temporary difference not recognised	12	11	12	26
Overprovision in prior year	(80)	—	—	—
Effect of different tax rate of a PRC subsidiary	127	—	—	285
Others	<u>(9)</u>	<u>(34)</u>	<u>(22)</u>	<u>11</u>
Income tax expense (credit) for the year/period	<u>1,796</u>	<u>1,178</u>	<u>821</u>	<u>1,655</u>

## 14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

## (a) Directors' and chief executive's emoluments

Details of emoluments paid or payable by the entities comprising the Group to the directors and chief executive of the Company are set out as follows:

	<b>Fees</b>	<b>Salaries and other allowances</b>	<b>Discretionary performance bonus</b>	<b>Retirement benefit scheme contributions</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>For the year ended 31 December 2013</b>					
<i>Executive directors:</i>					
Chung Chi Hang Larry	—	325	—	15	340
Chung Tin Shing	—	499	100	15	614
	<u>—</u>	<u>824</u>	<u>100</u>	<u>30</u>	<u>954</u>

	<b>Fees</b>	<b>Salaries and other allowances</b>	<b>Discretionary performance bonus</b>	<b>Retirement benefit scheme contributions</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>For the year ended 31 December 2014</b>					
<i>Executive directors:</i>					
Chung Chi Hang Larry	—	325	—	15	340
Chung Tin Shing	—	499	—	17	516
	<u>—</u>	<u>824</u>	<u>—</u>	<u>32</u>	<u>856</u>



	<b>Fees</b>	<b>Salaries and other allowances</b>	<b>Discretionary performance bonus</b>	<b>Retirement benefit scheme contributions</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>For the period ended 31 August 2014 (unaudited)</b>					
<i>Executive directors:</i>					
Chung Chi Hang Larry	—	200	—	10	210
Chung Tin Shing	—	307	—	11	318
	<u>—</u>	<u>507</u>	<u>—</u>	<u>21</u>	<u>528</u>

	<b>Fees</b>	<b>Salaries and other allowances</b>	<b>Discretionary performance bonus</b>	<b>Retirement benefit scheme contributions</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>For the period ended 31 August 2015</b>					
<i>Executive directors:</i>					
Chung Chi Hang Larry	—	200	—	10	210
Chung Tin Shing	—	307	—	12	319
Wong Shek Fai (appointed on 17 March 2015)	—	192	—	9	201
	<u>—</u>	<u>699</u>	<u>—</u>	<u>31</u>	<u>730</u>

*Notes:*

- (1) Mr. Chung Tin Shing is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.
- (2) The discretionary performance bonus is determined by reference to the individual performance of directors.
- (3) During the Track Record Period, no emoluments were paid by the Group to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for loss of office.

**(b) Employees' emoluments**

The five highest paid individuals included two directors for the years ended 31 December 2013, 31 December 2014 and eight months ended 31 August 2014 (unaudited) and three directors for the eight months ended 31 August 2015, details of whose remuneration is disclosed above. The emoluments of the remaining three highest paid individuals for each of the year ended 31 December 2013 and 2014 and eight months ended 31 August 2014 and the emoluments of the remaining two highest paid individuals for the eight months ended 31 August 2015 were as follows:

	<b>Year ended 31 December</b>		<b>Eight months ended 31 August</b>	
	<b>2013</b>	<b>2014</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Salaries and other allowances	1,258	1,210	788	505
Retirement benefit scheme contributions	<u>45</u>	<u>47</u>	<u>30</u>	<u>22</u>
	<u>1,303</u>	<u>1,257</u>	<u>818</u>	<u>527</u>

Their emoluments individually were all below HK\$1,000,000.

**15. DIVIDENDS**

No dividends have been paid or declared by the Company or any group entities during the Track Record Period.

**16. EARNINGS (LOSS) PER SHARE**

	<b>Year ended 31 December</b>		<b>Eight months ended 31 August</b>	
	<b>2013</b>	<b>2014</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Earnings (loss):				
Earnings (loss) for the purpose of calculating basic earnings (loss) per share (profit (loss) for the year/period)	<u>8,065</u>	<u>5,026</u>	<u>4,082</u>	<u>(1,783)</u>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>

## Numbers of shares:

Number of ordinary shares for the purpose of calculating basic earnings per share	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>
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The number of ordinary shares for the purpose of calculating basic earnings (loss) per share has been determined on the assumption that the Reorganisation and the capitalisation issue as described in Appendix V to the Prospectus had been effective on 1 January 2013.

No diluted earnings (loss) per share for the Track Record Period was presented as there were no potential ordinary shares in issue during the Track Record Period.

## 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>					
At 1 January 2013	2,779	7,323	1,115	1,079	12,296
Additions	918	1,869	554	152	3,493
Eliminated on disposals	(430)	(17)	—	(43)	(490)
At 31 December 2013	3,267	9,175	1,669	1,188	15,299
Additions	551	338	306	—	1,195
Eliminated on disposals	—	(56)	—	—	(56)
At 31 December 2014	3,818	9,457	1,975	1,188	16,438
Additions	—	787	19	—	806
At 31 August 2015	<u>3,818</u>	<u>10,244</u>	<u>1,994</u>	<u>1,188</u>	<u>17,244</u>
<b>DEPRECIATION</b>					
At 1 January 2013	857	930	237	433	2,457
Provided for the year	487	1,220	302	157	2,166
Eliminated on disposals	(234)	(9)	—	(27)	(270)
At 31 December 2013	1,110	2,141	539	563	4,353
Provided for the year	865	1,363	372	169	2,769
Eliminated on disposals	—	(15)	—	—	(15)
At 31 December 2014	<u>1,975</u>	<u>3,489</u>	<u>911</u>	<u>732</u>	<u>7,107</u>
Provided for the period	<u>773</u>	<u>1,006</u>	<u>237</u>	<u>114</u>	<u>2,130</u>
At 31 August 2015	<u>2,748</u>	<u>4,495</u>	<u>1,148</u>	<u>846</u>	<u>9,237</u>
<b>CARRYING VALUES</b>					
At 31 August 2015	<u>1,070</u>	<u>5,749</u>	<u>846</u>	<u>342</u>	<u>8,007</u>
At 31 December 2014	<u>1,843</u>	<u>5,968</u>	<u>1,064</u>	<u>456</u>	<u>9,331</u>
At 31 December 2013	<u>2,157</u>	<u>7,034</u>	<u>1,130</u>	<u>625</u>	<u>10,946</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Over the shorter of term of the lease, or 5 years
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	5 years

**18. INVESTMENT IN A SUBSIDIARY/AMOUNT DUE TO A SUBSIDIARY**

**The Company**

*HK\$'000*

Unlisted share, at cost	<u><u>1</u></u>
-------------------------	-----------------

Amount represents the investment cost in Keen Ocean Electronics.

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

**19. INVENTORIES**

	At 31 December		At 31 August
	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000
Raw materials	13,029	15,101	10,840
Work in progress	19,604	15,400	16,181
Finished goods	<u>2,838</u>	<u>7,952</u>	<u>2,524</u>
	<u>35,471</u>	<u>38,453</u>	<u>29,545</u>

## 20. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company		
	At 31 December	At 31 December	At 31 August	At 31 December	At 31 August
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	27,388	28,818	32,209	—	—
Less: allowance for doubtful debts	(1,563)	(1,563)	(1,563)	—	—
	25,825	27,255	30,646	—	—
Deposits	295	138	263	—	—
Prepayments	706	757	3,911	304	3,312
Other tax recoverable	302	979	509	—	—
Other receivables	364	293	723	—	—
	<u>27,492</u>	<u>29,422</u>	<u>36,052</u>	<u>304</u>	<u>3,312</u>

During the Track Record Period, the Group discounted certain trade receivables to a bank for cash proceeds. If the trade receivables are not paid at maturity, the bank has the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 24). The carrying amount of the trade receivables at 31 December 2013, 31 December 2014 and 31 August 2015 that have been transferred but have not been derecognised amounted to HK\$18,131,000, HK\$16,681,000 and HK\$20,065,000 respectively and the carrying amount of the associated liability is HK\$14,550,000, HK\$9,620,000 and HK\$8,785,000 respectively.

The Company allows an average credit period of 15 to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice dates at the end of each reporting period.

