

# COWELL

# Cowell e Holdings Inc. 高偉電子控股有限公司

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

**Stock Code: 1415**



## Global Offering

Sole Sponsor, Sole Global Coordinator and Sole Bookrunner

### Morgan Stanley

Joint Lead Managers

Morgan Stanley



BNP PARIBAS



CIMB

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

# COWELL

**Cowell e Holdings Inc.**

**高偉電子控股有限公司**

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

## GLOBAL OFFERING

|   |   |
|---|---|
| Number of Offer Shares under the Global Offering: | 208,000,000 Shares (including 124,800,000 Sale Shares offered by the Selling Shareholder and subject to the Over-allotment Option)  |
| Number of Hong Kong Offer Shares:                 | 20,800,000 Shares (subject to adjustment)   |
| Number of International Offer Shares:             | 187,200,000 Shares (including 124,800,000 Sale Shares offered by the Selling Shareholder and subject to adjustment and the Over-allotment Option)   |
| Maximum Offer Price:                              | HK\$5.75 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) |
| Nominal value:                                    | US\$0.004 per Share   |
| Stock code:                                       | 1415  |

**Sole Sponsor, Sole Global Coordinator and Sole Bookrunner**

## Morgan Stanley

**Joint Lead Managers**

**Morgan Stanley**



**BNP PARIBAS**



**CIMB**

Hong Kong Exchanges and Clearing Limited, 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 section headed "Documents Delivered to the Registrar of Companies and Available for Inspection — 1. 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 for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between us, the Selling Shareholder, the Sole Global Coordinator (on behalf of the Underwriters) on or about Wednesday, March 25, 2015 and, in any event, not later than Monday, March 30, 2015. The Offer Price will be not more than HK\$5.75 per Offer Share and is currently expected to be not less than HK\$4.00 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$5.75 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$5.75 per Offer Share. If, for any reason, the Offer Price is not agreed between us, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) on or before Monday, March 30, 2015 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters), with our consent, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our company at [www.cowelleholdings.com](http://www.cowelleholdings.com). Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

March 19, 2015

## EXPECTED TIMETABLE

|   |                                       |
|---|---------------------------------------|
| Latest time for completing electronic applications under <b>White Form eIPO</b> service through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(2)</sup> .....  | 11:30 a.m. on Tuesday, March 24, 2015 |
| Application lists open <sup>(3)</sup> .....   | 11:45 a.m. on Tuesday, March 24, 2015 |
| Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms .....  | 12:00 noon on Tuesday, March 24, 2015 |
| Latest time for completing payment of <b>WHITE FORM eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....  | 12:00 noon on Tuesday, March 24, 2015 |
| Latest time for giving <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....   | 12:00 noon on Tuesday, March 24, 2015 |
| Application lists close <sup>(3)</sup> .....  | 12:00 noon on Tuesday, March 24, 2015 |
| Expected Price Determination Date <sup>(5)</sup> .....  | Wednesday, March 25, 2015             |
| (1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before ..... | Monday, March 30, 2015                |
| (2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for the Hong Kong Offer Shares — 11. Publication of Results" in this prospectus .....   | Monday, March 30, 2015                |
| (3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and our website at <a href="http://www.cowelleholdings.com">www.cowelleholdings.com</a> from .....   | Monday, March 30, 2015                |
| Results of allocations in the Hong Kong Public Offering will be available at <a href="http://www.iporeresults.com.hk">www.iporeresults.com.hk</a> with a "search by ID" function from .....   | Monday, March 30, 2015                |
| Dispatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before <sup>(6)</sup> .....   | Monday, March 30, 2015                |
| Dispatch/collection of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before <sup>(7)</sup> .....   | Monday, March 30, 2015                |
| Dealings in the Shares on the Hong Kong Stock Exchange expected to commence on .....  | Tuesday, March 31, 2015               |

*Notes:*

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for lodging applications. If you have already submitted your application and obtained an application reference

## EXPECTED TIMETABLE

number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day of lodging applications, when the application lists close.

- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, March 24, 2015, the application lists will not open on that day. Please refer to the section headed “How to Apply for the Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Wednesday, March 25, 2015 and, in any event, not later than Monday, March 30, 2015. If, for any reason, the Offer Price is not agreed by Monday, March 30, 2015 between us, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.
- (6) Share certificates for the Hong Kong Offer Shares are expected to be issued on Monday, March 30, 2015 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects, and neither of the Underwriting Agreements has been terminated in accordance with its terms, prior to 8:00 a.m. on the Listing Date, which is expected to be on or around Tuesday, March 31, 2015. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.
- (7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

**The above expected timetable is a summary only. You should refer to the sections headed “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.**

## CONTENTS

### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by Cowell e Holdings Inc. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor and the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Information contained in our website, located at [www.cowelleholdings.com](http://www.cowelleholdings.com), does not form part of this prospectus.*

|   | <u>Page</u> |
|---|-------------|
| Expected Timetable .....  | i           |
| Contents .....  | iii         |
| Summary .....   | 1           |
| Definitions .....   | 13          |
| Glossary .....  | 19          |
| Forward-looking Statements .....  | 21          |
| Risk Factors .....  | 23          |
| Waivers from Strict Compliance with the Listing Rules and Exemptions from Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance ..... | 51          |
| Information About This Prospectus and the Global Offering .....   | 54          |
| Directors and Parties Involved in the Global Offering .....   | 57          |
| Corporate Information .....   | 61          |
| Industry Overview .....   | 63          |
| Regulatory Overview .....   | 71          |
| Our History, Development and Corporate Structure .....  | 80          |
| Business .....  | 90          |
| Financial Information .....   | 143         |
| Directors and Senior Management .....   | 191         |
| Relationship with the Controlling Shareholders .....  | 202         |
| Connected Transactions .....  | 207         |
| Share Capital .....   | 210         |
| Substantial Shareholders .....  | 212         |
| Future Plans and Use of Proceeds .....  | 213         |
| Underwriting .....  | 215         |
| Structure of the Global Offering .....  | 224         |
| How to Apply for the Hong Kong Offer Shares .....   | 233         |

# CONTENTS

|  | <b>Page</b> |
|--|-------------|
| Appendix I — Accountants' Report .....   | I-1         |
| Appendix II — Unaudited Pro Forma Financial Information .....  | II-1        |
| Appendix III — Preliminary Financial Information for the Year Ended December 31, 2014 .....            | III-1       |
| Appendix IV — Taxation .....   | IV-1        |
| Appendix V — Summary of Our Constitution and Cayman Companies Law .....                                | V-1         |
| Appendix VI — Statutory and General Information .....  | VI-1        |
| Appendix VII — Documents Delivered to the Registrar of Companies and Available for<br>Inspection ..... | VII-1       |

## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read this section carefully before you invest in the Offer Shares.*

### OUR BUSINESS OVERVIEW

We are a major supplier of camera modules for mobile devices. We primarily engage in the design, development, manufacture and sale, on an OEM basis, of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Our camera modules are manufactured utilizing either "flip-chip" technology (where a semiconductor processor chip, generally referred to as a die, is mounted directly onto a substrate in a "face-down" manner) or "chip-on-board" technology (where a die is directly mounted on and electrically interconnected to a substrate by using metallic wires). According to data compiled by IBS, our share of the global camera modules market in terms of sales was 1.6% in 2010, 2.6% in 2011, 3.5% in 2012 and 5.0% in 2013, making us the sixth largest supplier of camera modules in the world in 2013. Our largest customer is Apple Inc. (together with its affiliates, "Apple"), which has been purchasing our camera modules since 2009. Major customers for our camera modules also include other leading mobile device manufacturers in the world, such as LG Electronics Co., Ltd. ("LG Electronics") and, commencing in October 2013, Samsung Electronics Co., Ltd. ("Samsung Electronics"). We also design, develop, manufacture and sell optical components used in a number of consumer electronics products. Major customers for our optical components include Optis Co., Ltd. ("Optis") (which is a supplier of electronic components to Samsung Electronics and Toshiba Corporation ("Toshiba")) and subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi, Ltd. ("Hitachi").

As of October 31, 2014, we had monthly production capacity to produce up to 14.8 million flip-chip camera modules, 14.5 million COB camera modules and 33.1 million optical components. Our turnover amounted to US\$323.1 million in 2011, US\$527.5 million in 2012, US\$813.9 million in 2013, US\$616.1 million in the first ten months of 2013 and US\$638.4 million in the first ten months of 2014. We recorded a profit for the period of US\$18.2 million in 2011, US\$13.2 million in 2012, US\$50.2 million in 2013, US\$32.1 million in the first ten months of 2013 and US\$30.6 million in the first ten months of 2014. Our profit for the first ten months of 2014 decreased by 4.8% from the first ten months of 2013, primarily due to the increase in our administrative expenses resulting from increases in legal, accounting and other professional service fees in preparation of the Global Offering, as well as the higher rate of increase in our cost of sales compared to the increase in turnover resulting mainly from the short-term decrease in production yields during the period of adjustment typically associated with the implementation of new technology and production processes, which was required for the new flip-chip camera modules we began producing in the second half of 2014. We had total assets of US\$442.7 million and total equity of US\$169.2 million as of October 31, 2014, compared to total assets of US\$400.2 million and total equity of US\$139.9 million as of December 31, 2013.

### RECENT DEVELOPMENTS SUBSEQUENT TO THE TRACK RECORD PERIOD

Since October 31, 2014, we have agreed with LG Electronics to supply high-end camera modules with resolutions of 13 megapixels starting in the third quarter of 2015. Sales volume of camera modules increased by 11.2% from 56.3 million units in the three months ended January 31, 2014 to 62.6 million units in the three months ended January 31, 2015, primarily due to an increase in the number of COB camera modules sold to LG Electronics, which was partially offset by a decrease in the number of older

## SUMMARY

models of COB camera modules sold to Apple. Sales volume of optical components decreased by 4.2% from 59.4 million units in the three months ended January 31, 2014 to 56.9 million units in the three months ended January 31, 2015, primarily due to continuing intense competition and a global decline in demand for end-products utilizing our optical components, which was offset in part by new sales of blue filters, which we commenced producing commercially in the second half of 2014. For information relating to trends and other factors which may affect our results of operations, see “Financial Information.”

Subsequent to October 31, 2014 and up to the Latest Practicable Date, we did not experience any significant change of pricing policy for our products and there was no material change in the unit cost of our components and materials. Our Directors further confirm that as far as we are aware, since October 31, 2014 (being the date of our latest audited consolidated financial information) and up to the Latest Practicable Date, there has been no material adverse change in our business, profitability or financial condition or in market conditions in the camera modules industry, and there has been no event since October 31, 2014 which could materially affect the information shown in our consolidated financial statements included in the Accountants’ Report set out in Appendix I to this prospectus.

We have prepared unaudited preliminary financial information for our Group as of and for the year ended December 31, 2014, which is set forth in Appendix III to this prospectus.

### SHAREHOLDER INFORMATION

Immediately upon completion of the Global Offering, Mr. Kwak will own approximately 45.00% and Hahn & Co. Eye will own approximately 29.99% of our issued and outstanding Shares, without taking into account the Shares which may be sold upon the exercise of the Over-allotment Option. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders’ approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in our control that would otherwise benefit our Shareholders. Mr. Kwak and Hahn & Co. Eye are subject to a six month lock-up period with respect to their holding of the Shares after completion of the Global Offering, and Mr. Kwak is also subject to the requirement to maintain a controlling share ownership in us for an additional six month period following the expiration of such lock-up period. See “Risk Factors — Future sales or issuances of Shares (or securities related to the Shares) could adversely affect the market price of the Shares.”

### OUR SELECTED HISTORICAL FINANCIAL INFORMATION

The tables below set forth, for the periods indicated, selected historical financial information derived from our consolidated financial statements, which are included in Appendix I to this prospectus, and they should be read in conjunction with such financial statements and the related notes.



## SUMMARY

### Selected Consolidated Statement of Profit or Loss Data

The following table sets forth our selected consolidated statement of profit or loss data for the periods indicated:

|  | Year ended December 31, |             |             | Ten months ended October 31, |                     |
|--|-------------------------|-------------|-------------|------------------------------|---------------------|
|  | 2011                    | 2012        | 2013        | 2013 <sup>(1)</sup>          | 2014 <sup>(1)</sup> |
|  | (unaudited)             |             |             |                              |                     |
|  | (US\$ in millions)      |             |             |                              |                     |
| <b>Turnover</b> .....  | 323.1                   | 527.5       | 813.9       | 616.1                        | 638.4               |
| Cost of sales .....  | (287.3)                 | (485.0)     | (710.7)     | (544.9)                      | (566.8)             |
| <b>Gross profit</b> .....  | 35.8                    | 42.5        | 103.2       | 71.2                         | 71.6                |
| Other revenue .....  | 1.0                     | 7.0         | 1.3         | 0.9                          | 1.7                 |
| Other net income/(loss) .....  | 0.6                     | 1.1         | (1.1)       | (0.6)                        | (0.2)               |
| Selling and distribution expenses ...  | (2.5)                   | (4.4)       | (5.9)       | (4.8)                        | (4.1)               |
| Administrative expenses .....  | (11.8)                  | (21.5)      | (28.5)      | (21.5)                       | (27.4)              |
| <b>Profit from operations</b> .....  | 23.1                    | 24.7        | 69.0        | 45.2                         | 41.6                |
| Finance costs .....  | (0.9)                   | (4.4)       | (5.2)       | (4.2)                        | (2.3)               |
| <b>Profit before taxation</b> .....  | 22.2                    | 20.3        | 63.8        | 41.0                         | 39.3                |
| Income tax .....   | (4.0)                   | (7.1)       | (13.6)      | (8.9)                        | (8.7)               |
| <b>Profit for the year/period</b> .....  | 18.2                    | 13.2        | 50.2        | 32.1                         | 30.6                |
| <b>Other comprehensive income</b>  |                         |             |             |                              |                     |
| Exchange differences on translation<br>of financial statements of<br>overseas subsidiaries ..... | 1.3                     | 1.3         | 3.3         | 2.1                          | (1.1)               |
| Remeasurement of net defined<br>benefit liability .....  | (0.1)                   | (0.1)       | (0.0)       | (0.0)                        | (0.1)               |
| <b>Total comprehensive income for<br/>the year/period</b> .....                                  | <u>19.4</u>             | <u>14.4</u> | <u>53.5</u> | <u>34.2</u>                  | <u>29.4</u>         |

- (1) The global mobile devices and consumer electronics markets are characterized by seasonal increases in production and sales volume in the latter part of the year primarily driven by increased consumer spending during the year-end holiday season. We normally experience the highest sales volume for our camera modules in the fourth quarter of each year when our customers increase their inventories of mobile devices in light of increased seasonal demand. Correspondingly, our production and sales levels also tend to be the lowest in the first and second quarters of each year. Seasonal fluctuations in our sales are often exacerbated by the product development and launch cycles of our major customers, who tend to introduce new or enhanced mobile devices to the market during the latter part of the year. In line with such product launch cycles of our major customers, we have historically launched new or enhanced camera module products during the second half of the year, which has generally led to higher average selling prices, production and sales volumes and turnover in the third and fourth quarters of the year. As a result of the inherent seasonality of our business, an analysis of our interim financial performance may not be meaningful and period to period comparisons of our operating results may not be reliable indicators of overall trends in our business. See “Risk Factors — Our results of operations are subject to seasonality of our customers’ product development and launch cycles and may fluctuate.”

## SUMMARY

### Selected Consolidated Statement of Financial Position Data

The following table sets forth our selected consolidated statement of financial position data as of the dates indicated:

|  | As of December 31, |               |              | As of               |
|--|--------------------|---------------|--------------|---------------------|
|  | 2011               | 2012          | 2013         | October 31,<br>2014 |
|  | (US\$ in millions) |               |              |                     |
| <b>Current assets</b>  |                    |               |              |                     |
| Inventories  | 39.2               | 58.2          | 55.0         | 82.4                |
| Trade and other receivables  | 85.4               | 157.6         | 167.4        | 201.9               |
| Current tax recoverable  | —                  | 0.5           | —            | 2.1                 |
| Pledged deposits   | 23.0               | 52.1          | 26.3         | 22.0                |
| Cash and cash equivalents  | 13.9               | 13.6          | 45.2         | 17.5                |
|  | <u>161.5</u>       | <u>282.0</u>  | <u>293.9</u> | <u>325.9</u>        |
| <b>Current liabilities</b>   |                    |               |              |                     |
| Trade and other payables   | 85.9               | 144.5         | 123.1        | 180.5               |
| Bank loans and overdrafts  | 50.4               | 142.1         | 121.8        | 83.3                |
| Current tax payable  | 1.9                | 4.7           | 12.6         | 8.2                 |
| Loan from a director   | 2.0                | 2.0           | 2.0          | —                   |
|  | <u>140.2</u>       | <u>293.3</u>  | <u>259.5</u> | <u>272.0</u>        |
| <b>Net current assets/(liabilities)</b>                                | <u>21.3</u>        | <u>(11.3)</u> | <u>34.4</u>  | <u>53.9</u>         |
| <b>Capital and reserves</b>  |                    |               |              |                     |
| Share capital  | 3.0                | 3.0           | 3.0          | 3.0                 |
| Reserves   | 69.1               | 83.4          | 136.9        | 166.2               |
| <b>Total equity attributable to equity shareholders of the Company</b> | 72.1               | 86.4          | 139.9        | 169.2               |
| <b>Non-controlling interests</b>                                       | 0.2                | —             | —            | —                   |
| <b>Total equity</b>  | <u>72.3</u>        | <u>86.4</u>   | <u>139.9</u> | <u>169.2</u>        |

### Selected Consolidated Statement of Cash Flows Data

The following table sets forth our selected consolidated statement of cash flows data for the periods indicated:

|  | Year ended December 31, |        |        | Ten months ended<br>October 31, |        |
|--|-------------------------|--------|--------|---------------------------------|--------|
|  | 2011                    | 2012   | 2013   | 2013                            | 2014   |
|  | (unaudited)             |        |        |                                 |        |
|  | (US\$ in millions)      |        |        |                                 |        |
| Net cash generated from/(used in) operating activities | 8.1                     | (8.1)  | 46.8   | 38.5                            | 32.0   |
| Net cash used in investing activities                  | (8.3)                   | (50.1) | (15.8) | (12.0)                          | (21.2) |
| Net cash generated from/(used in) financing activities | 9.3                     | 68.8   | 0.5    | (12.6)                          | (38.5) |
| Cash and cash equivalents at beginning of the period   | (6.2)                   | 2.9    | 13.6   | 13.6                            | 45.2   |
| Effect of foreign exchange rate changes                | —                       | 0.1    | 0.1    | 0.0                             | 0.0    |
| Cash and cash equivalents at end of the period         | 2.9                     | 13.6   | 45.2   | 27.5                            | 17.5   |

## SUMMARY

Fluctuations in our turnover during the Track Record Period primarily reflected changes in sales volume and product mix for our camera module products, which were affected mainly by the product development, launch and life cycles of our major customers, as well as the general seasonality of our business. Fluctuations in our administrative expenses during the Track Record period primarily reflected changes in labor costs for our administrative and management staff, which were affected mainly by the level of our turnover as well as the general expansion of our operations, including the addition of our Huanan office space in 2012. Fluctuations in our cash flows during the Track Record Period primarily reflected changes in our profit before taxation, purchases of property, plant and equipment in connection with the opening of our Huanan production facilities in 2012 and changes in the level of our bank loans, as well as the general seasonality of our business. From time to time, we may receive compensation income from our customers to compensate us for certain operating losses resulting from having to install new production equipment for the customer, as agreed between us and the customer, which is recognized as other revenues. We received no such compensation income in 2011, 2013 and the first ten months of 2014, while we received US\$6.0 million of such compensation income in 2012, which was equivalent to 45.4% of the profit for the year for 2012. See “Financial Information”.