	At 31 December		At 31 August
	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000
0 - 90 days	24,874	24,257	28,790
91 - 180 days	563	2,742	1,048
181 - 365 days	345	256	808
Over 1 year	<u>43</u>	<u>—</u>	<u>—</u>
	25,825	27,255	30,646

Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. The trade receivables that are neither past due nor impaired have no default payment history.

Included in the trade receivable balance are debtors with aggregate amount of HK\$6,161,000, HK\$13,673,000 and HK\$15,483,000 as at 31 December 2013, 31 December 2014 and 31 August 2015 respectively which are past due as at the end of each reporting date for which the Company has not provided for impairment loss because the directors of the Company consider that these trade receivables are collectible given the continuous subsequent settlement from the customers. The Company does not hold any collateral over these balances.

**Aging of trade receivables which are past due but not impaired**

	<b>At 31 December 2013</b>	<b>2014</b>	<b>At 31 August 2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 90 days	5,210	10,675	13,627
91 - 180 days	563	2,742	1,048
181 - 365 days	345	256	808
Over 1 year	43	—	—
	<u>6,161</u>	<u>13,673</u>	<u>15,483</u>
Movement in the allowance for doubtful debts			
At the beginning of the year/period	806	1,563	1,563
Allowance for doubtful debts	<u>757</u>	<u>—</u>	<u>—</u>
At the end of the year/period	<u>1,563</u>	<u>1,563</u>	<u>1,563</u>

Allowances for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. Included in the allowance for doubtful debts are individually impaired trade debtors with an aggregate balance of HK\$1,563,000 as at 31 December 2013, 31 December 2014 and 31 August 2015 which have been in severe financial difficulties.

Included in trade and other receivables are the following amounts denominated in currencies other than functional currencies of the respective group entities which they relate:

	<b>At 31 December 2013</b>	<b>2014</b>	<b>At 31 August 2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	2,560	1,764	2,065
RMB	6,041	5,094	9,124
GBP	<u>319</u>	<u>—</u>	<u>444</u>

**21. FINANCIAL DERIVATIVES ASSETS**

	<b>At 31 December 2013</b>	<b>2014</b>	<b>At 31 August 2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Derivatives not under hedge accounting:			
Fair value of foreign currency forward contracts	<u>1,814</u>	<u>—</u>	<u>—</u>

The Group had eight outstanding exchange forward contracts as at 31 December 2013, and they were all matured in 2014 with multiple settlement dates. The Company was required to pay US\$ and receive RMB on net settlement basis at the date specified in the terms of contracts.

Major terms of the eight foreign exchange forward contracts were as follows:

**2013**

<b>Notional amount</b>	<b>Maturities with multiple settlement dates</b>	<b>Exchange rates</b>
Buy RMB7,000,000	January 2014 to August 2014	Range from US\$1 = RMB6.2457 to US\$1 = RMB6.2949

Gain on change in fair value of the foreign currency forward contracts of HK\$2,810,000 and loss on change in fair value of HK\$ 659,000 for the year ended 31 December 2013 and 31 December 2014 respectively has been recognised in the consolidated statement of profit or loss and other comprehensive income. Details of the fair value measurement of the forward exchange contracts are set out in note 6.

**22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH**

Pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities granted to the Group. Bank balances of the Group carry interest at market rates of 0.01% to 0.35%, 0.01% to 0.35% and 0.01% to 0.35% per annum as at 31 December 2013, 31 December 2014 and 31 August 2015. The pledged bank deposits carry variable interest rate from 0.2% to 1.2%, 0.6% to 1.3% and 0.3% to 1.3% per annum as at 31 December 2013, 31 December 2014 and 31 August 2015 respectively.

As at the end of the reporting period, the Group have the following pledged bank deposits and bank balances and cash denominated in foreign currencies:

	At 31 December 2013 HK\$'000	2014 HK\$'000	At 31 August 2015 HK\$'000
HK\$	13,477	13,581	10,299
RMB	2,234	1,606	1,497
EUR	—	31	27
GBP	—	—	288
	<u>15,711</u>	<u>15,218</u>	<u>12,111</u>

### 23. TRADE AND OTHER PAYABLES AND ACCRUALS

	At 31 December 2013 HK\$'000	2014 HK\$'000	At 31 August 2015 HK\$'000
Trade payables	15,566	23,476	14,802
Accrued expenses	3,756	4,429	7,268
Customer deposits	408	347	432
Other tax payables	76	95	77
Other payables	<u>204</u>	<u>—</u>	<u>170</u>
	<u>20,010</u>	<u>28,347</u>	<u>22,749</u>

The following is an aged analysis of trade payables based on the invoice date at the end of each reporting period.

	At 31 December 2013 HK\$'000	2014 HK\$'000	At 31 August 2015 HK\$'000
0 - 90 days	15,031	22,562	14,173
91 - 180 days	136	475	124
181 - 365 days	66	84	413
Over 1 year	<u>333</u>	<u>355</u>	<u>92</u>
	<u>15,566</u>	<u>23,476</u>	<u>14,802</u>



Included in trade and other payables are the following amounts denominated in currencies other than the functional currencies of the respective group entities which they relate:

	At 31 December 2013 HK\$'000	2014 HK\$'000	At 31 August 2015 HK\$'000
HK\$	3,461	9,060	4,499
RMB	<u>12,110</u>	<u>12,543</u>	<u>6,700</u>

## 24. BANK BORROWINGS

	At 31 December 2013 HK\$'000	2014 HK\$'000	At 31 August 2015 HK\$'000
Bank loans	17,640	1,231	967
Trust receipt loans	11,600	8,490	7,724
Factoring loans (note 20)	14,550	9,620	8,785
Bank overdraft	<u>9,837</u>	<u>2,680</u>	<u>526</u>
	<u>53,627</u>	<u>22,021</u>	<u>18,002</u>
Bank borrowings which are secured by:			
Assets held by the Group (note 28)	31,146	20,789	16,509
Property held by an independent third party	16,028	—	—
Deposit held by a related party (note 30)	<u>4,842</u>	<u>—</u>	<u>—</u>
	52,016	20,789	16,509
Unsecured bank borrowings	<u>1,611</u>	<u>1,232</u>	<u>1,493</u>
	<u>53,627</u>	<u>22,021</u>	<u>18,002</u>
The maturities of the above loans are as follows*:			
Within one year	52,395	21,190	17,450
More than one year but within two years	469	423	439
More than two years but within five years	<u>763</u>	<u>408</u>	<u>113</u>
	53,627	22,021	18,002
Less: amount due within one year shown under current liabilities	<u>(52,395)</u>	<u>(21,190)</u>	<u>(17,450)</u>
Amount shown under non-current liabilities	<u>1,232</u>	<u>831</u>	<u>552</u>

\* The amounts due are based on scheduled repayment date set out in the loan agreements.

Included in bank borrowings are the following amounts denominated in currencies other than the functional currencies of the respective group entities which they relates:

	At 31 December 2013	2014	At 31 August 2015
	HK\$'000	HK\$'000	HK\$'000
HK\$	12,095	6,028	5,160
RMB	12,711	—	—
GBP	—	—	387

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings as at 31 December 2013, 31 December 2014 and 31 August 2015, respectively, are as follows:

	At 31 December 2013	2014	At 31 August 2015
Effective interest rates (per annum):			
Variable-rate borrowings	<u>2.75%-7.8%</u>	<u>2.69%-6.75%</u>	<u>3.25%-6.75%</u>

Details of the pledge of assets of the Group and guarantees provided by the related parties are set out in notes 28 and 30(c), respectively.

## 25. SHARE CAPITAL

The share capital of the Group as at 1 January 2013 and 31 December 2013 represented the share capital of Keen Ocean Industrial, the then holding company of the Group. The share capital of the Group as at 31 December 2014 and 31 August 2015 represents the share capital of the Company.