### SELECTED OPERATING DATA AND KEY FINANCIAL RATIOS

We monitor certain operating and financial metrics we believe are commonly used in the camera module industry and are important for benchmarking against our competitors.

#### Selected Operating Data

The following table presents a breakdown of our turnover by product type for the periods indicated:

|                          | Year ended December 31, |       |       | Ten months ended October 31, |       |
|--------------------------|-------------------------|-------|-------|------------------------------|-------|
|                          | 2011                    | 2012  | 2013  | 2013                         | 2014  |
|                          |                         |       |       | (unaudited)                  |       |
|                          |                         |       |       | (US\$ in millions)           |       |
| <b>Turnover:</b>         |                         |       |       |                              |       |
| Camera modules           |                         |       |       |                              |       |
| Flip-chip .....          | —                       | 225.0 | 588.5 | 422.7                        | 435.0 |
| COB .....                | 306.8                   | 289.5 | 214.3 | 183.9                        | 193.5 |
|                          | 306.8                   | 514.5 | 802.8 | 606.6                        | 628.5 |
| Optical components ..... | 16.3                    | 13.0  | 11.1  | 9.5                          | 9.9   |
| <b>Total</b> .....       | 323.1                   | 527.5 | 813.9 | 616.1                        | 638.4 |

The following table shows our average selling prices (defined as the applicable turnover divided by the applicable number of units sold for each product group) and our number of units sold by product group for the periods indicated:

| Product Group          | Year ended December 31,          |              |                            |              |                            |              | Ten months ended October 31, |              |                            |              |
|------------------------|----------------------------------|--------------|----------------------------|--------------|----------------------------|--------------|------------------------------|--------------|----------------------------|--------------|
|                        | 2011                             |              | 2012                       |              | 2013                       |              | 2013                         |              | 2014                       |              |
|                        | (In US\$ and thousands of units) |              |                            |              |                            |              |                              |              |                            |              |
|                        | <b>Average</b>                   |              | <b>Average</b>             |              | <b>Average</b>             |              | <b>Average</b>               |              | <b>Average</b>             |              |
|                        | <b>Selling</b>                   | <b>Units</b> | <b>Selling</b>             | <b>Units</b> | <b>Selling</b>             | <b>Units</b> | <b>Selling</b>               | <b>Units</b> | <b>Selling</b>             | <b>Units</b> |
|                        | <b>Price<sup>(1)</sup></b>       | <b>Sold</b>  | <b>Price<sup>(1)</sup></b> | <b>Sold</b>  | <b>Price<sup>(1)</sup></b> | <b>Sold</b>  | <b>Price<sup>(1)</sup></b>   | <b>Sold</b>  | <b>Price<sup>(1)</sup></b> | <b>Sold</b>  |
| Camera Modules .....   | \$ 2.91                          | 105,315      | \$ 3.51                    | 146,757      | \$ 4.06                    | 197,554      | \$ 3.94                      | 153,880      | \$ 4.21                    | 149,209      |
| Optical Components ... | \$0.052                          | 314,528      | \$0.050                    | 256,786      | \$0.047                    | 238,975      | \$0.047                      | 200,702      | \$0.045                    | 217,177      |

(1) Turnover divided by number of units sold.

## SUMMARY

### Key Financial Ratios

The following tables set forth certain of our key financial ratios for the periods and as of the dates indicated:

|                                | Year ended December 31, |         |        | Ten months ended October 31, |        |
|--------------------------------|-------------------------|---------|--------|------------------------------|--------|
|                                | 2011                    | 2012    | 2013   | 2013                         | 2014   |
| <b>Profitability ratios</b>    |                         |         |        |                              |        |
| Turnover growth                | N/A                     | 63.3%   | 54.3%  | N/A                          | 3.6%   |
| Net profit growth/(decrease)   | N/A                     | (27.4)% | 281.1% | N/A                          | (4.8)% |
| Gross margin                   | 11.1%                   | 8.1%    | 12.7%  | 11.6%                        | 11.2%  |
| Operating margin               | 7.2%                    | 4.7%    | 8.5%   | 7.3%                         | 6.5%   |
| Net margin                     | 5.6%                    | 2.5%    | 6.2%   | 5.2%                         | 4.8%   |
| Return on equity               | 25.1%                   | 15.3%   | 35.9%  | 26.6%                        | 18.1%  |
| Return on total assets         | 8.5%                    | 3.5%    | 12.6%  | 8.5%                         | 6.9%   |
|                                | As of December 31,      |         |        | As of October 31,            |        |
|                                | 2011                    | 2012    | 2013   | 2013                         | 2014   |
| <b>Liquidity ratios</b>        |                         |         |        |                              |        |
| Current ratio                  | 115.2%                  | 96.2%   | 113.3% | 106.3%                       | 119.8% |
| Quick ratio                    | 87.2%                   | 76.3%   | 92.0%  | 73.4%                        | 89.5%  |
| <b>Capital adequacy ratios</b> |                         |         |        |                              |        |
| Gearing ratio                  | 17.7%                   | 47.6%   | 27.2%  | 31.7%                        | 20.6%  |
| Debt to equity ratio           | 21.5%                   | 90.7%   | 37.4%  | 46.5%                        | 25.9%  |
| Interest coverage ratio        | 24.3                    | 5.6     | 13.3   | 10.6                         | 18.0   |

Please see “Financial Information — Key Financial Ratios” for descriptions of the calculations of the above ratios.

### OUR BUSINESS MODEL

We believe that our state-of-the-art manufacturing facilities, engineering capabilities, technical expertise and accumulated know-how in manufacturing camera modules and optical components, as well as our strong relationships with our customers, will continue to differentiate us as a provider of high-performance and cost-effective camera modules and optical components, and position us to take advantage of attractive growth opportunities. Mobile device and consumer electronics manufacturers seek suppliers with whom they can better align component technology development with their own product development efforts. We aim to combine engineering innovation with specific commercialization strategies and tailor our technology development efforts to our customers’ requirements, taking advantage of our close working relationship with our customers to develop new products and refine existing products in cooperation with them.

### Products

We manufacture and sell camera modules utilizing flip-chip and COB technologies in a variety of specifications, which are used as critical components in various mobile devices with camera functions. We also manufacture and sell optical components used in a number of consumer electronics products such as CD, DVD and Blu-ray players, as well as CD and DVD drives used in computers.

### Production

We produce our products at two production facilities at Hengkeng and Huanan in Dongguan, Guangdong Province, PRC, where we are able to take advantage of a high-quality labor force, extensive infrastructure for our operations and a strategic location to facilitate the transportation of products to our customers. Upon completion of manufacturing and testing of our products at our production facilities, the products are packaged and sent to our finished goods warehouse in Hong Kong through independent third-party logistics companies, for storage or further shipping to our customers, primarily in the PRC and

## SUMMARY

Korea. Under the terms of our sales arrangements with our customers, we provide product warranties that are usually limited to replacement of defective items or a credit with respect to amounts paid for such items.

### **Components and Materials**

We use a variety of components and materials in our manufacturing process. The main components used in our manufacturing process for camera modules are CMOS image sensors, PCBs, lenses (including lens holders) and HTCC boards, which in the aggregate accounted for approximately 91.6% of our component and material costs in 2011, 87.9% in 2012, 86.1% in 2013 and 87.3% in the first ten months of 2014. Accordingly, a stable source of such components is crucial to our success. We obtained all of our needs for CMOS image sensors, PCBs, lenses (including lens holders) and HTCC boards from 38 independent suppliers in the first ten months of 2014, 23 of which were designated by our three largest customers. Components and materials purchased from suppliers designated by our three largest customers accounted for 91.4% of our component and material costs in 2011, 86.5% in 2012, 80.4% in 2013 and 74.6% in the first ten months of 2014. Other key components and materials utilized in our manufacturing process include connectors, capacitors, ambient light sensors, raw optical glass and coating chemicals. We are generally granted a credit period of 30 to 90 days from the date of billing by our suppliers.

### **Apple and Other Customers**

Our five largest customers together accounted for 99.0% of our turnover in 2011, 99.7% of our turnover in 2012, 99.7% of our turnover in 2013 and 99.6% of our turnover in the first ten months of 2014. Our largest customer is Apple, which designs, manufactures, and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. We have historically supplied fixed-focus camera modules that are attached to the front-end of mobile device products to Apple. We began supplying COB camera modules directly to Apple in 2009, and we expanded our relationship by supplying flip-chip camera modules starting in 2012. Apple directly or indirectly accounted for 86.9% of our turnover in 2011, 87.9% of our turnover in 2012, 85.8% of our turnover in 2013 and 74.4% of our turnover in the first ten months of 2014. For COB camera modules, our major customers also include LG Electronics and Samsung Electronics. As a result of increasing sales to LG Electronics and Samsung Electronics, the share of our turnover accounted for directly or indirectly by Apple was approximately 77.7% (compared to approximately 19.4% for LG Electronics and approximately 1.5% for Samsung Electronics) for the full-year 2014, based on our unaudited management accounts.

We sell our optical components globally to a wide range of consumer electronics manufacturers, which use our optical components in a variety of electronics products. Our major customers for optical components include Optis (which is a supplier of electronic components to Samsung Electronics and Toshiba) and subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi. See “Business — Customers, Sales and Marketing.”

While our major customers usually provide us with a forecast of their supply needs on a regular basis, they are not legally obligated to issue purchase orders to us in accordance with such forecasts and in certain cases have the right to terminate, without cause, their sales arrangements relating to particular types of products supplied by us. Accordingly, there is no guarantee that our major customers will continue to purchase products from us. See “Risk Factors — Risks Relating to Our Business — We currently sell a substantial portion of our camera modules and optical components to a limited number of customers. Our dependence on these customers subjects us to events that may cause material fluctuations or declines in our revenues.” Furthermore, in the case of Apple, our dependence on it as our

## SUMMARY

largest customer is exacerbated by the fact that, from time to time, Apple also arranges for the sourcing and supply of key manufacturing equipment and technology for our production of specific products for it. Apple also imposes restrictions on our use of such equipment and technology for other customers, and retains the right to require us to return such equipment and technology to it at its request. In addition, Apple (as well as most of our other major customers) arranges for sourcing and supply of particular components for our production of specific products for it.

### ***Step-in Rights and Other Remedies Exercisable by Apple***

We have also entered into certain arrangements with Apple, pursuant to which Apple will have certain “step-in” rights to take over our production facilities in Huanan (which are used exclusively for the manufacture of camera modules supplied to Apple), and will have the right to draw upon a US\$50 million stand-by letter of credit provided to Apple, in the event of certain breaches by us of our obligations to Apple. Such arrangements will only become effective as of the Listing Date. The stand-by letter of credit, once effective, will be treated as a contingent liability and any drawdowns thereunder will be treated as a bank loan under our statement of financial position and as other loss under our statement of profit or loss for accounting purposes. See “Risk Factors — Risks Relating to Our Business — We rely substantially on Apple” and “Business — Customers, Sales and Marketing — Relationship with Apple.”

In the event that Apple exercises the “step-in” rights, we would lose ownership and control over our production facilities in Huanan, and would lose the turnover and profit generated by such facilities, which represented 72.3% and 68.1% of our turnover and a majority of our gross profit for the year ended December 31, 2013 and the ten months ended October 31, 2014, respectively, which would have a material adverse effect on our business, financial condition and results of operations.

### **Sales and Marketing**

In line with the industry norm for mobile device component suppliers, we generally enter into sales arrangements with our major customers, pursuant to which the parties agree on the basic terms of development and supply of particular products for a specified period, typically for a term of one year (including in the case of LG Electronics and Samsung Electronics, as well as Apple) but which may vary depending on the customer’s needs as well as the type of product and its expected commercial longevity. Our sales arrangements usually establish parameters for determining the price of the relevant products being supplied, which is typically subject to adjustment on a regular basis based on a variety of factors such as decreases in our operating costs, changes in the prices of components and materials and improvements in our production yield for the products. Our sales arrangements do not establish fixed purchase volume commitments, and purchase volumes are generally determined on an ongoing basis based on purchase orders provided by the customer. Our major customers usually provide us with a forecast of their supply needs on a regular basis.

We market our products primarily through our sales force. Sales outside of the PRC are supported by our two sales subsidiaries located in Hong Kong and Korea. Such subsidiaries support our operations by locating suitable local suppliers and potential new customers (especially for our optical components business), identifying possible business opportunities and providing information regarding local market conditions, as well as maintaining relationships with our existing customers. We typically grant our customers credit terms ranging from 30 to 90 days from the date of billing. We assess the credit terms on a case-by-case basis, taking into account the customer’s creditworthiness, prior dealing history and additional information specific to the customer as well as economic environment in which the customer operates.

### **OUR COMPETITIVE STRENGTHS**

We believe that the following competitive strengths provide us with a number of advantages over our competitors and position us favorably to take advantage of attractive growth opportunities: (i) major camera module manufacturer serving the growing mobile devices market; (ii) strong relationship with

## SUMMARY

major mobile device companies; (iii) strong management team supported by extensive engineering capabilities; and (iv) competitive manufacturing capabilities with advanced process technologies.

### OUR BUSINESS STRATEGIES

Our strategic objective is to enhance our position as a major manufacturer of camera modules that meet the demands of our global customer base which we believe will maximize our value. To achieve this objective, we plan to pursue the following strategies: (i) continue to focus on leading global mobile device companies; (ii) expand product offerings and market applications; (iii) continue to drive product innovation, design capabilities, enhance operational efficiencies and expand production capacity; and (iv) enlarge customer base and served market segments.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has not been any material adverse change in our business or financial, operational or trading position, or in the industries and the market environment in which we operate, since October 31, 2014 and up to the date of this prospectus.

### APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

Our Directors consider Hong Kong to be a suitable place for listing as they believe that, with our businesses and operations being primarily located, managed and conducted in the PRC, a listing in Hong Kong will not only contribute to opportunities for future fund-raising but also provide better synergy for us in terms of branding and raising our corporate profile.

### LISTING EXPENSES

During the Track Record Period, we incurred listing expenses of approximately US\$3.6 million, of which US\$0.5 million and US\$2.9 million were recognized as general and administrative expenses for the year ended December 31, 2013 and the ten months ended October 31, 2014, respectively, and US\$0.2 million was capitalized as prepayments that would have been charged against equity upon successful listing, in accordance with International Accounting Standard 32, *Financial Instruments: Presentation* ("IAS 32"). Pursuant to such accounting standard, expenses that are incremental and directly attributable to the issuance of new Shares in the Global Offering will be accounted for as a deduction from equity upon listing. The expenses which do not relate directly to the issuance of new Shares in the Global Offering are charged to the consolidated statement of profit or loss as incurred. We expect to incur additional listing expenses of approximately US\$4.8 million (including underwriting commissions of approximately US\$1.3 million, assuming an Offer Price of HK\$4.88 per Offer Share, being the mid-point of the indicative range of the Offer Price of HK\$4.00 to HK\$5.75 per Offer Share), of which US\$3.2 million is expected to be recognized as general and administrative expenses for the two months ended December 31, 2014 and the year ending December 31, 2015, and US\$1.6 million is expected to be capitalized as prepayments to be charged against equity upon successful listing in accordance with IAS 32. Our Directors do not expect such expenses to have a material and adverse impact on our financial results for the two months ended December 31, 2014 and the year ending December 31, 2015.

### OFFERING STATISTICS

|                       |  |
|-----------------------|--|
| Offer Price per Share | : HK\$4.00 to HK\$5.75 per Share   |
| Board lot             | : 1,000 Shares   |
| Offering structure    | : 90% International Offering and 10% Hong Kong Public Offering (subject to reallocation and the Over-allotment Option) |

### DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends that we declare. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial

## SUMMARY

condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to the Articles of Association and the Cayman Companies Law, including the approval of our Shareholders. If we decide to declare dividends, cash dividends on our Shares will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors deem legal, fair and practicable.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries, including our operating subsidiary in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. PRC laws also require our subsidiary in China to set aside part of its net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our operating subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our subsidiaries may enter into in the future.

We did not declare or pay any dividends on the Shares for the years ended December 31, 2011, 2012 and 2013 or for the ten months ended October 31, 2014.

### FUTURE PLANS AND USE OF PROCEEDS

See “Business — Strategies” for a detailed discussion of our future plans.

The aggregate net proceeds to us from the Global Offering (after deduction of underwriting fees for the Offer Shares to be newly issued by us and the total estimated expenses paid and payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$4.88 per Offer Share, being the mid-point of the indicative range of the Offer Price of HK\$4.00 to HK\$5.75 per Offer Share) will be approximately HK\$340.4 million. We plan to use the net proceeds to us from the Global Offering in the following manner:

- as part of our overall business strategy, we intend to invest approximately 79% of the net proceeds to us (approximately HK\$269.0 million) for the enhancement and expansion of our production capacity as follows:
  - (i) approximately 66% of the net proceeds to us (approximately HK\$225.8 million) for enhancing the production capacity of the existing production lines for fixed-focus camera modules and to enable us to begin manufacturing high-end camera modules. As a result of such investments, which are expected to take place in 2016, and other capital expenditures (which we intend to fund through cash flow from operating activities and available banking facilities), our annual production capacity for camera modules is expected to increase by approximately 29% by the first half of 2016 (as compared to October 31, 2014);
  - (ii) approximately 13% of the net proceeds to us (approximately HK\$43.2 million) to enhance existing production lines to produce high-end COB camera modules by improving our end-of-line testing processes through installation of more advanced machinery used in quality control and testing procedures (without increasing our overall production capacity for COB camera modules), which is expected to be completed by the first half of 2015;
- Approximately 12% of the net proceeds to us (approximately HK\$40.8 million) for the repayment of a term bank loan for working capital from HSBC with a maturity of November 2016 and an interest rate of 3.2%; and
- Approximately 9% of the net proceeds to us (approximately HK\$30.6 million) for working capital and other general corporate purposes.

If the Offer Price is determined at the highest point of the stated range, the proceeds to us would be increased by approximately HK\$70.6 million. In such event, we have the present intention to apply such



## SUMMARY

amount for additional investment on each of the aforementioned uses on a pro rata basis. If the Offer Price is determined at the lowest point of the stated range, the proceeds to us would be decreased by approximately HK\$71.4 million. In such event, we expect to first use HK\$269.0 million for the enhancement and expansion of our production capacity and reduce the amounts to be used for repayment of the term bank loan and working capital by HK\$71.4 million.

The net proceeds to us from the Global Offering will cover a major part of our current capital expenditure needs for our expansion of production capacity during 2015 and 2016 and we expect such net proceeds to be utilized in these two years according to the actual timetable for these capital expenditure projects. To the extent that any part of the net proceeds to us from the Global Offering are not immediately used for the above purposes, the Directors may allocate such proceeds to short-term interest-bearing deposits and/or money-market instruments with authorized financial institutions and/or licensed banks in Hong Kong and/or the PRC.

We will not receive any of the proceeds from the sale of the Sales Shares by the Selling Shareholder in the Global Offering. The Selling Shareholder estimates that, after deduction of underwriting fees for the Sale Shares and the estimated expenses payable by it in the Global Offering and assuming an Offer Price of HK\$4.88 per Share (being the midpoint of the indicative Offer Price range), it will receive net proceeds from the Global Offering of approximately HK\$587.0 million (assuming the Over-allotment Option is not exercised) and approximately HK\$735.4 million (assuming the Over-allotment Option is exercised in full), respectively.

### REGULATORY COMPLIANCE

Our PRC legal advisor, Jingtian & Gongcheng, has advised us that, during the Track Record Period and up to the Latest Practicable Date, Cowell China has complied with relevant PRC laws, rules and regulations in all material respects, including obtaining all the necessary licenses, approvals and permits, except for a number of non-compliance incidents. The non-compliance incidents that are not immaterial are summarized below.

- Our PRC subsidiary registered equipment whose title belongs to one of our major customers with the relevant PRC government authorities as capital contributed by our Hong Kong subsidiary. In connection with such non-compliance incident, Cowell China may be required to pay the Underpaid EIT (as defined in “Business — Legal Proceedings and Regulatory Compliance — Non-Compliance Matters”) and any related late payment surcharge, in the total maximum amount of RMB21.7 million as of December 31, 2014 and RMB23.1 million as of May 31, 2015;
- Our PRC subsidiary failed to compile the relevant information for tax declaration and did not withhold the required portion of the salaries paid to its expatriate employees for individual income tax purposes prior to September 2013;
- Our PRC subsidiary did not set up a housing provident fund account and pay housing provident fund contributions for all of its employees in accordance with the applicable PRC laws and regulations before December 2013;
- During the Track Record Period, our PRC subsidiary has been contributing to the employee social welfare schemes based on a lower amount of wages instead of the actual wages of employees as required under applicable PRC laws and regulations;
- Our PRC subsidiary failed to go through certain formalities in relation to occupational disease prevention during the construction of our production facilities in Hengkeng and Huanan;

For further information regarding the above non-compliance incidents, please see “Business — Legal Proceedings and Regulatory Compliance — Non-Compliance Matters.”

## SUMMARY

### RISK FACTORS

Our business faces risks including those set out in “Risk Factors” in this prospectus. As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the “Risk Factors” section in its entirety before you decide to invest in the Offer Shares.

A summary of certain of these risk factors is set forth below. Any of the following developments may have a material and adverse effect on our business, financial condition, results of operations and prospects:

- We currently sell a substantial portion of our camera modules and optical components to a limited number of customers. Our dependence on these customers subjects us to events that may cause material fluctuations or declines in our revenues;
- We rely substantially on Apple;
- Our business is dependent on the global mobile device industry, and if the industry experiences a downturn, our sales could decrease and we may face pressure to reduce prices;
- Our manufacturing processes are complex and potentially vulnerable to impurities in the production environment and manufacturing disruptions, which could reduce our production yields and hurt our sales;
- Our dependence on a limited number of suppliers for key components and materials could result in supply disruptions and prevent us from delivering our products in a timely manner to our customers in the required quantities;
- Our continued success depends on our ability to respond to technological upgrades demanded by mobile device manufacturers, and our failure to further refine our technology and introduce new products or improved processes could render our products or production methods uncompetitive or obsolete and reduce our sales and market share;
- Our future growth and profitability depend on our ability to upgrade our manufacturing facilities and increase production capacity, and our ability to achieve our facility upgrades and capacity expansion goals is subject to a number of risks and uncertainties;
- We may not grow at a rate comparable to our growth rate in the past;
- Our results of operations are subject to seasonality of our customers’ product development and launch cycles and may fluctuate;
- In line with general industry practice, we make capital expenditures based on forecasts of supply needs provided by our customers as well as our projections of future demand for our products, and discrepancies between such forecasts and projections and actual order volume for our products could harm our business; and
- We operate in highly competitive markets and our failure to compete successfully would adversely affect our businesses and market position.

## DEFINITIONS

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

|  |  |
|--|--|
| <b>“Accountants’ Report”</b>                   | the report of the Reporting Accountants dated March 19, 2015, the text of which is set out in Appendix I of this prospectus  |
| <b>“affiliate”</b>                             | any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person                                       |
| <b>“Application Form(s)”</b>                   | <b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s) or, where the context so requires, any of them                            |
| <b>“Articles” or “Articles of Association”</b> | the articles of association of the Company (as amended from time to time), conditionally adopted on March 10, 2015, a summary of which is set out in Appendix V to this prospectus |
| <b>“Bai Shi”</b>                               | Bai Shi Electronics Limited (百世電子有限公司), a limited liability company incorporated in Hong Kong on June 11, 2008, which is wholly owned by Mr. Lee                                   |
| <b>“BNP Paribas”</b>                           | BNP Paribas Securities (Asia) Limited  |
| <b>“Board” or “Board of Directors”</b>         | the board of Directors   |
| <b>“business day”</b>                          | any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business  |
| <b>“CAGR”</b>                                  | compound annual growth rate  |
| <b>“Cayman Companies Law”</b>                  | the Companies Law (2013 Revision) of the Cayman Islands, Cap. 22 (Law 3 of 1961), as amended or supplemented or otherwise modified from time to time                               |
| <b>“CCASS”</b>                                 | the Central Clearing and Settlement System established and operated by HKSCC   |
| <b>“CCASS Clearing Participant”</b>            | a person admitted to participate in CCASS as a direct participant or a general clearing participant  |
| <b>“CCASS Custodian Participant”</b>           | a person admitted to participate in CCASS as a custodian participant   |
| <b>“CCASS Investor Participant”</b>            | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation  |
| <b>“CCASS Participant”</b>                     | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant  |
| <b>“China” or “the PRC”</b>                    | the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau Special Administrative Region and Taiwan  |
| <b>“CIMB”</b>                                  | CIMB Securities Limited  |

## DEFINITIONS

|  |  |
|--|--|
| <b>“Companies Ordinance”</b>   | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time   |
| <b>“Companies (Winding Up and Miscellaneous Provisions) Ordinance”</b> | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time  |
| <b>“Company” or “our Company”</b>                                      | Cowell e Holdings Inc., an exempted company incorporated in the Cayman Islands with limited liability on November 28, 2006   |
| <b>“Controlling Shareholders”</b>                                      | Mr. Kwak and Hahn & Co. Eye  |
| <b>“Cowell Asset”</b>  | Cowell Asset Co., Ltd., a stock corporation incorporated under the laws of Korea on May 26, 1998, which is wholly owned by Mr. Kwak  |
| <b>“Cowell China”</b>  | 東莞高偉光學電子有限公司 (Dongguan Cowell Optic Electronics Co., Ltd.), a wholly foreign-owned enterprise incorporated in the PRC on February 5, 2002, which is a wholly owned subsidiary of Cowell Hong Kong  |
| <b>“Cowell Hong Kong”</b>  | Cowell Optic Electronics Limited (高偉光學電子有限公司), a limited liability company incorporated in Hong Kong on March 6, 2002, which is a wholly owned subsidiary of the Company   |
| <b>“Cowell Korea”</b>  | Cowell Electronics Co., Ltd. (formerly known as Cowell World Optic Co., Ltd. and World Optic Co., Ltd.), a stock corporation incorporated under the laws of Korea on January 29, 1997, which is a wholly owned subsidiary of the Company |
| <b>“Director(s)”</b>   | the director(s) of our Company   |
| <b>“GDP”</b>   | gross domestic product   |
| <b>“Global Offering”</b>   | the Hong Kong Public Offering and the International Offering   |
| <b>“Green Application Form(s)”</b>                                     | the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited   |
| <b>“Group”, “our Group”, “we” or “us”</b>                              | our Company and our subsidiaries and, in respect of the period before we became the holding company of our present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)                 |
| <b>“Hahn &amp; Co. Eye”</b>  | Hahn & Company Eye Holdings Co., Ltd., a company incorporated in Korea on July 15, 2011 which is one of our Controlling Shareholders   |
| <b>“HK\$”</b>  | Hong Kong dollars, the lawful currency of Hong Kong  |
| <b>“HKSCC”</b>   | Hong Kong Securities Clearing Company Limited  |

## DEFINITIONS

|   |   |
|---|---|
| <b>“HKSCC Nominees”</b>                       | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC  |
| <b>“Hong Kong”</b>                            | the Hong Kong Special Administrative Region of the PRC  |
| <b>“Hong Kong Offer Shares”</b>               | the 20,800,000 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation  |
| <b>“Hong Kong Public Offering”</b>            | the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong   |
| <b>“Hong Kong Share Registrar”</b>            | Computershare Hong Kong Investor Services Limited   |
| <b>“Hong Kong Stock Exchange”</b>             | The Stock Exchange of Hong Kong Limited   |
| <b>“Hong Kong Underwriters”</b>               | the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus   |
| <b>“Hong Kong Underwriting Agreement”</b>     | the underwriting agreement dated March 18, 2015 relating to the Hong Kong Public Offering and entered into by us, the Selling Shareholder, the Sole Global Coordinator and the Hong Kong Underwriter  |
| <b>“IFRS”</b>                                 | International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board  |
| <b>“Independent Third Party(ies)”</b>         | an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of us, our subsidiaries or any of their respective associates  |
| <b>“International Offer Shares”</b>           | the 187,200,000 Shares being initially offered in the International Offering (comprising 62,400,000 new Shares being offered by us and 124,800,000 Sale Shares being offered by the Selling Shareholder for subscription or purchase under the International Offering) together with, where relevant, any additional Shares which may be sold by the Selling Shareholder pursuant to the exercise of the Over-allotment Option, subject to reallocation |
| <b>“International Offering”</b>               | the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act   |
| <b>“International Underwriting Agreement”</b> | the international underwriting agreement relating to the International Offering, which is expected to be entered into by us, the Selling Shareholder, the Sole Global Coordinator and the International Underwriters on or about March 25, 2015   |

## DEFINITIONS

|  |   |
|--|---|
| <b>“International Underwriters”</b>                | the group of underwriters, led by the Sole Global Coordinator, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering                                       |
| <b>“Joint Lead Managers”</b>                       | the Sole Sponsor, BNP Paribas and CIMB  |
| <b>“Korea”</b>                                     | the Republic of Korea   |
| <b>“KOSDAQ”</b>                                    | Korean Securities Dealers Automated Quotations Markets of the Korea Exchange  |
| <b>“KRW”</b>                                       | Korean Won, the lawful currency of Korea  |
| <b>“Latest Practicable Date”</b>                   | March 11, 2015, being the latest practicable date prior to the publication of this prospectus for the purpose of ascertaining certain information contained in this prospectus  |
| <b>“Listing”</b>                                   | the listing of the Shares on the Main Board of the Hong Kong Stock Exchange   |
| <b>“Listing Committee”</b>                         | the listing committee of the Hong Kong Stock Exchange   |
| <b>“Listing Date”</b>                              | the date, expected to be on or about March 31, 2015, on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange   |
| <b>“Listing Rules”</b>                             | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time  |
| <b>“Memorandum” or “Memorandum of Association”</b> | the memorandum of association of our Company (as amended from time to time), conditionally adopted on March 10, 2015, a summary of which is set out in Appendix V to this prospectus                                  |
| <b>“MOFCOM”</b>                                    | Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)   |
| <b>“Mr. Kwak”</b>                                  | Mr. Kwak Joung Hwan, one of our Controlling Shareholders  |
| <b>“Mr. Lee”</b>                                   | Mr. Lee Nam Oh, the brother-in-law of Mr. Kwak  |
| <b>“NPC”</b>                                       | National People’s Congress of the PRC (中華人民共和國全國人民代表大會)   |
| <b>“OEM”</b>                                       | original equipment manufacture  |
| <b>“Offer Price”</b>                               | the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)  |
| <b>“Offer Shares”</b>                              | the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be sold by the Selling Shareholder pursuant to the exercise of the Over-allotment Option |

## DEFINITIONS

|                                    |   |
|------------------------------------|---|
| <b>“Over-allotment Option”</b>     | the option expected to be granted by the Selling Shareholder to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to which the Selling Shareholder may be required to sell up to an aggregate of 31,200,000 Shares at the Offer Price to, among other things, cover over-allocations in the International Offering, if any   |
| <b>“PRC Government” or “State”</b> | the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them   |
| <b>“Price Determination Date”</b>  | the date, expected to be on or about March 25, 2015, on which the Offer Price will be determined and, in any event, not later than March 30, 2015   |
| <b>“QIB(s)”</b>                    | qualified institutional buyer(s) within the meaning of Rule 144A  |
| <b>“Regulation S”</b>              | Regulation S under the U.S. Securities Act  |
| <b>“Reporting Accountants”</b>     | KPMG  |
| <b>“RMB”</b>                       | Renminbi, the lawful currency of the PRC  |
| <b>“Rule 144A”</b>                 | Rule 144A under the U.S. Securities Act   |
| <b>“SAFE”</b>                      | State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)  |
| <b>“Sale Shares”</b>               | the 124,800,000 Offer Shares initially being offered for sale by the Selling Shareholder at the Offer Price under the International Offering  |
| <b>“Selling Shareholder”</b>       | Hahn & Co. Eye  |
| <b>“SFC”</b>                       | the Securities and Futures Commission of Hong Kong  |
| <b>“SFO”</b>                       | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time   |
| <b>“Share(s)”</b>                  | ordinary share(s) in the capital of our Company, the nominal value of which is US\$0.004 each following the subdivision of the shares in our Company pursuant to the resolutions in writing of our Shareholders passed on September 19, 2014  |
| <b>“Share Option Scheme”</b>       | the share option scheme conditionally adopted by our Company for the benefit of our employees, Directors, customers and suppliers of our Group, business or joint venture partners and certain advisors of our Group and their respective employees, a summary of the principal terms of which is set forth in “Statutory and General Information — D. Share Option Scheme” in Appendix VI to this prospectus |

## DEFINITIONS

|   |   |
|---|---|
| <b>“Shareholder(s)”</b>   | holder(s) of Shares   |
| <b>“Sole Sponsor”, “Sole Global Coordinator” or “Sole Bookrunner”</b> | Morgan Stanley Asia Limited   |
| <b>“Stabilizing Manager”</b>  | Morgan Stanley Asia Limited or any of its affiliates or any persons acting for it   |
| <b>“State Council”</b>  | the PRC State Council (中華人民共和國國務院)  |
| <b>“Stock Borrowing Agreement”</b>                                    | the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager (or its affiliates acting on its behalf) and the Selling Shareholder, pursuant to which the Selling Shareholder will agree to lend up to 31,200,000 Shares to the Stabilizing Manager on terms set forth therein |
| <b>“Track Record Period”</b>  | the three financial years of the Company ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014   |
| <b>“Underwriters”</b>   | the Hong Kong Underwriters and the International Underwriters   |
| <b>“Underwriting Agreements”</b>                                      | the Hong Kong Underwriting Agreement and the International Underwriting Agreement   |
| <b>“US\$”</b>   | U.S. dollars, the lawful currency of the United States of America   |
| <b>“VAT”</b>  | value added tax   |
| <b>“U.S.” or “United States”</b>                                      | the United States of America  |
| <b>“U.S. Securities Act”</b>  | the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder  |
| <b>“White Form eIPO”</b>  | the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>  |
| <b>“White Form eIPO Service Provider”</b>                             | Computershare Hong Kong Investor Services Limited   |

In this prospectus, the terms “associate”, “close associate”, “connected person”, “connected transaction”, “core connected person”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.