	Note	Number of shares	Share capital HK\$
<i>Ordinary shares of HK\$0.01 each</i>			
<i>Authorised:</i>			
On date of incorporation and at 31 December 2014 and 31 August 2015	a	<u>38,000,000</u>	<u>380,000</u>

	<i>Notes</i>	<b>Number of shares</b>	<b>Share capital HK\$</b>
<i>Issued:</i>			
1 share allotted and issued, on the date of incorporation	b	1	0.01
Issue of 9,999 shares upon Reorganisation on 19 December 2014	c	<u>9,999</u>	<u>99.99</u>
At 31 December 2014 and 31 August 2015		<u>10,000</u>	<u>100</u>
Shown in the Financial Information (HK\$'000)			<u>—</u>

*Notes:*

- (a) The Company was incorporated in the Cayman Islands on 19 December 2014 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$ 0.01 each.
- (b) On 19 December 2014, 1 share of HK\$ 0.01 each was issued to the subscriber at par to provide the initial capital to the Company.
- (c) On 19 December 2014, the Company issued 8,999 shares and 1,000 shares to Cyber Goodie and Mr. Chung Tin Shing respectively for the Reorganisation as set out in note 1.

**26. RESERVE OF THE COMPANY**

	<b>Accumulated losses HK\$'000</b>
At 19 December 2014, date of incorporation	—
Loss and total comprehensive expense for the period	<u>(913)</u>
At 31 December 2014	(913)
Loss and total comprehensive expense for the period	<u>(7,879)</u>
At 31 August 2015	<u>(8,792)</u>

**27. DEFERRED TAX LIABILITY**

The following is the major deferred tax liability recognised by the Group and movements thereon during the Track Record Period:

	<b>Change in fair value of financial derivative asset</b> <i>HK\$'000</i>
At 1 January 2013	150
Charge for the year	<u>149</u>
At 31 December 2013	299
Credit for the year	<u>(299)</u>
At 31 December 2014 and 31 August 2015	<u><u>—</u></u>

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary. Deferred taxation has not been provided for in the Financial Information in respect of temporary differences attributable to the profits earned by the PRC subsidiary because the amount is insignificant.

The Group has deductible temporary differences of HK\$1,791,000, HK\$1,859,000 and HK\$2,017,000 at 31 December 2013, 31 December 2014 and 31 August 2015, respectively. The temporary differences represented the accrued staff costs which are tax-deductible when the actual payment is made. No deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

**28. PLEDGE OF ASSETS**

The following assets of the Group were pledged at end of each reporting period for certain banking facilities granted to the Group:

	<b>At 31 December 2013</b> <i>HK\$'000</i>	<b>At 31 December 2014</b> <i>HK\$'000</i>	<b>At 31 August 2015</b> <i>HK\$'000</i>
Pledged bank deposits	13,026	11,049	9,033
Trade receivables	<u>18,131</u>	<u>16,681</u>	<u>20,065</u>
	<u><u>31,157</u></u>	<u><u>27,730</u></u>	<u><u>29,098</u></u>

**29. OPERATING LEASES**

At the end of each reporting period, the Group had commitments for future minimum lease payments for its office and factory premises under non-cancellable operating leases which fall due as follows:

	At 31 December 2013 HK\$'000	At 31 August 2014 HK\$'000	2015 HK\$'000
Within one year	3,001	3,069	3,113
In the second to fifth year inclusive	<u>5,370</u>	<u>3,005</u>	<u>959</u>
	<u>8,371</u>	<u>6,074</u>	<u>4,072</u>

Operating lease payments represent rentals payable by the Group for its office and factory premises. Leases are negotiated for an average term of 1 to 5 years and rentals are fixed for the lease term.

**30. RELATED PARTY TRANSACTIONS AND BALANCES**

(a) Names of and the relationship with related parties are as follows:

Name	Relationship <i>Notes</i>
Chung Chi Hang Larry	(i)
Chung Tin Shing	(i)
Chung Chi Wah	(ii)
Chung Fung Ling	(ii)
Akong Yuk Yun Gail	(ii)
T-Lab Electronics & Plastics (He Yuan) Co., Ltd.	(iii)
T-Lab Holdings Ltd.	(iii)
Yield Speed Ltd.	(iii)
Update Industrial Ltd.	(iii)
Kammi Home Appliance Company Ltd.	(iv)
Berich Finance Services Limited	(iv)

*Notes:*

- (i) Mr. Chung Chi Hang Larry is the ultimate controlling shareholder and a director of the Company. Mr. Chung Tin Shing is a non-controlling shareholder and a director of the Company.
- (ii) Mr. Chung Chi Wah, Ms. Chung Fung Ling and Ms. Akong Yuk Yun Gail are close family members of Mr. Chung Chi Hang Larry.

- (iii) The beneficial owner of the company is Mr. Chung Chi Hang Larry.
- (iv) The ultimate controlling shareholder of the company is a close family member of Mr. Chung Chi Hang Larry.
- (b) The Group had the following balances with related parties at the end of each reporting period:

	Maximum balance outstanding during					
	At 31 December		At 31	Year ended		Eight
			August	31 December		months
	2013	2014	2015	2013	2014	ended
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	31 August
						2015
						HK\$'000
<b>Amounts due from related parties:</b>						
Chung Chi Hang Larry	13,212	—	—	15,016	14,740	—
Chung Tin Shing	6	—	—	6	13	—
Kammi Home Appliance Company Ltd.	161	—	—	161	161	—
Yield Speed Ltd.	19,089	—	—	19,089	19,089	—
Update Industrial Ltd.	10	—	—	10	10	—
T-Lab Electronics & Plastics (He Yuan) Co., Ltd.	—	2,913	—	4,525	3,781	—
	<u>32,478</u>	<u>2,913</u>	<u>—</u>			

The amount due from T-Lab Electronics & Plastics (He Yuan) Co., Ltd. at 31 December 2014 has been fully settled in March 2015.

Included in amount due from Chung Chi Hang Larry at 31 December 2013 was an interest-bearing portion of HK\$7,700,000 which was unsecured, interest bearing at the People's Bank of China plus a premium and repayable on demand. Included in amount due from Yield Speed Ltd. amounted to HK\$19,065,000 at 31 December 2013, which was unsecured, interest-free and repayable on 30 September 2014. Other than the abovementioned, the remaining amounts due from related parties are unsecured, interest-free and repayable on demand.

	At 31 December 2013 HK\$'000	At 31 December 2014 HK\$'000	At 31 August 2015 HK\$'000
<b>Amounts due to related parties:</b>			
T- Lab Electronics & Plastics (He Yuan) Co., Ltd.	6,699	—	151
T- Lab Holdings Ltd.	<u>1,980</u>	<u>—</u>	<u>—</u>
	<u>8,679</u>	<u>—</u>	<u>151</u>

The amounts due to related parties are unsecured, interest-free and repayable on demand. The balance at 31 August 2015 represented the outstanding rental payable to T- Lab Electronics & Plastics (He Yuan) Co., Ltd.

	At 31 December 2013 HK\$'000	At 31 December 2014 HK\$'000	At 31 August 2015 HK\$'000
<b>Loan from a related company</b>			
Berich Finance Services Limited	<u>2,065</u>	<u>—</u>	<u>—</u>

At 31 December 2013, the revolving loan balance was unsecured, interest bearing at prime rate of 5% and was repayable within 1 year. The outstanding loan balance was fully repaid in June 2014.

- (c) The Group entered into the following transactions with related parties during the Track Record Period:

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Rental paid to a related company				
- T-Lab Electronics & Plastics (He Yuan) Co., Ltd.	1,863	1,863	1,242	1,242
Interest paid to a related company				
- Berich Finance Services Limited	98	51	51	—
Interest income from a related party				
- Chung Chi Hang Larry	<u>648</u>	<u>370</u>	<u>346</u>	<u>—</u>

Upon the listing, the Group will continue to lease the factory premises from T-Lab Electronics & Plastics (He Yuan) Co., Ltd., which will constitute a non-exempt continuing connected transaction under the GEM Listing Rules.

At 31 December 2013, Ms. Akong Yuk Yun Gail maintained a bank deposit for a sum not less than HK\$2,000,000 in favour of a bank in respect of banking facilities granted to group amounted to HK\$4,842,000.