## GLOSSARY

*This glossary contains explanations of certain terms used in this prospectus that relate to our business and the industry in which we operate. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.*

|                        |   |
|------------------------|---|
| <b>“ACF”</b>           | anisotropic conductive film, a lead-free and environmentally friendly epoxy system that is used to make electrical and mechanical connections from the driver electronics to the substrates   |
| <b>“Auto-focus”</b>    | a feature of some optical systems that automatically adjusts to obtain the correct focus on a subject, instead of requiring the operator of the optical system to adjust the focus manually   |
| <b>“Blu-ray”</b>       | a digital optical disc data storage format, referring to the blue laser used to read the disc, which allows information to be stored at a greater density than is possible with the longer-wavelength red laser used for DVDs   |
| <b>“Camera module”</b> | an optoelectronic assembly of lens components and sensors or other parts, such as a PCB, with various packaging technologies including COB and FC. It is used to capture images which may be transmitted or saved in the electronic device in the future which the module is incorporated |
| <b>“CD”</b>            | compact disc(s)   |
| <b>“CMOS”</b>          | complementary metal oxide semiconductor, a fabrication process that incorporates n-channel and p-channel complementary MOS transistors within the same silicon substrate. CMOS technology is used in chips and for various analog circuits  |
| <b>“Coating”</b>       | sputtering one layer or more of optical thin film on the surface of an optical lens by a coating machine. This processing technology can increase the transmittance of the lens by reducing its reflections   |
| <b>“COB”</b>           | chip-on-board, a technology wherein a semiconductor processor chip or die is directly mounted on and electrically interconnected to its final circuit board   |
| <b>“Die”</b>           | one individual semiconductor processor chip before being packaged   |
| <b>“DVD”</b>           | digital video disc  |
| <b>“Fixed-focus”</b>   | a feature of some optical systems where the focus is set during the manufacturing process and is not adjustable   |
| <b>“Flip-chip”</b>     | an assembly technology where a semiconductor processor chip is mounted directly onto a substrate in a “face-down” manner  |

## GLOSSARY

|                        |   |
|------------------------|---|
| <b>“FPCB”</b>          | flexible printed circuit board, a patterned arrangement of printed wiring utilizing flexible base material with or without flexible cover layers  |
| <b>“HTCC”</b>          | a high temperature co-fired ceramic, which is ceramic made of conductive, resistive, and dielectric materials fired together at the same time at a high temperature   |
| <b>“IR cut filter”</b> | a glass filter designed to prevent infrared light exposure to the CMOS image sensor chip in order to enhance the photographic image   |
| <b>“Lens holder”</b>   | an assembly of optical products which consists of several pieces of lenses, a lens barrel and other materials   |
| <b>“PCB”</b>           | printed circuit board, a flat plate or base of insulating material containing a pattern of conducting materials, which becomes an electronic circuit when components are attached and soldered to it                                  |
| <b>“Pixel(s)”</b>      | picture element, a basic unit of programmable color on a computer display or in a computer image  |
| <b>“Prism(s)”</b>      | device(s) used to refract light, reflect it or to disperse it into its constituent spectral colors  |
| <b>“SMT”</b>           | surface mount technology, a process by which electronic components are mounted directly on the surface of a substrate, increasing board capacity, facilitating product miniaturization and enabling advanced automation of production |
| <b>“Stiffener”</b>     | a thin metallic plate designed to absorb heat produced by the electrical current running through the camera module  |
| <b>“Substrate”</b>     | a solid substance onto which a semiconductor device and other electronic parts can be applied   |

## FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our ability to maintain relationships with, and the actions of and developments affecting, our major customers and suppliers;
- the demand for end products into which our products are incorporated;
- future developments, trends and conditions in the industries and markets in which we operate;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment in the industries and markets in which we operate;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- our ability to retain senior management and key personnel, and recruit qualified engineers;
- our business strategies and plans to achieve these strategies, including our expansion plans;
- the level and nature of, and potential for, future development of our business;
- the actions of and developments affecting our competitors;
- our ability to reduce costs and offer competitive prices;
- our ability to defend our intellectual property rights and protect confidentiality;
- change or volatility in interest rates, foreign exchange rates, equity prices, trading volumes, commodity prices and overall market trends;
- capital market developments; and
- our dividend policy.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, sales could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

## **FORWARD-LOOKING STATEMENTS**

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no 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 in this prospectus are qualified by reference to the cautionary statements in this section.

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

## RISK FACTORS

*An investment in our Shares involves various risks. Before investing in us, you should carefully consider all of the information set forth in this prospectus, and in particular, the specific risks set out below. Any of the risks and uncertainties described below could have a material adverse effect on our business, financial condition and results of operations or the trading price of the Shares, and could cause you to lose your investment. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Please be cautioned that the risks and uncertainties described below are not exhaustive.*

### RISKS RELATING TO OUR BUSINESS

**We currently sell a substantial portion of our camera modules and optical components to a limited number of customers. Our dependence on these customers subjects us to events that may cause material fluctuations or declines in our revenues.**

We currently sell a substantial portion of our products to a limited number of customers. Our three largest customers accounted for approximately 97.3% of our turnover in 2011, 98.8% in 2012, 99.1% in 2013 and 98.6% in the first ten months of 2014. In particular, our largest customer is Apple. It currently purchases mainly flip-chip camera modules from us. Apple directly or indirectly accounted for 86.9% of our turnover in 2011, 87.9% in 2012, 85.8% in 2013 and 74.4% in the first ten months of 2014 and, based on our unaudited management accounts, accounted for approximately 77.7% of our turnover for the full-year 2014. See “— We rely substantially on Apple.” In line with the industry norm, we generally enter into sales arrangements with our major customers, pursuant to which the parties agree on the basic terms of development and supply of particular products for a specified period, typically for a term of one year but which may vary depending on the customer’s needs as well as the type of product and its expected commercial longevity. Our sales arrangements usually establish parameters for determining the price of the relevant products being supplied, which is typically subject to adjustment on a regular basis based on a variety of factors such as decreases in our operating costs, changes in the prices of components and materials and improvements in our production yield for the products. In evaluating potential pricing parameters prior to entering into a sales arrangement, we generally use a pricing model that takes into account factors such as our production costs (including the cost of components and materials and labor costs), production cycle, production yield and transportation costs plus a targeted manufacturing margin for the relevant products. Our sales arrangements do not establish fixed purchase volume commitments, and purchase volumes are generally determined on an ongoing basis based on purchase orders provided by the customer. While our major customers usually provide us with a forecast of their supply needs on a regular basis, they are not legally obligated to issue purchase orders to us in accordance with such forecasts and in certain cases have the right to terminate, without cause, their sales arrangements relating to particular types of products supplied by us. Accordingly, there is no guarantee that our major customers will continue to purchase products from us. See “Business — Customers, Sales and Marketing.”

While we are continually aiming to expand the number of customers to whom we sell as well as diversify our product portfolio and target additional industry and market segments, we anticipate that our dependence on a limited number of major customers will continue for the foreseeable future. Consequently, any of the following events may cause material declines in our revenues and have a material adverse effect on our business, results of operations and financial condition:

- a reduction, delay or cancellation of orders from one or more of our major customers for any reason, whether or not related to us;
- a change in preference for our competitors’ products over our products by one or more of our major customers;

## RISK FACTORS

- the adoption of alternative camera module technologies by our customers that we may not offer or be able to develop;
- the loss of one or more of our major customers and our failure to identify additional or replacement customers;
- the lack of success of devices incorporating our products that are launched and sold by our major customers;
- the failure of any of our major customers to make timely payment for our products for any reason, whether or not related to us;
- financial or operational difficulties or a decline in sales or market shares experienced by our major customers; and
- our inability to meet our customers' product quality standards, which may vary from time to time.

Moreover, we have limited bargaining power against our major customers and consequently we cannot assure you that we will be successful in negotiating favorable pricing and other terms of supply with them. Our inability to negotiate favorable commercial terms with our major customers may adversely affect our future sales and margins.

### **We rely substantially on Apple.**

We depend on Apple as our largest customer for a majority of our turnover, as described above in “— We currently sell a substantial portion of our camera modules and optical components to a limited number of customers. Our dependence on these customers subjects us to events that may cause material fluctuations or declines in our revenues.” Such dependence is exacerbated by the fact that, from time to time, Apple also arranges for the sourcing and supply of key manufacturing equipment and technology for our production of specific products for it. Apple also imposes restrictions on our use of such equipment and technology for other customers, and retains the right to require us to return such equipment and technology to it at its request. In particular, from time to time, Apple has provided us with key manufacturing equipment and technology used in our production facilities in Huanan. See “Business — Production Facilities — Manufacturing Lines.” Apple has not agreed to any form of technology transfer to us under these arrangements.

In addition, Apple (as well as most of our other major customers) arranges for sourcing and supply of particular components for our production of specific products for it. Furthermore, we have also entered into certain arrangements with Apple, pursuant to which a material breach by us of our supply obligations to Apple or our obligation to obtain its consent prior to a “change of control transaction” whereby Mr. Kwak loses “control” over our Company, as described in “Relationship with the Controlling Shareholders — Independence from Our Controlling Shareholder — Operational Independence,” will give Apple the right to (i) draw upon a US\$50 million stand-by letter of credit provided to Apple and (ii) exercise certain “step-in” rights to take over our production facilities in Huanan (which are used exclusively for the manufacture of camera modules supplied to Apple). Such arrangements will only become effective as of the Listing Date. The stand-by letter of credit, once effective, will be treated as a contingent liability and any drawdowns thereunder will be treated as a bank loan under our statement of financial position and as other loss under our statement of profit or loss for accounting purposes. In the event of the exercise of such “step-in” rights by Apple, we would lose ownership and control over our production facilities in Huanan, and would lose the turnover and profit generated by such facilities, which represented 72.3%

## RISK FACTORS

and 68.1% of our turnover and a majority of our gross profit for the year ended December 31, 2013 and the ten months ended October 31, 2014, respectively, which could materially and adversely affect our business and performance. See “Business — Customers, Sales and Marketing — Relationship with Apple.”

As in the case of our other major customers, Apple is not legally obligated to issue purchase orders to us under its sales arrangements with us. In addition, Apple has the right to terminate its sales arrangements with us generally, for cause, as well as the right to terminate its sales arrangements with us relating to particular types of products supplied by us, without cause. Accordingly, there is no guarantee that Apple will continue to purchase products from us. While we have plans to diversify our customer base in order to reduce our reliance on Apple, we anticipate that our dependence on Apple as our largest customer will continue for the foreseeable future. In the event that Apple reduces or no longer purchases products from us in the future, our business, results of operations and financial condition may be materially and adversely affected.

In addition, our reliance on Apple also subjects us to the risks faced by Apple, which according to Apple’s public filings include but are not limited to the following:

*Global and regional economic conditions could materially adversely affect Apple.* Apple’s operations and performance depend significantly on global and regional economic conditions. Uncertainty about global and regional economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, higher unemployment, financial market volatility, government austerity programs, negative financial news, declines in income or asset values and/or other factors. These worldwide and regional economic conditions could have a material adverse effect on demand for Apple’s products and services.

*Global markets for Apple’s products and services are highly competitive and subject to rapid technological change, and it may be unable to compete effectively in these markets.* Apple’s products and services compete in highly competitive global markets characterized by aggressive price cutting and resulting downward pressure on gross margins, frequent introduction of new products, short product life cycles, evolving industry standards, continual improvement in product price/performance characteristics, rapid adoption of technological and product advancements by competitors, and price sensitivity on the part of consumers. It markets certain mobile communication and media devices based on its mobile operating system and also markets related third-party digital content and applications. It faces substantial competition in these markets from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships; and Apple has a minority market share in the smartphone market. Additionally, Apple faces significant price competition as competitors reduce their selling prices and attempt to imitate its product features and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. There can be no assurance Apple will be able to continue to provide products and services that compete effectively.

*To remain competitive and stimulate customer demand, Apple must successfully manage frequent product introductions and transitions.* Due to the highly volatile and competitive nature of the industries in which Apple competes, it must continually introduce new products, services and technologies, enhance existing products and services, and effectively stimulate customer demand for new and upgraded products. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, Apple’s ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and at expected costs to meet anticipated demand, and the risk that new products may have quality or other defects or

## RISK FACTORS

deficiencies in the early stages of introduction. Accordingly, Apple cannot determine in advance the ultimate effect of new product introductions and transitions.

In the event that Apple is affected by any of the above or other risks relating to its business or unfavorable economic conditions, or if its business or financial condition deteriorates for any reasons, such developments could lead to payment delays to us or reduced orders for our products, which in turn may have a material adverse effect on our business, results of our operations or financial condition. For further details regarding our relationship with Apple, see “Business — Customer, Sales and Marketing — Relationship with Apple.”

**Our business is dependent on the global mobile device industry, and if the industry experiences a downturn, our sales could decrease and we may face pressure to reduce prices.**

We primarily design, manufacture and sell a variety of camera modules, which are critical components for a broad range of mobile devices designed to incorporate a camera, including smartphones and multimedia tablets. Therefore, our camera module business is affected by changing market demand for our customers' mobile devices. Sales of our camera modules accounted for 94.9% of our total turnover in 2011, 97.5% in 2012, 98.6% in 2013 and 98.5% in the first ten months of 2014. While the mobile device industry has generally enjoyed significant growth in recent years, it has experienced slowdowns in the past, which often occur in connection with declines in global or local economic conditions. The mobile device industry's volatility results primarily from fluctuations in market demand for mobile devices, as well as fluctuations in the industry's available production capacity and rapid changes in consumer preferences. Demand growth expectations for mobile devices, combined with intense competition among mobile device manufacturers, have typically been accompanied by increased capital investment to expand production capacity. The lead times for new manufacturing lines to become operational may result in increases in the industry's production capacity coinciding with weakening demand, resulting in excess capacity, oversupply of products and declining prices.

In recent years, the slowdown of economic growth in the PRC and other major emerging markets, as well as the weakness of the economic recovery in the U.S. and Europe, have resulted in continued uncertainty regarding global economic prospects. An actual or anticipated further deterioration of global economic conditions may depress consumer confidence and spending, particularly discretionary spending on consumer electronics products, resulting in a decline in demand for high-end mobile devices that would have a negative impact on the demand and pricing for our camera modules. If the mobile devices industry experiences a downturn in the future, or if demand for mobile devices incorporating our products decreases as a result of changes in consumer preferences, technological changes or otherwise, we will face pressure to reduce prices and we may need to rationalize our production capacity and reduce fixed costs. At the same time, our ability to reduce expenditures for research and development and infrastructure during an industry downturn may be limited because of the need to maintain our competitive position. If we are unable to reduce our expenses sufficiently to offset reductions in prices and sales volume, our operating results and financial condition may be materially and adversely affected.

**Our manufacturing processes are complex and potentially vulnerable to impurities in the production environment and manufacturing disruptions, which could reduce our production yields, hurt our sales and adversely affect our customer relationships and business reputation.**

Manufacturing camera modules and optical components is a highly complex and precise process, requiring production in a tightly controlled and clean environment. Microscopic impurities such as dust and other contaminants, minor deviations in the manufacturing process or malfunctions of equipment or facilities can cause substantial decreases in production yields, affect the quality of the product, and in



## RISK FACTORS

some cases, cause production to be suspended or result in products unfit for commercial sale. In addition, our manufacturing processes require the use of sophisticated and costly equipment, which is regularly modified and updated to improve production yields and product performance and reduce unit manufacturing costs. These updates and migration to advanced technologies expose us to the risk that production difficulties will arise from new or changed processes that could affect the quality of the products and cause delivery delays, reduced output or both. As we expand our production capacity or modify our production processes to adjust to new product specifications from our customers, we may experience lower production yields initially as is typical with any new equipment or process, which may have an adverse impact on our turnover and profit margins.

While we employ strict quality assurance procedures at key manufacturing stages to anticipate and mitigate potential quality issues, our products may contain undetected defects or otherwise fail to perform as expected, especially when new camera modules and optical components manufactured using the latest technologies are first introduced to the market. These defects could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from product development efforts or lead to returns of our products and adversely affect our customer relationships and business reputation. In addition, our sales arrangements with our customers typically contain customary product warranties, and we may be exposed to substantial warranty claims. Widespread product failures, or perceptions of such failures, may damage our market reputation, reduce our market share and adversely affect our business, results of operations and financial condition.

**Our dependence on a limited number of suppliers for key components and materials could result in supply disruptions and prevent us from delivering our products in a timely manner to our customers in the required quantities.**

We currently purchase certain of our key components and materials for the production of camera modules and optical components from a limited number of suppliers. In particular, a stable source of CMOS image sensors, PCBs, lenses (including lens holders) and HTCC boards, which are the most important components for our camera modules and which determine their product quality to a large extent, is crucial to our success.

In accordance with their general practice, our major customers typically enter into short-term supply agreements with suppliers for our main components, pursuant to which we are designated as an authorized purchaser, and most of which contain pricing terms that may be adjusted from time to time between the customer and the supplier. As we generally have minimal control over the prices of our main components, the prices which are agreed between our major customers and the suppliers are typically reflected in the price of our products supplied to such customers. In the event that we or our customers cannot reach agreement on the pricing terms with our suppliers in the future or our suppliers fail to deliver on their volume commitment, we will need to seek alternative supply sources after consultation with our customers. In particular, in the case of camera modules that we produce for some of our major customers, we are required to source certain components only from a select group of suppliers approved by the customers, which further limits our ability to find alternative suppliers in the event of a supply disruption. We expect to continue to depend upon a relatively limited number of suppliers for certain of our key components and materials. Failure of a supplier to supply key components or materials that meet our quality, quantity and cost requirements in a timely manner, failure to maintain our relationships with our major suppliers, or our inability to obtain supplies from alternative sources on a timely basis or on commercially reasonable terms could prevent us from timely delivering our products to our customers in the required quantities, impair our ability to manufacture our products and increase our production costs, which could have a material adverse effect on our business, results of operations and financial condition.

## RISK FACTORS

**The success of our business depends on the continuing efforts of our key management and technical personnel, and our business may be severely disrupted if we lose their services.**

Our future success depends, to a significant extent, on our ability to attract, train and retain qualified executive officers, engineers and technical personnel, particularly those with expertise in the camera module and optical component industries and established relationships with our major customers. In particular, we are highly dependent on Mr. Kwak, our current chairman, chief executive officer and controlling shareholder, due to his experience, relationships and knowledge in the camera module industry. Furthermore, we are placing higher emphasis on research and development in order to develop proprietary product and manufacturing technologies and continually bring to market innovative products in response to rapidly evolving customer preferences and technology developments. Accordingly, we must recruit top engineers and technical personnel. There is substantial competition for qualified personnel, and there can be no assurance that we will be able to attract or retain qualified personnel on commercially reasonable terms or at all. If one or more of our key executive officers, engineers or technicians are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all. As a result, our business may be severely disrupted and we may incur additional expenses to recruit and retain new personnel or find other suitable replacements. All of our full-time employees have entered into a confidentiality agreement with us, which also contains non-competition provisions. However, if any disputes arise between our employees and us, we cannot assure you as to the extent to which we may be able to effectively enforce any of these agreements. The loss of the services of any of our key personnel without adequate replacement, the inability to attract new qualified personnel, significant increases in the cost to retain such personnel, or the inability to enforce our confidentiality or non-competition agreements with our employees may have a material adverse effect on our operations.

**Our continued success depends on our ability to respond to technological upgrades demanded by mobile device manufacturers, and our failure to further refine our technology and introduce new products or improved processes could render our products or production methods uncompetitive or obsolete and reduce our sales and market share.**

The mobile devices industry is characterized by changing technologies, evolving industry standards and continual improvements in performance characteristics and product features, which result in short product cycles, frequent introduction of new products and price erosion of existing products. Advances in technology typically lead to rapid declines in sales volumes for products made with older technologies and lead to certain products becoming less competitive in the marketplace, or even obsolete. We expect that improvements in mobile phones (including smartphones), multimedia tablets, digital media devices and laptop computers will further increase the pace and importance of technological innovation in the mobile devices industry in the future.

Changes in our customers' requirements in light of such improvements may result in new and more demanding product specifications and performance parameters, which may also necessitate changes to our manufacturing processes. Our ability to remain competitive will depend upon our ability to timely develop and introduce technologically advanced products and manufacturing processes in a cost-effective manner. For example, our ability to manufacture our products by utilizing advanced manufacturing processes to increase production yields at relatively low costs as well as manage the risks associated with new production ramp-up will be critical to maintaining our competitiveness. Accordingly, we expect to continually invest in research and development to upgrade our products and enhance our production facilities and manufacturing processes. If we do not adequately anticipate changes in technology and effectively introduce new and innovative products and manufacturing processes, we may not be able to produce products that meet customer requirements or produce them at competitive prices, which could render our products or production methods uncompetitive or obsolete and reduce our sales and market share.

## RISK FACTORS

**Our future growth and profitability depend on our ability to upgrade our manufacturing facilities and increase production capacity, and our ability to achieve our facility upgrades and capacity expansion goals is subject to a number of risks and uncertainties.**

The camera module and optical components businesses require capital expenditures in order to maintain competitiveness. In particular, our future growth and profitability depend in part on our ability to timely and cost-effectively upgrade our manufacturing facilities and increase our production capacity. We plan to continue to strategically invest in upgrading and expanding our manufacturing lines to add production capacity selectively and achieve additional economies of scale that will enable us to generate further production cost savings. Our capital expenditures (equivalent to the cash we spent for payment for purchases of property, plant and equipment) amounted to US\$8.7 million in 2011, US\$50.7 million in 2012, US\$15.8 million in 2013 and US\$20.4 million in the first ten months of 2014. The increase in our capital expenditures in 2012 mainly reflected investments in facilities and equipment in connection with the establishment of new production facilities in Huanan. We have spent approximately US\$21.5 million in capital expenditures for the full-year 2014, primarily to purchase equipment to produce more advanced flip-chip camera modules.

Our ability to build and successfully operate our additional production capacity and increase output is subject to significant risks and uncertainties, including:

- the inability on our part to raise sufficient funds to build additional production capacity and maintain adequate working capital to operate new manufacturing lines;
- delays and cost overruns associated with the build-out of additional facilities due to a variety of factors, many of which may be beyond our control, such as delays in or the inability to obtain government approvals, problems with suppliers of manufacturing equipment and equipment malfunctions and breakdowns;
- the inability on our part to effectively operate our new manufacturing lines to meet cost and production requirements of existing and new customers;
- the inability on our part to secure adequate additional supplies of components and materials as well as additional land and skilled labor to build and operate our new manufacturing lines; and
- diversion of management attention and other resources.

Furthermore, expansion of production capacity often leads to a short-term drop in profitability due to the lead-time and investments required to achieve desired production yields and for additional personnel training and other adjustments necessary for the successful operation of the new manufacturing lines. If we are unable to successfully build and operate additional manufacturing lines and increase our output, we may not be able to meet demand from our existing or new customers, which could result in loss of customers and market share. In addition, our investments typically will be made well in advance of any sales that will be generated from making such expenditures. If unforeseen adverse market conditions and corresponding shortfall in actual demand for our products result in a mismatch between sales volume and anticipated production volume, or if unit sales prices are lower than forecasted due to market oversupply, we may not be able to recover our investments, in part or in full, or the recovery of these investments may take longer than expected, which could materially and adversely affect our business, results of operations and financial condition.

## RISK FACTORS

**The successful implementation of our customer base expansion and product diversification strategy depends on a variety of factors, some of which are beyond our control.**

Our overall strategy includes further expanding our customer base by entering into additional camera module supply arrangements with major mobile device manufacturers, as well as selectively diversifying into a wider variety of camera modules and optical components, particularly high-end camera modules and blue filters, which we believe can help generate sales growth and enhance our profitability. As part of this strategy, we commenced supplying fixed-focus camera modules to Samsung Electronics in October 2013 and high-end camera modules with resolutions higher than 8 megapixels to LG Electronics in August 2014, and have agreed with LG Electronics to supply high-end camera modules with resolutions of 13 megapixels starting in the third quarter of 2015. However, our past operating history may not serve as an accurate basis to judge our future prospects and results of operations, and therefore, past growth in sales experienced by us should not be taken as indicative of the rate of sales growth, if any, that can be expected in the future pursuant to our customer base expansion and product diversification strategy. In addition, our future success with respect to our additional customers and new and diversified product offerings will require us to continue to expand our production capacity and output significantly beyond current levels. The risks of cost overruns or delays in delivery of new product offerings, in particular, are greater than those for the types of camera modules and optical components that we have manufactured in the past.

Our ability to implement our expansion and diversification strategy will also depend on a variety of factors, some of which are beyond our control, including the availability of qualified engineers and personnel, establishment of new relationships and expansion of existing relationships with customers and suppliers, procurement of necessary technology and know-how to diversify our operations and access to investment capital at reasonable costs. Following the expansion of our customer base and production capacity, as well as the diversification of our product offerings, we may not be able to achieve or maintain satisfactory production yields, which may materially and adversely affect our results of operations and financial condition. Our plan to expand our customer base and diversify our product offerings may not be successful, and our business and prospects should be evaluated in light of the risks, uncertainties and expenses that we will face as a company seeking to add new customers and develop and manufacture new products in continually evolving markets.

**We may not grow at a rate comparable to our growth rate in the past.**

We have experienced a period of rapid growth and expansion. For the years ended December 31, 2011, 2012 and 2013, we recorded turnover of US\$323.1 million, US\$527.5 million and US\$813.9 million, respectively, representing a CAGR of 58.7%, and profit for the year of US\$18.2 million, US\$13.2 million and US\$50.2 million, respectively, representing a CAGR of 66.4%. For the ten months ended October 31, 2013 and 2014, we recorded turnover of US\$616.1 million and US\$638.4 million and profit for the period of US\$32.1 million and US\$30.6 million, respectively. The sustainability of our growth depends on a number of factors, many of which are beyond our control, including the continued success of our major customers, our ability to maintain and expand our customer base and diversify our product offerings, our research and development efforts, continued expansion of our production capacity, the competitive environment in our industry and the availability of adequate management, labor and financial resources, as well as economic, political and legal developments in the PRC, Hong Kong and our overseas markets. We cannot assure you that our growth rate can be maintained at any particular level or at all. Should there be any changes which adversely affect our operations, our growth and profitability could be reduced.

## RISK FACTORS

**Our results of operations are subject to seasonality of our customers' product development and launch cycles and may fluctuate.**

The mobile devices and consumer electronics markets are characterized by seasonal increases in production and sales volume in the latter part of the year primarily driven by increased consumer spending during the year-end holiday season. We normally experience the highest sales volume for our camera modules in the fourth quarter of each year when our customers increase their inventories of mobile devices in light of increased seasonal demand. Correspondingly, our production and sales levels also tend to be the lowest in the first and second quarters of each year. Seasonal fluctuations in our sales are often exacerbated by the product development and launch cycles of our major customers, who tend to introduce new or enhanced mobile devices to the market during the latter part of the year. In line with such product launch cycles of our major customers, we have historically launched new or enhanced camera module products during the second half of the year, which has generally led to higher average selling prices, production and sales volumes and turnover in the third and fourth quarters of the year. As a result of the inherent seasonality of our business, our results of operations may fluctuate from period to period. For example, in 2013, our turnover for the first half and second half of the year represented 37.1% and 62.9%, respectively, of our total turnover for the year. An analysis of our interim financial performance may not be meaningful due to the seasonality of our sales and period to period comparisons of our operating results may not be reliable indicators of overall trends in our business. We believe that the seasonal variability in our results of operations will continue in the future.

**In line with general industry practice, we make capital expenditures based on forecasts of supply needs provided by our customers as well as our projections of future demand for our products, and discrepancies between such forecasts and projections and actual order volume for our products could harm our business.**

As described above, our sales arrangements with our major customers usually do not establish fixed purchase volume commitments, and purchase volumes are generally determined based on purchase orders provided by our customers. Our major customers usually provide us with a non-binding rolling forecast of their supply needs on a regular basis, and in line with general industry practice, we make many of our capital expenditure decisions, including those relating to expansion and upgrading of our production facilities, based on such forecasts as well as our projections of future demand for our products.

There is no assurance that, at any given time, we will be able to accurately estimate the volume of future purchase orders to be generated by our customers. If the actual order volume is lower than our estimates, we may experience under-utilization of production capacity and excess inventory and fail to recover our capital expenditures made based on such estimates. On the other hand, if the actual order volume exceeds our estimates, we may be unable to satisfy our customers' purchase orders and our customer relationships and reputation could be harmed. Any of these occurrences could hurt our business, results of operations and financial condition.

**We operate in highly competitive markets and our failure to compete successfully would adversely affect our businesses and market position.**

The camera module industry and the optical component industry are intensely competitive. We face significant competition in each of our product lines, as we believe there are certain products from other manufacturers that are competitive with our products in terms of quality and price. Although barriers to entry exist in the design and manufacturing of camera modules and optical components in terms of technical expertise, substantial capital requirements and difficulties relating to building customer

## RISK FACTORS

relationships and establishing market credibility, new entrants may seek to develop or acquire the required technical capability and customer base through substantial investments in the necessary technology, production facilities and marketing network to compete with our existing business.

Our principal competitors in the camera module industry currently include LG Innotek Co., Ltd., Samsung Electro-Mechanics Co., Ltd., Partron Co., Ltd. and Sharp Corporation. We also compete with various companies in the optical component industry, and we face potential competition from emerging companies that may be seeking to significantly expand the scale of their operations. Such intense competition has been characterized from time to time by oversupply, erosion of average selling prices and frequent product enhancements from changes in technology. As a result of the competitive environment, many of our competitors have used aggressive pricing and marketing strategies as well as different product design approaches and alternative technologies that customers may prefer over those utilized by us, in order to maintain or gain market share.

Some of our principal competitors, which may be affiliates of our major customers, have greater financial, technological and other resources than we do and may be better positioned to withstand periodic downturns. Our competitors' greater size, more diversified product offerings and, in some cases, longer operating histories and relationships with key customers and suppliers provide them with a competitive advantage. Such competitors may have stronger bargaining power with customers and suppliers and have an advantage over us in pricing as well as in securing the necessary key components and materials at times of shortages. Some of our competitors may also have greater brand name recognition, more established distribution networks, larger customer bases and extensive knowledge of our target markets. They may be able to devote greater resources to research and development and marketing of their products and respond more quickly to evolving industry standards and changes in market conditions than we can, as well as influence market pricing. Our ability to compete successfully with them in the camera module and optical component industries depends on many factors, including:

- product performance, quality and reliability;
- competitive pricing;
- availability of adequate production capacity;
- ability to accurately identify and respond to emerging technological trends and demand for product features and performance characteristics;
- successful and timely development of new products and manufacturing processes;
- ability to develop and maintain customer and supplier relationships;
- customer service, including after-sales service of products and technical support; and
- brand recognition and financial strength.

In light of the characteristics of the camera module and optical component industries and their pace of change, we cannot assure you that we will be able to effectively adapt to changing market conditions and compete successfully with existing or new competitors. Our failure to do so may materially and adversely affect our business, results of operations and financial condition.

## RISK FACTORS

**If we fail to protect our intellectual property rights and our customers' technology that we utilize, our competitive position may be undermined and we may be exposed to claims and liabilities.**

We rely primarily on a combination of patent, trademark and trade secret protections, as well as confidentiality agreements, to safeguard our intellectual property, as well as the technologies of our major customers that we utilize in our production process. With respect to proprietary know-how that is not patentable and production processes for which patents are difficult to enforce, we rely on trade secret protections and confidentiality agreements to safeguard our interests. We believe that many elements of our products and manufacturing processes involve proprietary know-how that is not covered by patents or is impractical to patent. In order to safeguard our intellectual property and that of our major customers, all of our full-time employees have entered into a confidentiality agreement with us as part of their terms of employment. We also take other precautionary measures, such as using a dedicated server for technical data and hiring specialized third-party IT firms to manage our data security. However, the steps taken by us to protect such proprietary information may not be adequate to prevent misappropriation of our technology or that of our major customers that we utilize. In addition, such proprietary rights and technologies may not be adequately protected because:

- individuals may not be deterred from misappropriating our and our customers' technologies despite the existence of laws or contracts prohibiting it;
- policing unauthorized use of our and our customers' intellectual property may be difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use; and
- certain countries in which we do business do not protect intellectual property rights to the same extent as in developed countries.

Reverse engineering, unauthorized copying or other misappropriation of our or our customers' proprietary technologies and manufacturing processes could enable third parties to benefit from such technologies without compensating us or our customers for doing so. We cannot assure you that infringement of our or our customers' intellectual property rights by other parties does not exist now or that it will not occur in the future. Furthermore, if our customers' technology that we utilize is misappropriated by third parties due to our inadequate protection of such technology, we may be subject to claims from and liability to our customers for violating the terms of our agreements with them. Our competitors may also independently develop substantially equivalent technologies, or otherwise gain access to our proprietary technologies, and obtain patents for such intellectual properties in other jurisdictions, including the countries in which our camera modules and optical components are manufactured or sold. If any third parties are successful in obtaining patents for technologies that are substantially equivalent or the same as the technologies we use in our production of camera modules and optical components in any of our markets before we do and enforce their intellectual property rights against us, we may be required to stop selling such allegedly infringing products, seek licenses and pay royalties for the relevant intellectual properties, or redesign such products with non-infringing technologies.

To protect our intellectual property rights and those of our customers, and to maintain our competitive advantage, we may file suits against parties that we believe are infringing such intellectual property. Such litigation may be costly and may divert management attention as well as other resources away from our business, and there is no assurance that any outcome will adequately compensate us. In certain situations, we may have to bring suit in overseas jurisdictions, in which case we would be subject to additional risks as to the results of the proceedings and the amount of damages that we can recover.

## RISK FACTORS

An adverse determination in any such litigation or in lawsuits by our customers against us may harm our business, prospects and reputation. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

**We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause us to lose significant rights and pay significant damage awards.**

Our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. The validity and scope of claims relating to camera module patents and optical components technology patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. Although we are not currently aware of any parties pursuing or intending to pursue infringement claims against us, we cannot assure you that we will not be subject to such claims in the future. Also, because patent applications in many jurisdictions are kept confidential for an extended period before they are published, we may be unaware of pending patent applications by other parties that relate to our technologies, products or processes. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation could also result in our customers deferring or limiting their purchase or use of our products until resolution of such litigation. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

**Work stoppages and other labor-related issues may adversely affect our operations.**

We consider our relations with our work force to be good. While we have maintained a cooperative relationship with our employees and have not experienced any significant labor-related disputes to date, there can be no assurance that a work slowdown, work stoppage or strike will not occur in the future, as a result of, among others, our employees' desire for higher wages, increased benefits or improvements in working conditions. For example, we experienced minor operational disruptions in July 2014 when a small number of our factory employees in the PRC went on a strike due to workload issues. The dispute was resolved within a day after we met with representatives of the striking employees to address their demands, and the Liaobu Town government supported us during the settlement process. While we seek to be fully compliant with all applicable labor laws and regulations, we cannot assure you that our employees will always be satisfied with their working conditions, and we may be subject to similar operational disruptions in the future as a result of disputes with our employees.

Furthermore, as our production process remains highly labor-intensive, we require a certain number of employees to fulfill our customers' purchase orders and maintain our production levels. There is no guarantee that the available supply of labor and our labor costs will continue to be stable. In particular, as with other manufacturing companies in the PRC, we experience a high rate of employee turnover during Chinese New Year holidays. If we fail to retain our existing labor force and/or recruit sufficient replacement labor in a timely manner, we may not be able to accommodate sudden increases in demand for our products or successfully implement our expansion plans. Work slowdowns, stoppages, strikes or other labor-related issues or disputes affecting us could have a material adverse effect on our business, results of operations and financial condition.



## RISK FACTORS

**We depend on a limited number of qualified suppliers for key manufacturing equipment, and the unavailability of such equipment could cause interruptions to our operations or delay implementation of our expansion plans.**

We have purchased, and expect to continue to purchase, a substantial portion of our key manufacturing equipment from a limited number of qualified suppliers. As a result, such equipment is not readily available from multiple suppliers and may be difficult to repair or replace in a timely manner or on commercially reasonable terms. Some of our major customers also require us to source certain key equipment from a select group of equipment manufacturers approved by the customer, which further limits our ability to find alternative suppliers. In order to mitigate the impact from delay or unavailability of key equipment on our operations, we continually assess our future need for new equipment, procure key equipment while taking into account potential lag-time, and seek to maintain close relationships with our key equipment suppliers. Increased market demand for manufacturing equipment may cause lead times to extend beyond those normally required by the equipment suppliers from time to time, and any significant delays in the sourcing, delivery and installation of new or replacement equipment could cause material interruptions to our operations. In addition, the unavailability or delays in delivery of key equipment, or failure of equipment to meet our specifications, could delay implementation of our expansion plans and impair our ability to meet customer orders, which could have a material adverse effect on our business, results of operations and financial condition.