Guarantees provided by related parties in respect of banking facilities granted to the Group:

	At 31 December		At 31
	2013	2014	August
	HK\$'000	HK\$'000	2015
			HK\$'000
- Chung Chi Hang Larry, Chung Tin Shing, Chung Chi Wah (joint guarantee)	28,052	17,236	12,034
- Chung Chi Hang Larry, Chung Tin Shing, Chung Fung Ling, T-Lab Electronics & Plastics (He Yuan) Co., Ltd. and an independent third party (joint guarantee)	16,028	—	5,968
- Chung Chi Hang Larry, Chung Tin Shing, Chung Chi Wah, T-Lab Holdings Ltd. and T-Lab Industrial (joint guarantee)	9,547	—	—
- Chung Chi Hang Larry, Chung Tin Shing (joint guarantee)	<u>—</u>	<u>4,785</u>	<u>—</u>



As represented by the directors of the Company, all the above personal guarantees by the Controlling Shareholder, directors of the Company and their close family members will be fully discharged upon listing.

(d) Compensation of key management personnel:

The remuneration of directors of the Company and other members of key management during the Track Record Period was as follows:

	Year ended 31 December		Eight months ended 31 August	
	2013	2014	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Salaries and other benefits	1,339	1,218	801	1,131
Retirement benefit contributions	<u>50</u>	<u>54</u>	<u>34</u>	<u>51</u>
	<u>1,389</u>	<u>1,272</u>	<u>835</u>	<u>1,182</u>

The remuneration of directors and key management is determined by the performance of individuals and market trends.

## B. DIRECTORS' REMUNERATION

Under the arrangement currently in force, the aggregate amount of remunerations payable to the Company's directors for the year ended 31 December 2015, excluding discretionary bonus, is estimated to be approximately HK\$1.5 million.

## C. EVENTS AFTER THE REPORTING PERIOD

On 2 February 2016, written resolutions of all the shareholders of the Company were passed to approve the matters set out in the paragraph headed "Resolutions in writing of all our Shareholders passed on 2 February 2016" in Appendix VI to the Prospectus, which included the followings:

- a) the authorised share capital of the Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of 962,000,000 new shares of HK\$0.01 each; and
- b) conditional upon the share premium account of the Company being credited as a result of the placing of the Company's shares, the directors of the Company were authorised to capitalise the amount of approximately HK\$1,400,000 from the amount standing to the credit of the share premium account of the Company by applying such sum in paying up in

full at par 139,990,000 shares for allotment and issue to the persons whose name appeared on the register of members of the Company at the close of business on 2 February 2016, in proportion (or as nearly as possible without fractions) to their then respective shareholdings of the Company.

- c) A share option scheme was conditionally adopted on 2 February 2016 and the principal terms of the share option scheme are set out in Appendix VI to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 31 August 2015.

#### **D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of the companies comprising the Group have been prepared in respect of any period subsequent to 31 August 2015.

Yours faithfully,

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

*The information set out below does not form part of the Accountants' Report received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included in this prospectus for information purposes only.*

*The pro forma financial information should be read in conjunction with the section headed "Financial Information" of this prospectus and the Accountants' Report set out in Appendix I to this prospectus.*

#### A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Placing on the audited consolidated net tangible assets of the Group as if the Placing had taken place on 31 August 2015.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group as at 31 August 2015 or any future date following the Placing.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 August 2015 as shown in the accountants' report on the financial information for the two years ended 31 December 2014 and the eight months ended 31 August 2015 of the Group (the "Accountants' Report"), the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	<b>Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 August 2015 HK\$'000 (Note 1)</b>	<b>Estimated net proceeds received by the Company from the Placing HK\$'000 (Note 2)</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company HK\$'000 (Note 3)</b>	<b>Unaudited pro forma adjusted consolidated net tangible asset of the Group attributable to owners of the Company per Share HK\$ (Note 4)</b>
Based on the Placing Price of HK\$0.50 per Share	<u>45,243</u>	<u>21,892</u>	<u>67,135</u>	<u>0.34</u>
Based on the Placing Price of HK\$0.60 per Share	<u>45,243</u>	<u>27,712</u>	<u>72,955</u>	<u>0.36</u>

*Notes:*

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 August 2015 is based on the net assets of the Group attributable to owners of the Company as extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the issue of the New Shares pursuant to the Placing are based on 60,000,000 new Shares at the Placing Price of lower limit and upper limit of HK\$0.50 and HK\$0.60 per Placing Share, respectively, after deduction of the underwriting commissions and fees and other related fees expenses payable by the Group in connection with the Placing, other than those expenses which had been recognised in profit or loss in the periods up to 31 August 2015. The calculation of such estimated net proceeds does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the sub-section headed "General Mandate to Issue Shares" or the sub-section headed "General Mandate to Repurchase Shares" of the section headed "Share Capital" of this prospectus.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company does not take into account the effect of any trading result and other transactions of the Group entered into subsequent to 31 August 2015.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is arrived at on the basis that 200,000,000 Shares were in issue assuming that the Placing and the Capitalisation Issue had been completed on 31 August 2015 and does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the sub-section headed "General Mandate to Issue Shares" or the sub-section headed "General Mandate to Repurchase Shares" of the section headed "Share Capital" of this prospectus.

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## APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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### B.    UNAUDITED PRO FORMA ESTIMATED LOSS PER SHARE

The unaudited pro forma estimated loss per share for the year ended 31 December 2015 prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Placing as if it had taken place on 1 January 2015. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial results of the Group following the Placing.

#### Loss estimate for the year ended 31 December 2015

	Estimate for the year ended 31 December 2015
Estimated consolidated loss attributable to owners of the Company ( <i>Note 1</i> )	not more than HK\$0.8 million
Unaudited pro forma estimated loss per share ( <i>Note 2</i> )	not more than 0.4 HK cents

#### Notes:

1. The estimated consolidated loss attributable to owners of the Company for the year ended 31 December 2015, which has taken into account of the expected listing expenses to be incurred during the year ended 31 December 2015 of approximately HK\$8.2 million, is extracted from Appendix III to this prospectus. The bases on which the above estimated for the year ended 31 December 2015 has been prepared are summarised in Appendix III to this prospectus.
2. The calculation of the unaudited pro forma estimated loss per share is based on the estimated consolidated loss attributable to owners of the Company for year ended 31 December 2015 which has taken into account of the expected listing expenses to be incurred during the year ended 31 December 2015 of approximately HK\$8.2 million and on the assumptions that a total of 200,000,000 Shares were in issue during the year ended 31 December 2015 assuming that the Placing and the Capitalisation Issue had been completed on 1 January 2015 and does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the sub-section headed “General Mandate to Issue Shares” or the sub-section headed “General Mandate to Repurchase Shares” of the section headed “Share Capital” of this prospectus.

**C. LETTER FROM THE REPORTING ACCOUNTANTS**

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF KEEN OCEAN INTERNATIONAL HOLDING LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Keen Ocean International Holding 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 statement of adjusted consolidated net tangible assets as at 31 August 2015 and the unaudited pro forma estimated loss per share for the year ended 31 December 2015 and related notes as set out on pages II-1 to II-3 of Appendix II to the prospectus issued by the Company dated 17 February 2016 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages II-1 to II-3 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 placing of the shares of the Company (the "Placing") on the Group's financial position as at 31 August 2015 and the Group's loss per shares for the year ended 31 December 2015 as if the Placing had taken place at 31 August 2015 and 1 January 2015, respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the two years ended 31 December 2014 and eight months ended 31 August 2015, on which an Accountants' Report set out in Appendix I to the Prospectus has been published and information about the estimate of the consolidated loss of the Group attributable to the owners of the Company for the year ended 31 December 2015, on which no auditor's report or review report 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 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") 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 behavior.

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 7.31(7) of the GEM 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 pro forma financial information in accordance with paragraph 7.31 of the GEM 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 an investment circular is solely to illustrate the impact of a significant event or transaction 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 Placing at 31 August 2015 or 1 January 2015 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

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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- 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' judgment, 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 on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
17 February 2016



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## APPENDIX III      LOSS ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2015

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*Our estimate of the consolidated loss for the year ended 31 December 2015 is set out in the paragraph headed “Financial Information — Loss Estimate for the year ended 31 December 2015”.*

### A.    LOSS ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2015

Our Directors have prepared the estimate of the consolidated loss of the Group for the year ended 31 December 2015 based on the audited consolidated results of the Group for the eight months ended 31 August 2015, the unaudited consolidated results based on the management accounts of the Group for three months ended 30 November 2015 and the estimate of the consolidated results of the Group for the remaining one month ended 31 December 2015. The estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by our Group as summarised in the accountants’ report, the text of which is set out in Appendix I to this prospectus.

#### Loss estimate for the year ended 31 December 2015

#### Estimate for the year ended 31 December 2015

Estimated consolidated loss attributable to owners of the  
Company

not more than HK\$0.8 million

*Note:* The estimated consolidated loss attributable to owners of the Company for year ended 31 December 2015 has taken into account of the expected listing expenses to be incurred during year ended 31 December 2015 of approximately HK\$8.2 million.

**B.    LETTER FROM THE REPORTING ACCOUNTANTS**

The following in the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in relation to the Group's loss estimate for the year ended 31 December 2015.

**Deloitte.**  
**德勤**

德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

The Board of Directors  
Keen Ocean International Holding Limited  
Room 3405, 34/F  
Cable TV Tower, 9 Hoi Shing Road  
Tsuen Wan, N.T.  
Hong Kong

LY Capital Limited  
Rooms 1901-02  
China Insurance Group Building  
141 Des Voeux Road Central  
Hong Kong

Dear Sirs,

Keen Ocean International Holding Limited ("the Company")

**Loss Estimate for Year Ended 31 December 2015**

We refer to the estimate of the consolidated loss of the Group attributable to owners of the Company for the year ended 31 December 2015 ("the Loss Estimate") set forth in the section headed "Financial Information — Loss Estimate For The Year Ended 31 December 2015" in the prospectus of the Company dated 17 February 2016 ("the Prospectus").

**Directors' Responsibilities**

The Loss Estimate has been prepared by the directors of the Company based on the audited consolidated results of the Company and its subsidiaries (collectively referred to as "the Group") for the eight months ended 31 August 2015, the unaudited consolidated results based on the management accounts of the Group for the three months ended 30 November 2015 and an estimate of the consolidated results of the Group for the remaining one month ended 31 December 2015.

The Company's directors are solely responsible for the Loss Estimate.

**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 Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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 on the accounting policies and calculations of the Loss Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Loss Estimate in accordance with the bases adopted by the directors and as to whether the Loss Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

**Opinion**

In our opinion, so far as the accounting policies and calculations are concerned, the Loss Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report dated 17 February 2016, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

17 February 2016



The Board of Directors  
Keen Ocean International Holding Limited  
Room 3405, 34/F  
Cable TV Tower, 9 Hoi Shing Road  
Tsuen Wan, N.T.  
Hong Kong

17 February 2016

Dear Sirs,

We refer to the estimate of the consolidated loss of Keen Ocean International Holding Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2015 (the “Loss Estimate”), as set out in the prospectus of the Company dated 17 February 2016 (the “Prospectus”).

The Loss Estimate, for which the directors of the Company (the “Directors”) are solely responsible, has been prepared by the Directors based on the audited financial statements of the Group for the two years ended 31 December 2013 and 2014 and eight months ended 31 August 2015 as set out in Appendix I to the Prospectus, the unaudited consolidated results based on the management accounts of the Group for the three months ended 30 November 2015 and the estimate of the consolidated results of the Group for the remaining one month ended 31 December 2015.

We have discussed with you the bases and assumptions upon which the Loss Estimate has been made. We have also considered the letter dated 17 February 2016 addressed to you and us from Deloitte Touche Tohmatsu, Certified Public Accountants, regarding the accounting policies and calculations upon which the Loss Estimate has been made.

On the basis of the foregoing and on the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants, we have formed the opinion that the Loss Estimate, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**LY Capital Limited**  
**Henry Yeung**  
*Managing Director*

*The following is the text of a letter, summary of valuation and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Asset Appraisal Limited, an independent property valuer, in connection with its valuation as at 31 December 2015 of the property interests held by the Group.*

**Asset Appraisal Limited****中誠達資產評估顧問有限公司**

Rm 901 9/F On Hong Commercial Building  
No.145 Hennessy Road Wanchai HK  
香港灣仔軒尼詩道 145 號安康商業大廈 9 樓 901 室  
Tel: (852) 2529 9448 Fax: (852) 3521 9591

17 February 2015

**The Board of Directors****Keen Ocean International Holding Limited**

Room 3405, 34/F,  
Cable TV Tower.  
No. 9 Hoi Shing Road,  
Tsuen Wan, New Territories  
Hong Kong

Dear Sirs,

**Re: Valuation of property interests situated in Hong Kong and the People's Republic of China (the "PRC")**

In accordance with the instructions of **Keen Ocean International Holding Limited** (the "**Company**") to value the property interests (the "**Properties**") held by the Company or its subsidiaries (altogether referred to as the "**Group**") situated in Hong Kong and the PRC, we confirm that we have carried out inspections of the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at 31 December 2015 (the "**date of valuation**").

**BASIS OF VALUATION**

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

**TITLESHIP**

We have been provided with copies of legal documents regarding the Properties. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect their ownership.

Further, we have relied upon the legal opinion provided by the PRC Legal Advisers, namely Zhong Lun Law Firm (中倫律師事務所) (the “**PRC Legal Opinion**”), to the Company on the relevant laws and regulations in the PRC, on the nature of leasehold interests in the property situated in the PRC. Its material content has been summarised in the valuation certificate attached herewith.

### **VALUATION METHODOLOGY**

The Group’s leasehold interests in the Properties have no commercial value due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

### **ASSUMPTIONS**

As the Properties are held by the Group under leasehold interest, we have assumed that the Group has free and uninterrupted rights to use the Properties for the whole of the respective unexpired terms of the leasehold interests.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

### **LIMITING CONDITIONS**

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties valued nor for any expenses or taxation. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the legal documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

The properties situated in the PRC were inspected on 1 February 2016 by Mr. Zhou Tong, who is a registered PRC registered property appraiser. The property situated in Hong Kong was inspected by Mr. Yang Jun Hao on 3 February 2016. We have inspected the exterior and, where possible, the interior of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the properties, we have complied with all the requirements contained in Chapter 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,  
**for and on behalf of**  
**Asset Appraisal Limited**

**Tse Wai Leung**  
*MFin BSc MRICS MHKIS RPS(GP)*  
*Director*

*Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC.. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.*

**SUMMARY OF VALUATION**

<b>Property</b>	<b>Value of property interests attributable to the Group as at 31 December 2015</b>
<b>Properties rented by the Group</b>	
1. Unit 5 on 34th Floor, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories Hong Kong	No Commercial Value
2. The east of Xinggong Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City.	No Commercial Value
3. The west of Xingye Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City.	No Commercial Value



## VALUATION CERTIFICATE

## Properties rented by the Group

Property	Description and tenure	Particulars of occupancy	Value of property interests attributable to the Group as at 31 December 2015
1. Unit 5 on 34th Floor, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories	<p>The property comprises an industrial unit on 34th floor within a 41-storey industrial building completed in about 1992.</p> <p>The total gross floor area and saleable floor area of the property are 2,681 and 1,895 square feet (approximately 249 and 176 square metres) or thereabout respectively.</p>	The property is occupied by the Group for warehouses and ancillary offices.	No Commercial Value
190/177500th shares of and in Tsuen Wan Town Lot No. 218 and Tsuen Wan Inland Lot No. 36	The property is being rented by the Group for a term of two year commencing on 1 November 2014 and expiring on 31 October 2016 at a monthly rent of HK\$32,000 for industrial use inclusive of property tax, government rent, rates but exclusive of management fee and other expenses.		

*Notes:*

- The registered owner of the property is JYPINK Limited vide memorial no. 10060300430079 dated 10 May 2010. The property has been granted under New Grant No. TW5008 for a term of 99 years and Conditions of Sale No. UB5156 for a term of 75 years and renewable for 24 years both commencing on 1 July 1898. They have been statutorily extended to 30 June 2047 and is subject to an annual Government Rent equivalent to three percent of Rateable Values from time to time
- Pursuant to a tenancy agreement dated 13 October 2014, Keen Ocean Industrial Limited (a wholly-owned subsidiary of the Company) rented the property from the aforesaid registered owner, an independent third party to the Group, for a term of two year commencing on 1 November 2014 and expiring on 31 October 2016 at a monthly rent of HK\$32,000 for industrial use inclusive of property tax, government rent, rates but exclusive of management fee and other expenses.
- Deed of Mutual Covenant and Management Agreement of the subject development are registered vide memorial nos. TW849489 and UB5383442 both dated 13 July 1992 and re-registered vide memorial nos. TW1114057 and UB6936717 respectively.
- The property is subject to a legal charge in favour of Wing Hang Bank Limited registered vide memorial no. 10060300430081 dated 10 May 2010.
- The property lies within an area zoned "Other Specified Uses (Business (1))" under Tsuen Wan Outline Zoning Plan No. S/TW/31 dated 17 January 2014.