**Exchange rate fluctuations can adversely affect our financial results due to sales and expenses in different currencies.**

There has been volatility in currency exchange rates in recent years, including rates between the Renminbi, the U.S. dollar, the Korean Won and other major foreign currencies. To the extent that we incur costs in one currency and generate sales in another, our margins and profits may be affected by changes in the exchange rates between the two currencies. While both our sales of products and our purchases of components, materials and equipment are denominated mainly in U.S. dollars, a portion of our purchases, as well as our labor and other operating costs, are denominated in other currencies, including Renminbi and Korean Won. In 2013 and the first ten months of 2014, 12.6% and 6.3%, respectively, of our total cost of sales was denominated in currencies other than the U.S. dollar. Accordingly, fluctuations in exchange rates, in particular between the U.S. dollar and the Renminbi, may adversely affect our margins and our operating and pre-tax profit.

In recent years, the value of the U.S. dollar relative to the Renminbi has generally decreased, while the value of the U.S. dollar to the Korean Won has fluctuated. A depreciation of the U.S. dollar against the Renminbi increases the cost in U.S. dollar terms of our labor costs. The depreciation of the U.S. dollar against the Renminbi therefore generally has a net negative impact on our results of operations. It is difficult to predict how the U.S. dollar to Renminbi exchange rates will change in the future. In the event that the U.S. dollar's depreciation against the Renminbi continues or becomes more pronounced as a result of pressure from the PRC's trading partners such as the United States or otherwise, such developments may adversely affect our results of operations.

We do not use forward contracts or other derivative instruments to hedge our exchange rate exposures, as we have historically had limited exposures and the impact of exchange rate fluctuations on our results of operation has in the past been partially mitigated by the natural offset of our foreign currency receivables with our foreign currency payables. However, there is no guarantee that such offsets will be able to reduce the impact of such fluctuations in the future.

## RISK FACTORS

**Compliance with environmental regulations can be expensive, and non-compliance may result in adverse publicity and potentially significant monetary damages and fines.**

We are subject to environmental protection laws and regulations in the areas where we operate. We use, generate and discharge toxic, volatile and otherwise hazardous chemicals and wastes in our research and development and manufacturing activities, and we are subject to regulations and periodic monitoring by PRC local environmental protection authorities and are required to comply with all PRC national and local environmental protection laws and regulations. The relevant governmental authorities may impose fines or deadlines to cure instances of non-compliance and order us to cease our production if we fail to comply with their requirements. Under the PRC environmental regulations, we are required to maintain the pollutant emission levels at each of our facilities within the levels prescribed by the relevant governmental authorities. We are also required to obtain a permit from, or to submit a report to, the relevant governmental authorities in order to install facilities that emit pollution. Also, prior to commencing operation of a new manufacturing line or an extension of an existing line, we may be required to obtain safety appraisals and government permits or filings for storage and use of hazardous chemicals and production and use of high pressure gas.

If we fail to comply with relevant environmental regulations in the future, we may be required to pay fines, suspend production or cease operations. In addition, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. Any failure by us to control the use of, or to adequately restrict the discharge of, hazardous substances could have a material adverse effect on our business, results of operations and financial condition.

**We have limited insurance coverage and may incur significant losses resulting from operating hazards or business interruptions.**

As with other camera module and optical component manufacturers, our operations involve the use, handling, generation, processing, storage, transportation and disposal of hazardous materials, which may result in fires, explosions, spills and other unexpected or dangerous accidents causing personal injuries or death. In addition, the normal operation of our manufacturing facilities may be interrupted by accidents caused by operating hazards, power supply disruptions and equipment failures, as well as natural disasters. While we carry insurance against certain events in line with general industry practice, we do not carry business interruption insurance and therefore are not covered against the interruption of normal operation of our manufacturing facilities. In addition, although we currently maintain commercial general liability insurance against third party claims relating to personal injury arising from accidents at our properties or relating to our operations, our recoveries under such policy may not be sufficient to cover our losses resulting from such claims. Any occurrence of these or other accidents in our operation could result in potentially significant monetary damages, diversion of resources, production disruption and delay in delivery of our products, which may have a material adverse effect on our business, results of operations and financial condition.

**We had negative net operating cash flow for the year ended December 31, 2012, and any future shortfalls in operating cash flow may expose us to liquidity risks.**

We had negative net cash flow from operating activities of US\$8.1 million for the year ended December 31, 2012, primarily due to our increased trade and other receivables and inventories during 2012 as we increased our turnover. In addition, our gearing ratio, which represents net debt (defined as bank loans and overdrafts and loan from a director less cash and cash equivalents and pledged deposits) as a percentage of the sum of net debt and total equity, was 17.7%, 47.6%, 27.2% and 20.6% as of December 31, 2011, 2012 and 2013 and October 31, 2014, respectively, which increased significantly for

## RISK FACTORS

2012 due to the additional bank borrowings we incurred for our working capital and to expand our production capacity during 2012.

We cannot assure you that we will not experience negative net cash flow from our operating activities or a high gearing ratio position in the future again. A negative net cash flow position for operating activities could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements. For example, if we do not have sufficient net cash flow to fund our future capital requirements, pay our trade and bills payable and repay our outstanding debt obligations when they become due, we may need to significantly increase external borrowings or secure other external financing. If the increase in our total borrowings results in our gearing ratios being higher, our capability for further external financing will be limited. If adequate funds are not available from external borrowings, whether on satisfactory terms or at all, we may be forced to delay or curtail our development and expansion plans, and our business, financial condition and results of operations may be materially and adversely affected.

**We may require additional funding in the future and may not be able to secure such funding on terms acceptable to us.**

Access to financing is required in order for us to execute our business strategies, including expanding or upgrading manufacturing facilities and equipment, developing new technologies and products and expanding our operations into new businesses. Our ability to continue to obtain debt financing at a reasonable cost will depend on several factors, some of which may be outside our control, including general economic conditions and the liquidity of the international capital markets. In the event of adverse financial market conditions, our external financing activities combined with our internal sources of liquidity may not be adequate to support our current and future business plans. If such were the case, we may not be able to implement our business strategies as scheduled, including capital investments related to capacity expansion of our existing facilities or construction of new production facilities, all of which could have an adverse effect on our business, results of operations and financial condition.

**Unavailability of title documents related to certain buildings occupied by us in the PRC might adversely affect our continued usage of such buildings.**

As of the Latest Practicable Date, we have leased buildings with a total gross floor area of approximately 112,033 square meters in the PRC, with respect to which the relevant lessors failed to provide building ownership certificates for buildings with a total gross floor area of approximately 70,529 square meters, including: (i) three factory buildings and one office building with a gross floor area of approximately 17,535 square meters located in Hengkeng Cowell Industrial Park, and (ii) 13 buildings (all of which are dormitories or ancillary buildings) with a gross floor area of approximately 52,994 square meters located in Hengkeng Cowell Industrial Park, Huanan Industrial Park and Jinfuhuang Business Street. The turnover attributable to the three factory buildings and one office building described above, all of which are located at our Hengkeng production facilities, accounted for approximately 100%, 57%, 28% and 31% of our total turnover for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively, and the production capacity attributable to such buildings accounted for approximately 100%, 50%, 50% and 49% of our total monthly camera modules production capacity, and all of our total monthly optical components production capacity, as of December 31, 2011, 2012 and 2013 and October 31, 2014, respectively. See “Business — Properties — Leased Properties.”

As advised by Jingtian & Gongcheng, our PRC legal advisor, if a demolition notice is issued with respect to, or any third party challenges our use of, our leased buildings for which the relevant lessor failed to provide a building ownership certificate, we may no longer be able to occupy such buildings. Although

## RISK FACTORS

as of the Latest Practicable Date we are not aware of any demolition notices issued with respect to any such buildings or any third party challenges to the validity of the relevant leases, we cannot assure you that no third party would seek to demolish such buildings or challenge such leases in the future. In the event that issues arise due to unavailability of title documents for such properties, we could encounter difficulties in continuing to use such properties and incur additional costs relating to business interruption and relocation of our operations.

In particular, our three leased factory buildings and one leased office building for which the relevant lessor failed to provide a building ownership certificate, all of which are located at our production facilities in Hengkeng, are crucial to our operations. If a demolition notice is issued with respect to such buildings or our right to such leased buildings is challenged in the future, we may need to move our relevant operations to an alternative site and incur business interruption and relocation costs. Based on currently available information and a contingency plan we have prepared for the possible relocation of such operations, our Directors have estimated that (i) the total relocation cost for such buildings will not exceed RMB31.8 million; (ii) the relocation process should be able to be completed within three months; and (iii) the estimated loss of turnover during such relocation process would amount to approximately US\$60 million.

**Failure to renew our current leases or to locate desirable alternatives for our facilities could materially and adversely affect our business.**

Most of our production facilities, offices and warehouses are presently located on leased premises. At the end of each lease term, we may not be able to negotiate an extension of the lease and may therefore be forced to move to a different location, or the rent we pay may increase significantly. This could disrupt our operations and adversely affect our profitability. In addition, we may not be able to obtain new leases at desirable locations on acceptable terms to accommodate our future growth, which could materially and adversely affect our business.

**We have not contributed to the housing provident fund schemes for some of our employees.**

Prior to December 2013, our PRC subsidiary did not pay housing provident fund contributions in accordance with applicable PRC laws and regulations. Commencing in December 2013, our PRC subsidiary has registered housing provident fund accounts and pays the housing provident fund contributions, but only for a proportion of its employees because some of its employees have refused to make their own housing provident fund contributions.

To the extent practicable, our PRC subsidiary has liaised with its employees with a view to rectifying the non-compliances and has made certain make-up payments in respect of past required contributions. However, certain employees still chose not to make their own housing provident fund contributions. After the make-up payments, our PRC subsidiary has also liaised with the relevant housing provident fund authority and, based on a review of its case, the housing provident fund authority issued a letter to our PRC subsidiary in February 2014 confirming that it has legally established a housing provident fund system and paid housing provident fund contributions for its employees and that it had not been penalized by such authority for prior breach of the housing provident fund related PRC laws and regulations. The housing provident fund authority issued a letter on October 27, 2014 confirming the same.

Pursuant to the Housing Provident Fund Management Regulations (住房公積金管理條例), entities failing to register housing provident fund accounts within the prescribed time may be subject to a fine ranging from RMB10,000 to RMB50,000, and entities failing to pay housing provident fund contributions may be ordered to make payments within the prescribed time. The relevant housing provident fund

## RISK FACTORS

authority may apply to the PRC courts for enforcement of such payments in case of further failure to make such payments. Therefore, our PRC subsidiary may be ordered by the relevant housing provident fund authority to pay the outstanding housing provident fund contributions within a prescribed period of time. If it fails to make the relevant payments within such time, it may become subject to administrative penalties and the relevant government authorities may also apply to the courts for enforcement, which could have a negative effect on our financial results and reputation.

### **We may be subject to additional social insurance contributions, as well as any related late payments or fines imposed by relevant governmental authorities**

In accordance with applicable PRC laws and regulations, our PRC subsidiary is obliged to provide our employees in the PRC with social welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance, calculated as a percentage of the actual wages paid to our employees. However, our PRC subsidiary has been contributing to the employee social welfare schemes based on an amount of wages accepted by the relevant social insurance authorities in Dongguan, which was lower than the actual wages paid to our employees. For the three years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014, the difference between the social insurance contributions we made and the amount of contributions calculated based on the actual wages of employees was approximately RMB3.5 million, RMB7.5 million, RMB6.9 million and RMB6.6 million, respectively.

As of the Latest Practicable Date, we had not received any notice, penalty-related or otherwise, from the local social insurance authorities regarding such differences. However, in the event that the relevant social insurance authorities require us to pay the differences in social insurance contributions, we will be required to pay such differences and additional overdue fines (if applicable). Furthermore, if we do not make the payments within the prescribed time limit, the relevant authorities may also impose additional fines on us. If we are required to make additional payments of statutory employee benefits or fines, our operating expenses will increase and our results of operations and financial condition may be materially and adversely affected as a result. See “Business — Legal Proceedings and Regulatory Compliance — Non-Compliance Matters.”

### **We are required to reduce the number of dispatched workers used by our PRC subsidiary to below 10% of its overall work force, which may increase our labor costs.**

Our PRC subsidiary uses dispatched workers provided by certain third-party dispatch agencies rather than directly employing them, and the total number of such dispatched workers accounted for more than 10% of its total work force as of the Latest Practicable Date.

Pursuant to the Interim Provisions on Labor Dispatch (勞務派遣暫行規定) issued by the PRC Ministry of Human Resources and Social Security in January 2014, our PRC subsidiary is required to adopt plans to lower the percentage of dispatched workers to below 10% of its total work force within a grace period of two years commencing from March 1, 2014 and to refrain from using any new dispatched workers until the percentage of its dispatched workers is lower than 10%. The replacement of dispatched workers with workers directly employed by our PRC subsidiary may increase our labor costs, which in turn could have adverse effect on our business, financial condition and results of operations.

### **We may be subjected to penalties for our failure to comply with PRC requirements relating to occupational disease prevention facilities.**

According to the Law of the PRC on the Prevention and Treatment of Occupational Diseases (中華人民共和國職業病防治法) and Interim Measures for Supervision and Administration of the “Three

## RISK FACTORS

Simultaneities” for Occupational Health at Construction Projects (建設項目職業衛生“三同時”監督管理暫行辦法), occupational disease prevention facilities for a construction project are required to be designed, constructed, and put into operation and use simultaneously (referred to as the “Three Simultaneities”) with the main part of the construction project, and the party undertaking the construction is required to undergo filing, review, inspection and final acceptance formalities with respect to the Three Simultaneities. Failing to do so, the party undertaking the construction may be given a disciplinary warning and be ordered to make rectification within a time limit, and if no rectification is made, the party undertaking the construction may be fined between RMB100,000 and RMB500,000. If the circumstances are serious, the party undertaking the construction may be ordered to discontinue the operation that produces occupational disease hazards or to close down its construction project.

During the construction of our production facilities in Hengkeng and Huanan, our PRC subsidiary failed to undergo the relevant formalities with respect to the Three Simultaneities, and such production facilities have already been put into use and operation. According to the Notice on Further Strengthening the Work of “Three Simultaneities” for Occupational Health at Construction Projects (關於進一步加強建設項目職業衛生“三同時”工作的通知) issued by the State Administration of Work Safety, for a construction project which has been put into use and operation but did not undergo the relevant formalities with respect to the Three Simultaneities, in addition to the above-mentioned administrative penalties, the party undertaking the construction may be ordered to undergo an assessment of the effect of occupational disease hazard control and, if such assessment indicates that the occupational disease hazard is serious and the concentration of occupational disease hazard factors in the workplace is not in compliance with the requirement of relevant laws and regulations to a severe degree, such party may be ordered to suspend production for purposes of rectification.

Our PRC subsidiary has obtained a confirmation letter from the Liaobu Branch of Dongguan Administration of Work Safety dated March 12, 2014 which indicates that both its Hengkeng and Huanan production facilities are workplaces with ordinary occupational disease hazards, that the concentration of occupational disease hazard factors in the workplace is in compliance with the requirements of relevant laws and regulations and that it has taken necessary occupational disease prevention measures. Given the above confirmation, we believe that our PRC subsidiary will not be ordered to discontinue operations, close down its production facilities or suspend production for purposes of rectification. However, there is no guarantee that our PRC subsidiary will not become subject to administrative penalties for its failure to comply with PRC requirements relating to occupational disease prevention facilities.

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

**Adverse changes in economic, political and social conditions and government policies in the PRC could have a material adverse effect on our business, financial condition, results of operations and prospects.**

A substantial majority of our business, operations and assets are located in the PRC. As a result, we are subject to political, economic, legal and regulatory risks specific to the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. A substantial portion of productive assets in the PRC remain state-owned and the PRC Government exercises a high degree of control over these assets. The PRC Government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC Government also exercises significant control over PRC economic growth through allocation of resources, restrictions on payment of foreign currency-denominated obligations, the setting of monetary policy and provision of preferential treatment to particular industries or companies.

## RISK FACTORS

While the PRC economy has experienced significant growth over the past decade, growth has been uneven, both geographically and among various sectors of the economy. The PRC Government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC Government has in the past implemented certain measures, including interest rate increases, in an attempt to control the rate of economic growth. The PRC economy has begun to show signs of a potential slowdown in recent years, including decreased gross domestic product growth rates. In response, the PRC Government has announced stimulus measures, but the overall impact of such stimulus measures is uncertain, and they may not have the intended effects.

Furthermore, the PRC economy relies significantly on exports and is accordingly closely tied to, and is affected by developments in, the global economy. Liquidity and credit concerns and volatility in the global financial markets in recent years and persistent concerns regarding a potentially long-term and widespread recession have contributed to reduced consumer confidence and spending and diminished expectations for economic growth around the world. In particular, there has been increased uncertainty and volatility as a result of the continuing financial difficulties affecting European countries, as well as recent signs of economic slowdown in large developing economies such as India and Brazil, and any of these and other developments could potentially trigger another financial crisis or global economic downturn. Accordingly, the overall prospects for the PRC and global economies in 2015 and beyond remain uncertain.

Any future deterioration of the PRC and global economies or the adoption by the PRC Government of policies detrimental to the camera module and optical component industries or the mobile devices industry could materially and adversely affect our business, results of operations and financial condition.

### **Uncertainties with respect to the PRC legal system could have a material adverse effect on us.**

While we are incorporated in the Cayman Islands, a substantial majority of our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. Since the late 1970s, the PRC Government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in the PRC. However, the PRC has not yet developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published court decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. For example, in 2011, the PRC tax authorities reversed their previous determination that our PRC subsidiary had incurred an operating loss for the year ended December 31, 2005. As such, our PRC subsidiary was required to pay additional tax and related late payment fees of RMB95,311.53. Also, our PRC subsidiary affected a capital reduction in June 2014 and we made provisions accordingly to accommodate our potential tax obligations associated with such capital reduction. We disclosed and discussed our tax treatment with the local tax authorities in light of the previous incident, and the local tax authorities have not given us any instructions or directions otherwise in that regard as of the date hereof, other than verbal instructions for us to make certain rectifications in due course. See “Business — Legal Proceedings and Regulatory Compliance — Non-Compliance Matters”. However, in light of the previous incident, we cannot assure you that the local tax authorities will not, upon further review, later require us to make adjustments to our tax treatment as in the case of the previous incident. If required to do so, the amount of provisions and the type of taxes we made provisions for may not be sufficient to cover our tax obligations. In such event, our financial and operating results may be adversely affected.