## VALUATION CERTIFICATE

			Value of property interests attributable to the Group as at 31 December 2015																											
Property	Description and tenure	Particulars of occupancy																												
2. The east of Xinggong Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City.  (河源市高新技術開發區興工大道東面科七路南邊)	<p>The property comprises a parcel of industrial land with an area of 29,607.70 square metres on which 7 blocks of single to 6-storey industrial building and various ancillary structures were erected.</p> <p>The major buildings of the property were completed between 2006 and 2008 and have a total gross floor area (GFA) of 24,821.51 square metres as broken down into the followings:</p> <table> <tr> <th>Use</th> <th>Storey</th> <th>GFA (sq. m.)</th> </tr> <tr> <td>Workshop</td> <td>4</td> <td>6,428.20</td> </tr> <tr> <td>Comprehensive Factory</td> <td>1</td> <td>1,620.62</td> </tr> <tr> <td>Office</td> <td>3</td> <td>1,822.72</td> </tr> <tr> <td>Factory</td> <td>1</td> <td>4,045.08</td> </tr> <tr> <td>Dormitory</td> <td>5</td> <td>2,230.16</td> </tr> <tr> <td>Warehouse</td> <td>1</td> <td>3,028.79</td> </tr> <tr> <td>Dormitory</td> <td>6</td> <td>5,645.94</td> </tr> <tr> <td><b>Total:</b></td> <td></td> <td><b><u>24,821.51</u></b></td> </tr> </table>	Use	Storey	GFA (sq. m.)	Workshop	4	6,428.20	Comprehensive Factory	1	1,620.62	Office	3	1,822.72	Factory	1	4,045.08	Dormitory	5	2,230.16	Warehouse	1	3,028.79	Dormitory	6	5,645.94	<b>Total:</b>		<b><u>24,821.51</u></b>	The property (together with Property No. 3) is occupied by the Group as a production base.	No Commercial Value
Use	Storey	GFA (sq. m.)																												
Workshop	4	6,428.20																												
Comprehensive Factory	1	1,620.62																												
Office	3	1,822.72																												
Factory	1	4,045.08																												
Dormitory	5	2,230.16																												
Warehouse	1	3,028.79																												
Dormitory	6	5,645.94																												
<b>Total:</b>		<b><u>24,821.51</u></b>																												
	The property is being rented by the Group for a term of 5 years commencing on 1 January 2012 and expiring on 31 December 2016 at a monthly rent of RMB124,000.																													

## Notes:

- As revealed by a State-owned Land Use Rights Certificate (Ref: He Guo Yong (2007) No. 000628, 河國用(2007)第000628號) dated 25 May 2007, the land use rights in the subject land with an area of 29,607.70 square metres are held by 天工電子塑膠(河源)有限公司, a connected party to the Group, for a land use right term expiring on 27 March 2057 for industrial use.
- As revealed by 7 sets of Building and Land Ownership Certificate (Ref: Yue Fang Di Zheng Zi Nos. C6475970, C6475971, C6475973, C6475974, C6475975, C6475982 and C6475983, 粵房地證字第C6475970、C6475971、C6475973、C6475974、C6475975、C6475982及C6475983號) all dated 18 February 2009, the subject buildings of the property with a total gross floor area of 24,821.51 square metres are held by 天工電子塑膠(河源)有限公司 for industrial uses.
- As revealed by a Tenancy Agreement (房產租賃合同), He Yuan Sky Wealth Electronic and Plastic Company Limited (河源天裕電子塑膠有限公司) which is an indirect wholly-owned subsidiary of the Company (the "Tenant") rented the property from T-Lab Electronic and Plastic (He Yuan) Co. Ltd. (天工電子塑膠(河源)有限公司, the Landlord) for a term of 5 years commencing on 1 January 2012 and expiring on 31 December 2016 at a monthly rent of RMB124,000. The aforesaid tenancy agreement shall be replaced by another tenancy agreement entered into between the same parties on 25 March 2015 by virtue of which the Tenant agreed to rent the property from the Landlord for a term of 3 years commencing from the date on which the shares of the Company are listed and

from which dealings therein are permitted to take place on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited at a monthly rental of RMB124,000 (inclusive of taxes and Government levies but exclusive of management fees and other outgoings) with an option to renew at a rent increment not more than 3%. As provided in the said Tenancy Agreement, sub-letting of the property is prohibited without prior written consent from the owner.

4. No environmental impact assessment has been carried out for the property. As confirmed by the company, it does not have any plan to carry out any improvement or redevelopment work, dispose of or change the use of the property in the foreseeable future.
5. The opinion from the PRC legal advisers of the Company on the property is as follows:
  - i. 天工電子塑膠(河源)有限公司 is the legal owner of the property and has right to lease the aforesaid property.
  - ii. The parties to the Tenancy Agreement have completed necessary filing and registration process for the agreement. It is legally binding to and enforceable against both parties to the agreement.
  - iii. As confirmed by the Group, the existing use of the property is industrial, which is consistent with the permitted use stipulated in the title certificates of the property.

## VALUATION CERTIFICATE

		Value of property interests attributable to the Group as at 31 December 2015																
Property	Description and tenure	Particulars of occupancy																
3. The west of Xingye Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City.  (河源市高新技術開發區科七路南面興業大道西邊)	<p>The property comprises a parcel of industrial land with an area of 22,433.30 square metres on which 3 blocks of single to 6-storey industrial building and various ancillary structures were erected.</p> <p>The major buildings of the property were completed in between 2006 and 2008 and have a total gross floor area (GFA) of 10,953.14 square metres as broken down into the followings:</p> <table><tr><th>Use</th><th>Storey</th><th>GFA (sq. m.)</th></tr><tr><td>Workshop</td><td>1</td><td>6,323.58</td></tr><tr><td>Dormitory</td><td>4</td><td>1,969.72</td></tr><tr><td>Dormitory</td><td>6</td><td><u>2,659.84</u></td></tr><tr><td><b>Total:</b></td><td></td><td><b><u>10,953.14</u></b></td></tr></table> <p>The property is being rented by the Group for a term of 5 years commencing on 1 January 2012 and expiring on 31 December 2016 at a monthly rent of RMB54,700.</p>	Use	Storey	GFA (sq. m.)	Workshop	1	6,323.58	Dormitory	4	1,969.72	Dormitory	6	<u>2,659.84</u>	<b>Total:</b>		<b><u>10,953.14</u></b>	The property (together with Property No. 2) is occupied by the Group as a production base.	No Commercial Value
Use	Storey	GFA (sq. m.)																
Workshop	1	6,323.58																
Dormitory	4	1,969.72																
Dormitory	6	<u>2,659.84</u>																
<b>Total:</b>		<b><u>10,953.14</u></b>																

## Notes:

- As revealed by a State-owned Land Use Rights Certificate (Ref: He Guo Yong (2006) No. 01837, 河國用 (2006) 第01837號) dated 9 November 2006, the land use rights in the subject land with an area of 22,433.30 square metres are held by 永勝服裝有限公司, an independent third party to the Group, for a land use right term expiring on 24 October 2056 for industrial use.
- As revealed by 2 sets of Building and Land Ownership Certificate (Ref: Yue Fang Di Zheng Zi Nos. C5363584 and C5363585, 粵房地證字第C5363584 及 C5363585號) both dated 29 May 2007, the 6-storey dormitory building and the workshop of the property with a respective gross floor area of 2,659.84 square metres and 6,323.58 square metres are held by 永勝服裝有限公司 for industrial uses.
- As revealed by another set of Building and Land Ownership Certificate (Ref: Yue Fang Di Quan Zheng He Zi No. 1700032360, 粵房地權證河字第1700032360號) dated 31 May 2011, the 4-storey dormitory building of the property with a gross floor area of 1,969.72 square metres is held by 永勝服裝有限公司 for industrial uses.
- As revealed by a Tenancy Agreement (房產租賃合同), the Groups has rented the property from the aforesaid owner for a term of 5 years commencing on 1 January 2012 and expiring on 31 December 2016 at a monthly rent of RMB54,700 inclusive of property tax and land use rights tax but exclusive of other expenses. As provided in the said Tenancy Agreement, sub-letting of the property is prohibited without prior written consent from the owner.

5. No environmental impact assessment has been carried out for the property. As confirmed by the company, it does not have any plan to carry out any improvement or redevelopment work, dispose of or change the use of the property in the foreseeable future.
6. The opinion from the PRC legal advisers of the Company on the property is as follows:
  - i. 永勝服裝有限公司 is the legal owner of the property and has right to lease the aforesaid property.
  - ii. The parties to the Tenancy Agreement have completed necessary filing and registration process for the agreement. It is legally binding to and enforceable against both parties to the agreement.
  - iii. As confirmed by the Group, the existing use of the property is industrial, which is consistent with the permitted use stipulated in the title certificates of the property.

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 19 December, 2014 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 2 February 2016 to take effect on the Listing Date. The following is a summary of certain provisions of the Articles:

### **(a) Directors**

#### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the

Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;



- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and

the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between

the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph 2(i) below for further details).

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments 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 Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

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

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in

accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting 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 (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;



(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in

respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide 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.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such

members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman 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) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.



**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not



be vote, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under 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**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner

has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 3 February, 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**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 the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII. 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.

**A FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES****1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 19 December 2014. Our Company has established a principal place of business in Hong Kong at Unit 5, 34th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 23 April 2015. Mr. Chung Tin Shing has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution which comprises the Memorandum of Association and Articles of Association. A summary of certain provisions of our Company's constitution and relevant aspects of the Companies Law is set forth in Appendix V to this prospectus.

**2. Change 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.

One Share was allotted and issued at par to the initial subscriber on 19 December 2014 which was transferred as fully paid Share to Cyber Goodie on the same date.

On 19 December 2014, our Company allotted and issued 1,000 Shares and 8,999 Shares to Mr. Chung Tin Shing and Cyber Goodie, respectively, all at par.

Pursuant to resolutions in writing of all our Shareholders passed on 2 February 2016, our authorised share capital was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of an additional 962,000,000 Shares.

Immediately following completion of the Placing and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$1,000,000 divided into 200,000,000 Shares, all fully paid or credited as fully paid and 800,000,000 Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph headed "Resolutions in writing of all our Shareholders passed on 2 February 2016" below, there has been no alteration in the share capital of our Company since its incorporation.

**3. Resolutions in writing of all our Shareholders passed on 2 February 2016**

On 2 February 2016, resolutions in writing were passed by all our Shareholders, pursuant to which, among other things:

- (a) the authorised share capital of our Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of an additional 962,000,000 Shares;
- (b) our Company conditionally approved and adopted its new Articles of Association to take effect on the Listing Date;
- (c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme); (ii) the entering into of the agreement on the Placing Price between the Bookrunner and Lead Manager and our Company on or before the Price Determination Date; and (iii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreement:
  - (i) the Placing was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Placing;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set forth in the paragraph headed “D. Other information — 1. Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme; and
  - (iii) conditional on the share premium account of our Company being credited as a result of the issue of the Placing Shares by our Company pursuant to the Placing, our Directors were authorised to capitalize an amount of HK\$1,399,900 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 139,990,000 Shares, such Shares to be allotted and issued to our Shareholders whose names appearing on the register of members of our Company at the close of business on 2 February 2016 (or as such Shareholders may direct) in proportion (as nearly as possible without fractions) to their then respective shareholdings in our Company.
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment



and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Placing and Capitalisation Issue (excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first;

- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first; and
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

#### **4. Corporate reorganisation**

Details of the Reorganisation are set forth in the section headed “Reorganisation” of this prospectus.

#### **5. Changes in share capital of subsidiaries of our Group**

Subsidiaries of our Company are referred to in the Accountant’s Report, the text of which is set forth in Appendix I to this prospectus.

Save as disclosed in the sections headed “History and Development” and “Reorganisation”, respectively, of this prospectus, there are no changes in the registered capital of our Company’s subsidiaries during the two years preceding the date of this prospectus.

## 6. Repurchase of Shares by our Company

### (a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are authorising below:

#### (i) *Shareholders’ approval*

All proposed repurchases of securities on GEM by a company with a primary listing on GEM must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on 2 February 2016, the Repurchase Mandate was granted to our Directors authorising the repurchase by our Company on GEM, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Articles of Association to be held or when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders of our Company in general meeting, whichever is the earliest.

#### (ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

### (b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, subject to the Companies Law and if so authorised by the Articles, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Law and if so authorised by the Articles, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands. Our Company has not repurchased any Shares in the previous six months.

No connected person (as defined in the GEM Listing Rules) has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Code**"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of our 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 Code as a result of any such increase. Our Directors are not aware of any consequences which may arise under the Code if the Repurchase Mandate is exercised.


**B FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP****1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the deed of indemnity dated 2 February 2016 and entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, to which our Group may be subject on or before the Listing Date; and
- (b) the Underwriting Agreement.

**2. Intellectual property rights of our Group****(a) Trademarks**

- (i) As at the Latest Practicable Date, our Group had the following registered trademarks which are material in relation to our business:

Trademark	Category	Place of registration	Trademark holder	Trademark number	Registration date	Expiry date
 天裕电子塑胶	9	PRC	He Yuan Sky Wealth	9898435	26 August 2011	27 October 2022

- (ii) As at the Latest Practicable Date, our Group had applied for registration of the following trademarks:

Trademark	Class	Place of application	Application number	Name of applicant
<b>KEEN OCEAN</b>	9, 16	PRC	—	Keen Ocean Industrial
<b>KEEN OCEAN</b>	9, 16	Hong Kong	303278278	Keen Ocean Industrial

(b) *Patents*

As at the Latest Practicable Date, our Group had the following registered patents:

Patent	Place of registration	Type	Patent number	Registration date	Expiry date
With a rotary and demolition function switch power plug (具有旋轉及拆卸功能的插頭開關電源)	PRC	Utility model	ZL201120110258.9	14 April 2011	13 April 2021
Wireless dimming led lighting device (無線調光的LED照明裝置)	PRC	Utility model	ZL201120108976.2	14 April 2011	13 April 2021
Emergency function has led lighting (具有應急功能的LED照明燈具)	PRC	Utility model	ZL201120108887.8	14 April 2011	13 April 2021

(c) *Domain names*

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names:

Domain name	Registered proprietor	Date of Registration	Expiry Date
SKY-WEALTH.COM	He Yuan Sky Wealth	20 July 2011	20 July 2016
sky-wealth.cn	He Yuan Sky Wealth	20 July 2011	20 July 2016
keenoocean.com.hk	Hong Kong T-Lab	9 May 2001	1 November 2018
keenoocean-china.com	Keen Ocean Industrial	24 June 2005	24 June 2016

## C FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS OF OUR COMPANY

### 1. Directors

#### (a) *Disclosure of interests — interests and short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Placing and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, the interests or short positions of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to our Company and Stock Exchange, once the Shares are listed are as follows:

#### *Interests in our Company*

<b>Name of Director</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares</b>	<b>Approximate percentage of shareholding in our Company</b>
Mr. Chung Chi Hang, Larry (note)	Interest of a controlled corporation	126,000,000 Shares (long position)	63.0%
Mr. Chung Tin Shing	Beneficial interest	14,000,000 Shares (long position)	7.0%

#### *Note:*

These Shares are held by Cyber Goodie, 100% shareholding of which is owned by Mr. Chung Chi Hang, Larry. Mr. Chung Chi Hang, Larry is deemed to be interested in the Shares held by Cyber Goodie under the SFO.

*Interests in our associated corporation*

<b>Name of associated corporation</b>	<b>Name of Director</b>	<b>Capacity/ Nature of interest</b>	<b>Number of shares</b>	<b>Approximate percentage of shareholding</b>
Cyber Goodie	Mr. Chung Chi Hang, Larry	Beneficial owner	10 shares of US\$1.00 (long position)	100%

*(b) Particulars of our Directors' service contracts*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of our Directors as set forth in the Articles of Association.

Each of the executive Directors is entitled to a director's fee. Each executive Director shall be paid a remuneration on the basis of twelve months in a year. In addition, each of the executive Directors is also entitled to bonus as determined by our Board based on the recommendations made by our remuneration committee. The current annual director's fees and remuneration of our executive Directors are as follows:

<b>Name of Directors</b>	<b>Approximate annual Director's fee</b>
Mr. Chung Chi Hang, Larry	HK\$325,000
Mr. Chung Tin Shing	HK\$499,200
Mr. Wong Shek Fai, Johnson	HK\$455,000

The independent non-executive Directors have been appointed for a term of three years. Our Company intends to pay a director's fee of HK\$48,000 per annum to each of the independent non-executive Directors.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to our Directors (including our independent non-executive Directors) for the year ended 31 December 2015 and the year ending 31 December 2016 is estimated to be approximately HK\$1.1 million and HK\$1.4 million, respectively.

**2. Substantial Shareholders**

So far as our Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, no persons (other than a Director or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or are directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

**3. Agency fees or commissions received**

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

**4. Disclaimers**

Save as disclosed herein:

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning 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 or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules once the Shares are listed;
- (b) none of our Directors or experts referred to under the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));



- (e) taking no account of Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme, none of our Directors are aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Placing and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, 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 of our Group;
- (f) none of the experts referred to under the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (g) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the GEM Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group; and
- (h) none of our Directors has any direct or indirect interest in the promotion of, 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 any member of our Group.

## D OTHER INFORMATION

### 1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the resolutions in writing of our Shareholders of our Company passed on 2 February 2016.

#### (a) *Purpose*

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) *Who may join*

Our Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as our Board may determine at an exercise price determined in accordance with paragraph (e) below to the following (the “**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including executive, non-executive directors and independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, agents and related entities to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Placing, being 20,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, our Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by our Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by our Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(d) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 23.03(4) and 23.06 of the GEM Listing Rules and/or such other requirements as prescribed under the GEM Listing Rules from time to time; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the GEM Listing Rules from time to time with such Eligible Participant and his associates (as defined in the GEM Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of our Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine.

(e) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

- (iii) the nominal value of a Share.

(f) ***Granting options to connected persons***

Any grant of options to a director, chief executive or substantial shareholder (as defined in the GEM Listing Rules) of our Company or any of their respective associates (as defined in the GEM Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If our Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the GEM Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options 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:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the GEM Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the GEM Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which all connected persons (as defined in the GEM Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the GEM Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
- (iii) the information required under Rule 23.02(2)(c) and (d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and
- (iv) the information required under Rule 2.28 of the GEM Listing Rules.

(g) *Restrictions on the times of grant of Options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the GEM Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of our Board meeting (as such date to first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's annual results half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the GEM Listing Rules)

and ending on the date of actual publication of the results announcement.

(h) *Rights are personal to grantee*

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. 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.

(i) *Time of exercise of Option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

(j) *Performance target*

A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(k) *Rights on ceasing employment or death*

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (l) below, the option to the extent not already exercised on the date of cessation shall lapse automatically on the date of cessation; or

- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

**(l) *Rights on dismissal***

If the grantee of an Option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of our Group (if so determined by our Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offence involving his integrity or honesty, his Option will lapse and not be exercisable after the date of termination of his employment.

**(m) *Rights on takeover***

If a general offer is made to all our Shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

**(n) *Rights on winding-up***

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 forthwith 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 (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above 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 immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

**(o) *Rights on compromise or arrangement between our Company and its members or creditors***

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(p) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

(q) *Effect of alterations to capital*

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 23.03(13) of the GEM Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(r) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);



- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (o) becomes effective;
- (iv) subject to paragraph (n), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or has become insolvent, bankrupt or has made arrangements or compositions with his or her creditors generally, or in relation to an employee of our Group (if so determined by our Board) or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

(s) ***Alteration of the Share Option Scheme***

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 23.03 of the GEM Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 23 of the GEM Listing Rules and any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

(t) ***Cancellation of Options***

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing.

(u) ***Termination of the Share Option Scheme***

Our Company may by resolution in general meeting or our Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share



Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) ***Administration of our Board***

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) ***Condition of the Share Option Scheme***

The Share Option Scheme is conditional on:

- (i) the Listing Division of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional (including, if relevant, as result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise;
- (iii) the approval of the rules of the Share Option Scheme by our Shareholders in general meeting; and
- (iv) the commencement of dealings in the Shares on the Stock Exchange.

(x) ***Disclosure in annual and interim reports***

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the GEM Listing Rules in force from time to time.

(y) ***Present status of the Share Option Scheme***

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Division of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being Shares in total.

**2. Estate duty, tax and other indemnities**

Each of the Controlling Shareholders have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (a) of the paragraph headed “Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of our Group on or before the Listing Date.

The deed of indemnity also contain, amongst other things, indemnities given by the Controlling Shareholders in respect of (a) taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which our Group may be subject on or before the Listing Date; and (b) claims and liabilities arising from the non-compliances of our Group, including but not limited to the non-compliance incidents set out in the paragraph headed “Business — Non-compliance incidents” of this prospectus.

**3. Litigation**

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

**4. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK\$77,000 and are payable by our Company.

**5. Promoter**

Our Company has no promoter for the purpose of the GEM Listing Rules.

**6. Qualification of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
LY Capital Limited	A corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activity for the purpose of the SFO

<b>Name</b>	<b>Qualifications</b>
Deloitte Touche Tohmatsu	Certified public accountants
Zhong Lun Law Firm	PRC legal adviser
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Asset Appraisal Limited	Property valuer
Beijing Yubozhiye Market Consulting Co., Ltd.	Industry consultant

#### **7. Consents of experts**

Each of the experts referred to in paragraph 6 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

#### **8. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

#### **9. Miscellaneous**

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- i. no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - ii. no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - iii. our Group has no outstanding convertible debt securities or debentures;
  - iv. no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
  - v. no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;

- vi. no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;
- (b) none of the persons named in the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 August 2015 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (e) the principal register of members of our Company will be maintained in Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Union Registrars Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s branch share registrar in Hong Kong and may not be lodged in Cayman Islands;
- (f) no member of our Group is presently listed on any stock exchange or traded on any trading system;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (h) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

#### 10. Sponsor

The Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme. The Sponsor is independent of our Company in accordance with Rule 6A.07 of the GEM Listing Rules.

The Sponsor’s fees in relation to the Listing are approximately HK\$3.5 million.

**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:

- (a) the written consents referred to in the section headed “Statutory and general information — Other information — Consents of experts” in Appendix VI to this prospectus; and
- (b) a copy of each of the material contracts referred to in the section headed “Statutory and general information — Further information about the business of our Group — Summary of material contracts” in Appendix VI to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Watson Farley & Williams at Units 1703-07, One Pacific Place, 88 Queensway, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the amended and restated Memorandum and Articles of Association;
- (b) the Accountant’s Report from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the assurance report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the letters on the loss estimate prepared by Deloitte Tonche Tohmatsu and the Sponsor, the texts of which are set out in Appendix III to this prospectus;
- (e) the letter, the summary of values and valuation certificates relating to our property interests prepared by Asset Appraisal Limited, the texts of which are set out in Appendix IV to this prospectus;
- (f) the audited consolidated financial statements of the Group for the two years ended 31 December 2014 and the eight months ended 31 August 2015;
- (g) the letter of advice from Conyers Dill & Pearman, our Cayman Islands legal advisors, summarising certain aspects of Cayman Islands company law referred to in “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix V to this prospectus;
- (h) the Companies Law;

- (i) the legal opinions dated the prospectus date issued by Zhong Lun Law Firm, our PRC Legal Advisers in respect of our Group's business operations and property interests in the PRC;
- (j) the material contracts referred to in the section headed "Statutory and general information — B. Further information about the business of our Group — 1. Summary of material contracts" in Appendix VI to this prospectus;
- (k) the service contracts and appointment letters entered into between our Company and each of the Directors referred to in the paragraph headed "Statutory and general information — C. Further information about our Directors and substantial shareholders of our Company — 1. Directors — (b) Particulars of our Directors' service contracts" in Appendix VI to this prospectus;
- (l) the written consents referred to in the section headed "Statutory and general information — D. Other information — 7. Consents of experts" in Appendix VI to this prospectus; and
- (m) the rules of the Share Option Scheme.