## RISK FACTORS

Furthermore, the legal protections available to us under PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of our resources and management attention. Moreover, there can be no assurance that the PRC Government will not amend or revise existing laws, rules or regulations, or promulgate new laws, rules or regulations, in a manner which materially and adversely affects our business, results of operations or financial condition. For example, the PRC Government may require additional approvals, licenses or permits for our business and operations, or impose stricter requirements or conditions for the maintenance or renewal of approvals, licenses or permits required for our business and operations. Any loss of or failure to obtain, maintain or renew our approvals, licenses or permits could disrupt our operations or subject us to fines or penalties imposed by the PRC Government. See “Regulatory Overview.”

**The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business, acquisition or restructuring strategies or the value of your investment in us.**

On February 3, 2015, the PRC State Administration of Taxation issued the *Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises* (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“Circular 7”), which abolished certain provisions in the *Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises* (關於加強非居民企業股權轉讓企業所得稅管理的通知) (“Circular 698”), which was previously issued by the State Administration of Taxation on December 10, 2009, as well as certain other rules providing clarification on Circular 698. Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“PRC Taxable Assets”).

For example, Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions (including, (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.



## RISK FACTORS

**We may be deemed a PRC resident enterprise under the Enterprise Income Tax Law of the PRC (the “EIT Law”) and be subject to PRC taxation on our worldwide income, which could result in unfavorable tax consequences to us and our non-PRC Shareholders.**

Under the EIT Law that took effect on January 1, 2008, enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered to be “tax resident enterprises” and are subject to an uniform 25% corporate income tax rate as to their aggregate worldwide income, unless otherwise provided by PRC laws and regulations. The Regulation on Implementing the Enterprise Income Tax Law of the PRC further defines “de facto management bodies” as bodies that have substantial or overall management and control over operations, personnel, finances, property and other aspects of the enterprise. The PRC State Administration of Taxation issued *Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies* (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) (“Circular 82”), with retrospective effect from January 1, 2008, which sets out certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in the PRC.

As our management functions with respect to daily operations, financial decisions and personnel decisions are mainly located in Hong Kong and Korea, we believe that we are not a “tax resident enterprise” and do not meet the criteria under Circular 82 to be considered as having our “de facto management body” located in the PRC. We cannot assure you, however, that the PRC tax authorities will share our position, or that the PRC State Administration of Taxation will not implement Circular 82 or amend the EIT Law and its implementation rules in the future to the effect that such rules will apply to us or any of our overseas subsidiaries. If we were considered a “tax resident enterprise,” we would be subject to a 25% enterprise income tax on our global income unless otherwise provided by PRC laws and regulations, which could have an impact on our effective tax rate and materially and adversely affect our financial condition and results of operations.

In addition, under the EIT Law and its implementation rules, to the extent dividends from earnings derived since January 1, 2008 are sourced within the PRC and if we were considered a “resident enterprise” in the PRC, PRC income tax at the rate of 10% (or a lower rate pursuant to an applicable tax treaty) would be withheld from dividends on the Shares payable by us to investors that are “non-resident enterprises” so long as such “non-resident enterprise” investors do not have an establishment or place of business in the PRC or, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. Furthermore, any gains realized on the transfer of the Shares by such “non-resident enterprise” investors would be subject to a 10% PRC income tax if such gains are deemed income derived from sources within the PRC and we are considered a “resident enterprise” in the PRC. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to foreign holders of the Shares who are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of the Shares under PRC tax laws, the value of your investment in the Shares may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of the Shares may be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or areas.

## RISK FACTORS

**Sales between our PRC subsidiary and our Hong Kong subsidiary are related party transactions which may be subject to scrutiny by the PRC tax authorities, and additional PRC taxes or penalties imposed on us as a result of such scrutiny may adversely affect our business and performance.**

In the normal course of our operations, our Hong Kong subsidiary purchases certain materials from third party suppliers and sells such materials to our PRC subsidiary, and our PRC subsidiary sells almost all of the products it manufactures to our Hong Kong subsidiary which re-sells such products to third party customers. Such intra-Group transactions between our Hong Kong subsidiary and our PRC subsidiary constitute related party transactions which, according to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Regulation on Implementing 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), must be conducted on an arm's length basis. Such transactions between related parties may be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. If the relevant PRC tax authorities determine that the related party transactions between our PRC subsidiary and our Hong Kong subsidiary have not been conducted on an arm's length basis, they may adjust the taxable income of our PRC subsidiary through a transfer pricing adjustment and impose additional taxes (together with applicable interest) on our PRC subsidiary, as well as penalties for under-reporting of taxable income.

We believe that the transactions between our PRC subsidiary and our Hong Kong subsidiary have been conducted on an arms' length basis. We have reported such transactions to the relevant PRC tax authorities in each year during the Track Record Period, and such tax authorities have not raised any objections or imposed any additional taxes or penalties with respect to such transactions. However, there is no guarantee that the PRC tax authorities will not audit such past transactions or raise objections with respect to the pricing terms of such transactions in the future. If the PRC tax authorities conclude that the related party transactions between our PRC subsidiary and our Hong Kong subsidiary have not been conducted on an arms' length basis, we may become subject to additional PRC taxes and penalties which, if significant, could have a material adverse effect on our financial condition and results of operations.

**PRC regulation of loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiary.**

In utilizing the proceeds from the Global Offering, we (as an indirect offshore holding company of our PRC subsidiary) may make loans or additional capital contributions to our PRC subsidiary. Any such loans or additional capital contributions to our subsidiaries in the PRC are subject to PRC regulations and approvals. For example, loans made by us to our PRC subsidiary cannot exceed statutory limits and must be registered with the SAFE or its local branch. We may also determine to finance our PRC subsidiary by means of capital contributions through our Hong Kong subsidiary, which must be approved by MOFCOM or its local counterpart. However, because our operating entity is a domestic PRC enterprise, financing its activities by means of capital contributions may give rise to regulatory issues relating to foreign investment in domestic PRC enterprises, and other regulatory issues. We cannot assure you that we will be able to obtain the required registrations or approvals from the PRC Government with respect to such loans or capital contributions by us to our PRC subsidiary on a timely basis, or at all. If we fail to obtain such registrations or approvals, our ability to use the proceeds from the Global Offering to fund our operations in the PRC would be negatively affected, which would materially and adversely affect our liquidity in the PRC and ability to expand our business.

## RISK FACTORS

### **Government control over currency conversion may limit our ability to utilize our cash effectively.**

A substantial portion of our operation costs, relating primarily to our labor costs, is denominated in Renminbi. The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or make other payments to us or otherwise satisfy its foreign currency-denominated obligations. In addition, since a substantial portion of our future cash flow from operations is likely to continue to be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies.

### **Foreign investors may find it difficult to enforce foreign judgments obtained against our properties or our Directors or members of our senior management in the PRC.**

We are a holding company incorporated in the Cayman Islands with primary manufacturing operations conducted through our PRC subsidiary, with marketing and other management operations conducted through our subsidiaries in Hong Kong and Korea. A substantial majority of our consolidated assets are located in the PRC. In addition, all of our Directors and senior management reside within Hong Kong, Korea, Japan or the PRC. As a result, it may not be possible for investors to effect service of process within the United States or elsewhere outside of China upon us or our Directors and senior management or to enforce, in the U.S. courts or outside the United States, judgments obtained against us in U.S. courts or in courts outside the United States, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the securities laws of any state or territory within the United States. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognized or enforced in the PRC only if the jurisdiction has a treaty with the PRC or if the jurisdiction has been otherwise deemed by the PRC courts to satisfy the requirements for reciprocal recognition, subject to the satisfaction of other requirements. However, the PRC is not a party to treaties providing for the reciprocal enforcement of judgments of courts with foreign countries such as the United States, the United Kingdom, Japan and Korea, and enforcement in the PRC of judgments of a court in these jurisdictions may consequently be difficult or impossible.

The Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil or Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under this arrangement, which came into effect on August 1, 2008, whenever a designated People's Court of the PRC or a designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to any written agreement between the parties on choice of forum for dispute resolution, the party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of

## RISK FACTORS

the judgment. However, the rights under the arrangement may be limited and the interpretation of and cases decided under the arrangement have not been fully developed, and, therefore, there is uncertainty with respect to the outcome and effectiveness of any action brought under the arrangement.

### **Any future natural disaster, acts of God, outbreak of communicable diseases or any other epidemics in the PRC may adversely affect our operational results.**

Our business is subject to general economic and social conditions in the regions where we operate. Natural disasters, epidemics and other acts of God, which are beyond our control, may adversely affect the economy, infrastructure and livelihood of people in the regions where we operate. Some regions of the PRC, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or epidemics such as Severe Acute Respiratory Syndrome, or SARS, or H5N1 avian flu. For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In April 2009, a human swine influenza also known as Influenza A (H1N1) broke out in Mexico and spread globally, resulting in the loss of lives and widespread fear. Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. If in the future any of our employees in our facilities are suspected of having SARS, H5N1 avian flu, H1N1 human swine flu or any other epidemic or any of our facilities are identified as a possible source of spreading such epidemic, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees. We may also be required to disinfect the affected properties and thereby suffer a temporary suspension of our operations. Any quarantine or suspension of our operations will affect our operational results. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H5N1 avian flu or the H1N1 human swine flu, may result in material disruptions to our operations and delays in meeting our customers' orders, which in turn could materially and adversely affect our business, financial condition and results of operations.

### **The enforcement of labor-related laws in China could adversely affect our results of operations.**

A substantial majority of our employees are located in the PRC. The Standing Committee of the NPC adopted the PRC Labor Contract Law (中華人民共和國勞動合同法) on June 29, 2007, which became effective on January 1, 2008 and was amended on December 28, 2012. The PRC Labor Contract Law imposes requirements relating to, among other things, minimum wage, severance payment and non-fixed term employment contracts, and establishes time limits for probation periods as well as the duration and the number of times that an employee can be placed on a fixed-term employment contract. For example, under the PRC Labor Contract Law, an employer is obligated to sign an unlimited-term labor contract with any employee who has worked for the employer for ten or more consecutive years. Furthermore, if an employee requests or agrees to renew a fixed-term labor contract that has already been consecutively entered into twice, the resulting contract must have an unlimited term, with certain exceptions. The PRC Labor Contract Law also requires employers to pay severance to an employee whose labor contract is terminated or expires, with certain exceptions. It also provides that social insurance is required to be paid for employees and that employees are entitled to unilaterally terminate the labor contract if such requirement is not satisfied. In addition, the PRC government has continued to introduce new labor-related regulations. Among other things, such new regulations require that annual leave ranging from five to fifteen days be made available to employees and that employees be compensated for any untaken annual leave days in the amount of three times of their daily salary, subject to certain exceptions. As a result of such labor-related PRC laws and regulations, which are designed to enhance labor protection, we expect our labor costs to increase, as the continued success of our business depends significantly on our ability to attract and retain qualified employees.

## RISK FACTORS

There exist uncertainties as to the interpretation, implementation and enforcement of these obligations under the relevant PRC labor laws. If relevant government authorities determine that we have not complied fully with such obligations, we could be in violation of applicable PRC labor laws and we cannot assure you that PRC governmental authorities will not impose penalties on us for any alleged failure to comply with such labor laws. If we become subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected. In addition, in case we decide to change our employment or labor practices, the labor-related laws in the PRC may limit our ability to effect such changes in a manner that we believe to be cost-effective.

### **RISKS RELATING TO THE OFFERING**

#### **There was no prior public market for the Shares immediately prior to the Global Offering, and the market price of the Shares may decrease or fluctuate after the Global Offering.**

Immediately prior to the Global Offering, there was no public market for the Shares. We cannot provide any assurance that an active public market for the Shares will develop or be sustained. The public offering price of the Shares was determined through negotiations between the underwriters and us, and it may not necessarily be indicative of the market price after the Global Offering is completed. The prices at which the Shares will trade after the Global Offering will be determined by the marketplace and may be influenced by many factors including:

- our financial results;
- our history and prospects, as well as those of our competitors in the camera module and optical component industries;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and our cost structures;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- the growth rate of the PRC and global economies; and
- any volatility in the Hong Kong and international securities markets.

You may be unable to resell the Shares at or above the public offering price and, as a result, you may lose all or part of your investment.

#### **The market price of the Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.**

The market price of the Shares may fluctuate significantly and rapidly as a result of a variety of factors, many of which are beyond our control, including:

- actual and anticipated variations in our results of operations;
- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, dispositions, strategic alliances or joint ventures;

## RISK FACTORS

- recruitment or loss of key personnel by us or our competitors;
- developments affecting our major customers;
- market developments affecting us or the mobile devices and consumer electronics industries;
- regulatory or legal developments, including litigation;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- fluctuations in trading volumes or the release of lock-up or other transfer restrictions on our outstanding Shares or sales of additional Shares by us; and
- general economic, political and stock market conditions in Hong Kong, the PRC and elsewhere in the world.

Moreover, in recent years, stock markets in general have experienced significant price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of the listed companies. These broad market and industry fluctuations may adversely affect the market price of the Shares.

**Future sales or issuances of Shares (or securities related to the Shares) could adversely affect the market prices of the Shares.**

We cannot predict the effect, if any, that market sales of Shares (or securities related to the Shares) or their availability for sale will have on the market price prevailing from time to time. The market price of the Shares could decline as a result of future sales of substantial amounts of the Shares or other securities related to the Shares in the public market or the issuance of new Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate. In addition, our Shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings.

Certain amounts of the Shares currently outstanding are and/or will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. For example, Mr. Kwak and Hahn & Co. Eye, our Controlling Shareholders, are subject to a six month lock-up period with respect to their holding of the Shares, and Mr. Kwak is also subject to the requirement to maintain a controlling share ownership in us for an additional six month period following the expiration of such lock-up period.

Any future sales or issuances of a significant number of Shares or securities related to Shares by us or any of our Shareholders (including those subject to a lock-up, at any time after the end of the applicable lock-up periods) or the perception that these events may occur could cause the trading price of the Shares to decrease or to be lower than it might be in the absence of these events or perceptions.

**Since there will be a gap of several days between pricing and trading of the Offer Shares, the price of the Offer Shares could fall during the period before trading of the Offer Shares begins.**

The Offer Price of the Shares is expected to be determined on the Price Determination Date. However, the Offer Shares will not commence trading on the Hong Kong Stock Exchange until they are

## RISK FACTORS

delivered, which is expected to be five Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or deal in the Offer Shares during that period. Accordingly, holders of the Offer Shares are subject to the risk that the price of the Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

**You will experience an immediate and substantial dilution in the book value of your investment, and may experience further dilution if we issue additional Shares in the future.**

Based on the Offer Price range, the Offer Price is expected to be higher than the net tangible book value per Share prior to the Global Offering. Therefore, you will experience an immediate dilution in pro forma net tangible book value per Share. In addition, we may issue additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. If we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

**Our existing major Shareholders currently have and will continue to have substantial control over us after the Global Offering, and their interests or actions may conflict with the interests of our other Shareholders.**

Immediately upon completion of the Global Offering, Mr. Kwak will own approximately 45.00% and Hahn & Co. Eye will own approximately 29.99% of our issued and outstanding Shares, without taking into account the Shares which may be sold upon the exercise of the Over-allotment Option. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in our control that would otherwise benefit our Shareholders. For instance, if a transaction occurs whereby Mr. Kwak loses control over our Company, Apple may be able to exercise certain rights against us. See "— We rely substantially on Apple," and "Business — Customers, Sales and Marketing — Relationship with Apple." The interests of the Controlling Shareholders may not always coincide with our or your best interests. If the interests of the Controlling Shareholders conflict with our interests or those of our other Shareholders, or if the Controlling Shareholders choose to cause us to pursue strategic objectives that conflict with our interests or those of other Shareholders, we or those other Shareholders, including you, may be disadvantaged as a result.

**We may not pay any dividends on the Shares.**

We cannot guarantee when, if, or in what form, dividends will be paid on the Shares following the Global Offering. A declaration of dividends must be proposed by our Board and will be based on, and limited by, various factors, including our business and financial performance, capital and regulatory requirements and general business conditions. Furthermore, we may not have sufficient profits to make dividend distributions to Shareholders in the future, even if our financial statements prepared under IFRS indicate that our operations have been profitable. For further details on our dividend policy, see "Financial Information — Dividend Policy."

**Facts and statistics in this prospectus relating to the market and the industry in which we operate may not be fully reliable.**

Facts and statistics in this prospectus relating to the PRC and the industries in which we operate, including those relating to the PRC economy and the camera modules and mobile devices markets, are

## RISK FACTORS

derived from various publications of governmental agencies or independent third parties and obtained in communications with various governmental agencies or independent third parties which we believe are reliable. We cannot guarantee, however, the quality or reliability of these materials. We believe that the sources of this 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 in any material respect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor or any other party involved in the Global Offering and no representation is given as to its accuracy and completeness. Investors should not place undue reliance on such facts or statistics.

**This prospectus contains forward-looking statements that are our management's present expectations of future events and are subject to uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.**

In addition to the risks related to our business discussed above, other factors could cause actual results to differ materially from those described in the various forward-looking statements contained in this prospectus. These factors include, but are not limited to, the following:

- general economic, business and political conditions;
- changes in competitive conditions in the camera module and optical component industries;
- adverse trends in regulatory, legislative and judicial developments;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- changes in interest rates and conditions in the capital markets; and
- declines in consumer confidence.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. For example, sales could decrease, costs (including capital costs) could increase, investments could be delayed and anticipated improvements in performance might not be fully realized.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this prospectus. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

**Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.**

There has been coverage in the media regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of such media coverage or forward looking statements and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this prospectus. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.



## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

In preparation for the Global Offering, we have sought the following waivers from strict compliance with certain provisions of the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### **MANAGEMENT PRESENCE**

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our major business operations are based in the PRC and two of our executive Directors (other than Mr. Kwak who is an ordinary resident in Hong Kong) have been, are and are expected to be based in the PRC. We believe it would be more cost-effective and efficient in respect of our Board's decision-making process if most of our executive Directors are based in a location where we have significant operations. As such, we will not be able to comply with the requirements of Rule 8.12 of the Listing Rules for sufficient management presence in Hong Kong.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Hong Kong Stock Exchange. The two authorized representatives are Mr. Seong Seokhoon and Ms. Lam Wing Yan;
- (b) each of the authorized representatives will have all necessary means to contact all the Directors promptly at all times, as and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters;
- (c) all the Directors who are not ordinarily resident in Hong Kong have or can apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Hong Kong Stock Exchange upon reasonable notice;
- (d) Guotai Junan Capital Limited, our compliance adviser, will act as an additional channel of communication with the Hong Kong Stock Exchange;
- (e) we will retain Hong Kong legal advisers to advise on matters relating to the application of the Listing Rules and other applicable Hong Kong laws and regulations after the Listing; and
- (f) the Directors will provide their respective mobile phone numbers, office phone numbers, email addresses and fax numbers to the Hong Kong Stock Exchange upon request.

### **CONTINUING CONNECTED TRANSACTIONS**

We have entered into certain transactions which constitute continuing connected transactions for us under the Listing Rules, one of which is a non-exempt continuing connected transaction for the purposes of the Listing Rules. Pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement requirements under Rule 14A.35 of the Listing Rules for such non-exempt continuing connected transaction. Please see the section headed "Connected Transactions" in this prospectus for further details.

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND  
EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP  
AND MISCELLANEOUS PROVISIONS) ORDINANCE**

**WAIVER FROM STRICT COMPLIANCE WITH RULES 4.04(1) AND 13.49(1) OF THE LISTING  
RULES AND EXEMPTION FROM PARAGRAPHS 27 AND 31 OF THE THIRD SCHEDULE TO THE  
COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

The Accountants' Report set out in Appendix I to this prospectus includes audited financial information for our Group for the years ended December 31, 2011, 2012 and 2013 and for the ten months ended October 31, 2014.

Rule 4.04(1) of the Listing Rules requires a listing applicant to include in the prospectus the consolidated results of the listing group in respect of each of the three financial years immediately preceding the issue of the prospectus or such shorter period as may be acceptable to the Hong Kong Stock Exchange.

Rule 13.49 of the Listing Rules requires a listed issuer to publish its preliminary results for each financial year not later than three months after the end of the financial year.

Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance provides that, subject to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, it shall not be lawful for any person to issue, circulate or distribute in Hong Kong any prospectus offering for subscription or purchase shares in a company incorporated outside Hong Kong unless, among other things, the prospectus states the matters specified in Part I of the Third Schedule to the Ordinance and sets out the reports specified in Part II of the Third Schedule to the Ordinance.

Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires us to include in this prospectus a statement as to, *inter alia*, our gross trading income or sales turnover (as may be appropriate) 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.

Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires us to include in this prospectus a report by our auditors with respect to, *inter alia*, the profits and losses and assets and liabilities of our Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(1) and 13.49(1) of the Listing Rules subject to the following conditions:

- (a) our Company must list on the Hong Kong Stock Exchange on or before March 31, 2015;
- (b) we must obtain a certificate of exemption from the SFC on compliance with section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (the "Ordinance Requirements");

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND  
EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP  
AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (c) the unaudited financial information and a commentary on the results of operations of our Group for the year ended December 31, 2014, which follow the same content requirements as for a preliminary results announcement under Rule 13.49 of the Listing Rules and have been agreed with the Reporting Accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants, must be included in this prospectus; and
- (d) our Company is not in breach of its constitutional documents or laws and regulations of the Cayman Islands or other regulatory requirements regarding its obligation to publish preliminary results announcements.

We have also applied for, and the SFC is expected to grant us, a certificate of exemption from strict compliance with the Ordinance Requirements. Strict compliance with the Ordinance Requirements would be unduly burdensome for us as there would not be sufficient time for us to prepare the full year financial statements for the year ended December 31, 2014 and for our Reporting Accountants to complete the audit thereon prior to the issue of this prospectus.

We have included in Appendix III to this prospectus the unaudited preliminary financial information and a commentary on the results of operations of the Group for the year ended December 31, 2014, which follow the same content requirements as for a preliminary results announcement under Rule 13.49 of the Listing Rules and have been agreed with our Reporting Accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants.

Our Directors confirmed that all information necessary for the public to make an informed assessment of our activities, assets and liabilities, financial position, management and prospects has been included in this prospectus and that, as such, the waiver granted by the Hong Kong Stock Exchange and the exemption granted by the SFC from strict compliance with Rules 4.04(1) and 13.49 of the Listing Rules and the Ordinance Requirements, respectively, will not prejudice the interests of the investing public.

Our Directors and the Sole Sponsor confirmed that after performing all due diligence work, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since October 31, 2014 and there is no event since October 31, 2014 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus.

We will comply with Rule 13.46(2) of the Listing Rules by publishing and dispatching our annual report for the year ended December 31, 2014 by April 30, 2015.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **DIRECTORS' RESPONSIBILITY STATEMENT**

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The 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.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set forth herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, agents, employees or advisors or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

### **SELLING SHAREHOLDER**

The Sale Shares, being an aggregate of 124,800,000, are offered by Hahn & Co. Eye for sale under the International Offering. Hahn & Co. Eye may be required by the Sole Global Coordinator to sell up to an aggregate of 31,200,000 Shares upon the exercise of the Over-allotment Option, as a result of which Hahn & Co. Eye may sell up to an aggregate of 156,000,000 Shares pursuant to the Global Offering (assuming the Over-allotment Option is exercised in full).

### **UNDERWRITING**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around March 25, 2015, subject to the Offer Price being agreed.

If, for any reason, the Offer Price is not agreed among us, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE**

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be sold by the Selling Shareholder pursuant to the exercise of the Over-allotment Option) and the Shares which may be issued upon the exercise of the options that may be granted under the Share Option Scheme.

No part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Tuesday, March 31, 2015. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 1415.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong 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. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of us, the Selling Shareholder, the Sole Global Coordinator, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **REGISTER OF SHAREHOLDERS AND STAMP DUTY**

Our principal register of members will be maintained by our principal registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

All Offer Shares will be registered on our Hong Kong register of members. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

### **EXCHANGE RATE CONVERSION**

Unless otherwise specified, amounts denominated in KRW, HK\$ and RMB have been translated, for the purpose of illustration only, into United States dollars in this prospectus at the following exchange rates as of the Latest Practicable Date:

US\$1.00: KRW1,119.5

US\$1.00: RMB6.1597

US\$1.00: HK\$7.7600

No representation is made that any amounts in KRW, HK\$ and RMB were or could have been or could be converted into United States dollars at such rates or any other exchange rates on such date or any other date.

### **ROUNDING**

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. Likewise, the products of sales volumes and average selling prices may differ from revenue by product type due to rounding adjustments.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original language shall prevail.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

| <u>Name</u>                                       | <u>Residential Address</u>  | <u>Nationality</u> |
|---|---|--------------------|
| <b><i>Executive Directors</i></b>                 |   |                    |
| Mr. Kwak Joung Hwan                               | Flat B, 36/F, Block 2A<br>The Arch (Moon Tower)<br>1 Austin Road West<br>Jordan<br>Kowloon<br>Hong Kong   | Korea              |
| Mr. Kim Kab Cheol                                 | 127-2801<br>387, Gajeong-ro<br>Seo-gu<br>Incheon<br>Korea   | Korea              |
| Mr. Seong Seokhoon                                | B04-1401<br>Galaxia Legend Star Island<br>Dongcheng District<br>Dongguan<br>PRC                           | Korea              |
| <b><i>Non-executive Directors</i></b>             |   |                    |
| Mr. Yoon Yeo Eul                                  | 101-101 21,<br>Hyoryeong-ro 46-gil<br>Seocho-gu<br>Seoul<br>Korea   | Korea              |
| Mr. Lee Dong-Chun                                 | 101-103,<br>29, Songpa-daero 37 gil<br>Songpa-gu<br>Seoul<br>Korea  | Korea              |
| Mr. Kim Jae Min                                   | 106-504<br>230 Jeongja 1-ro<br>Bundang-gu<br>Seongnam-si<br>Gyeonggi-do<br>Korea<br>463-811               | United States      |
| <b><i>Independent Non-executive Directors</i></b> |   |                    |
| Mr. Okayama Masanori                              | 92-6, Kurosaki<br>Takaki-machi<br>Isahaya-shi<br>Nagasaki-ken<br>Japan                                    | Japan              |
| Mr. Kim Chan Su                                   | No. 26, 18/F<br>Celestial Heights Phase 1<br>80 Sheung Shing Street<br>Ho Man Tin<br>Kowloon<br>Hong Kong | Korea              |
| Dr. Song Si Young                                 | 104-1106<br>205 Baekbeom-ro<br>Mapo-gu<br>Seoul<br>Korea  | Korea              |

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### SENIOR MANAGEMENT

| <u>Name</u>             | <u>Residential Address</u>  |
|-------------------------|---|
| Mr. Ryu Ho Yong         | 213-204 I-Park city<br>Kwon sun-Gu<br>Suwon City, Kyung Ki Province<br>Korea  |
| Mr. Cho Kyu Beom        | 102-1401 Building 208<br>Gui in Road<br>Dong an-Gu<br>Anyang City, Kyung Ki Province<br>Korea                             |
| Mr. Lee Chung Yun       | No. 1205 Building 1320<br>57 Cheol San Road<br>Gwang myung City, Kyung Ki Province<br>Korea                               |
| Mr. Park Bumcheol       | No. 1002 Building 111, World Meridian Apartment<br>Woo man 2-Dong<br>Pal dal-Gu<br>Suwon City, Kyung Ki Province<br>Korea |
| Mr. Yoo Hee Yeoul       | 301-2202<br>435 Olympic Road<br>Songpa-Gu<br>Seoul<br>Korea   |
| Mr. Lee David Hyung Tek | Flat E, 14/F<br>Lyndhurst Building<br>29 Lyndhurst Terrace<br>Central<br>Hong Kong  |



## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Please see the section headed “Directors and Senior Management” in this prospectus for further details.

### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### **Selling Shareholder**

Hahn & Company Eye Holdings Co., Ltd.  
21F Ferrum Tower  
19, Eulji-ro 5-gil  
Jung-Gu  
Seoul  
Korea  
100-210

#### **Sole Sponsor, Sole Global Coordinator and Sole Bookrunner**

Morgan Stanley Asia Limited  
46/F, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

#### **Joint Lead Managers**

Morgan Stanley Asia Limited  
46/F, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

BNP Paribas Securities (Asia) Limited  
59/F-63/F, Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

CIMB Securities Limited  
Units 7706-08, Level 77  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

#### **Legal Advisors to Our Company**

*As to Hong Kong and U.S. laws:*  
Cleary Gottlieb Steen & Hamilton (Hong Kong)  
37/F, Hysan Place  
500 Hennessy Road  
Causeway Bay  
Hong Kong

*As to PRC law:*  
Jingtian & Gongcheng  
34/F, Tower 3, China Central Place  
77 Jianguo Road  
Chaoyang District  
Beijing 100025  
PRC

*As to Cayman Islands law:*  
Maples and Calder  
53/F, The Center  
99 Queen's Road Central  
Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal Advisors to the Sole Global Coordinator  
and the Underwriters**

*As to Hong Kong and U.S. laws:*

Shearman & Sterling  
12/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law:*

Haiwen & Partners  
20/F Fortune Financial Center  
5 Dong San Huan Central Road Chaoyang District  
Beijing 100020  
PRC

**Reporting Accountants**

KPMG  
*Certified Public Accountants*  
8/F, Prince's Building  
10 Chater Road  
Central  
Hong Kong

**Industry Consultant**

International Business Strategies, Inc.  
632 Industrial Way  
Los Gatos  
California 95030  
USA

**Receiving Bank**

Standard Chartered Bank (Hong Kong) Limited  
15/F Standard Chartered Tower  
388 Kwun Tong Road  
Kwun Tong

**Compliance Advisor**

Guotai Junan Capital Limited  
28/F., Low Block,  
Grand Millennium Plaza  
181 Queen's Road  
Central  
Hong Kong

## CORPORATE INFORMATION

|   |   |
|---|---|
| <b>Registered office in Cayman Islands</b>      | PO Box 309<br>Ugland House<br>Grand Cayman<br>KY1-1104<br>Cayman Islands  |
| <b>Headquarters in the PRC</b>                  | No.1 Songbai Road<br>Huanan Industrial Zone<br>Liaobu Town<br>Dongguan City<br>Guangdong Province<br>PRC  |
| <b>Principal place of business in Hong Kong</b> | Suite 3208-9<br>32/F, Tower 6<br>The Gateway<br>9 Canton Road<br>Tsimshatsui<br>Kowloon   |
| <b>Company's Website</b>                        | <b><u><a href="http://www.cowelleholdings.com">www.cowelleholdings.com</a></u></b><br><br><i>(The information on the website does not form part of this prospectus)</i>   |
| <b>Company Secretary</b>                        | Ms. Lam Wing Yan (林詠欣)<br>CPA, FCCA<br>Room D, 25/F<br>Tower 10, Ocean Shores<br>88 O King Road<br>Tseung Kwan O<br>New Territories   |
| <b>Authorized Representatives</b>               | Mr. Seong Seokhoon<br>B04-1401<br>Galaxia Legend Star Island<br>Dongcheng District<br>Dongguan<br>PRC<br><br>Ms. Lam Wing Yan (林詠欣)<br>Room D, 25/F<br>Tower 10, Ocean Shores<br>88 O King Road<br>Tseung Kwan O<br>New Territories |
| <b>Audit Committee</b>                          | Mr. Kim Chan Su (Chairman)<br><br>Dr. Song Si Young<br><br>Mr. Okayama Masanori   |

## CORPORATE INFORMATION

### Remuneration Committee

Dr. Song Si Young (Chairman)

Mr. Kim Chan Su

Mr. Seong Seokhoon

### Nomination Committee

Mr. Kwak Joung Hwan (Chairman)

Dr. Song Si Young

Mr. Kim Chan Su

### Cayman Islands Principal Share Registrar and Transfer Agent

Maples Fund Services (Cayman) Limited  
PO Box 1093  
Boundary Hall  
Cricket Square  
Grand Cayman  
KY1-1102  
Cayman Islands

### Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### Compliance Advisor

Guotai Junan Capital Limited  
27/F, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

### Principal Bankers

Hong Kong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Central  
Hong Kong

Australia and New Zealand Banking Group Limited  
13/F  
Three Exchange Square  
8 Connaught Place  
Central

## INDUSTRY OVERVIEW

*Certain information and statistics, including estimates, set forth in this section and elsewhere in this prospectus have been extracted from a report commissioned by us and prepared by International Business Strategies, Inc. (the "IBS Report") in relation to the camera module and optical components industries. We have taken reasonable care in extracting and reproducing such information, and 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 in any material respect. However, the information has not been independently verified by us or any other party involved in the prospectus, and no representation is given as to its accuracy or completeness. As such, investors are cautioned not to place any undue reliance on the information and statistics set forth in this section or similar information included elsewhere in this prospectus.*

## INDUSTRY CONSULTANTS AND INFORMATION SOURCES

### International Business Strategies

We commissioned International Business Strategies Inc. ("IBS"), an independent market research consulting firm that is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the global and Chinese camera module industry. IBS has been in business for over 25 years and is actively involved in top-level strategic consulting for global leaders in the electronics industry. IBS's independent market research was undertaken through both primary and secondary research based on various sources. Primary research involved in-depth interviews with key stakeholders and industry experts including camera module suppliers, foundry service providers, design houses, module assembly houses, industry associations and experts, among others. Secondary research involved research regarding information and statistics published by government departments, trade and business media, company annual reports and publicity materials, IBS research reports, analyst reports, industry associations, industry journals, online sources and data from the research database of IBS. Such methodology utilizes a multilevel information sourcing process, in which information gathered is cross-referenced to ensure accuracy.

IBS considered the following parameters in preparing its market sizing and forecast model for the IBS Report:

- the market demand by geographic region for smartphones, feature phones, multimedia tablets, digital still cameras, automotive, security, and other platforms that consume high volumes of camera modules;
- the longer-term demand profiles for smartphones and multimedia tablets, as well as the strengthening of PRC vendors;
- the increased adoption of imaging as a key part of social networking on a global basis within the smartphone and multimedia tablet ecosystem;
- enhancements in technologies that can offer higher resolution and lower cost imaging capabilities, including the impact of enhancements in image sensors, image stabilization, autofocus, chip scale packaging and other areas;
- the competitive pressures in the camera modules market and the impact of the price of image sensors, as well as the effectiveness of the low-cost camera module vendors; and
- the supply chain for image sensors, lenses, and other key components for camera modules.

## INDUSTRY OVERVIEW

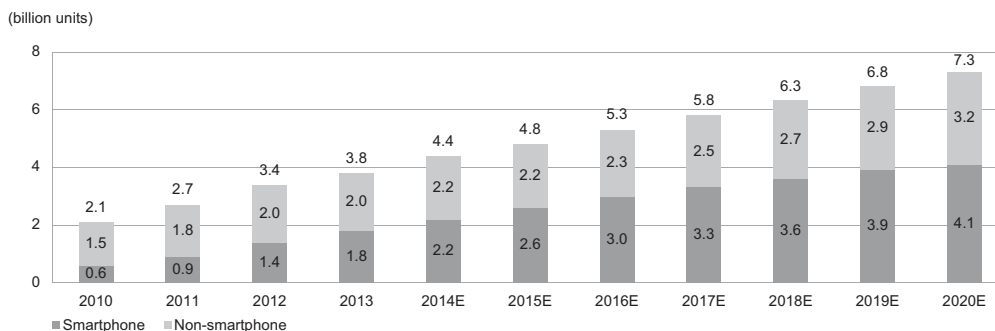
IBS further assumed that no natural disasters will adversely affect the demand and supply of camera modules.

We have extracted certain information from the IBS Report in this section as well as in the sections headed “Risk Factors,” “Business,” “Financial Information” and elsewhere in this prospectus to provide investors with a more comprehensive overview of the industry in which we operate. We paid IBS a fee of US\$75,000 for the IBS Report.

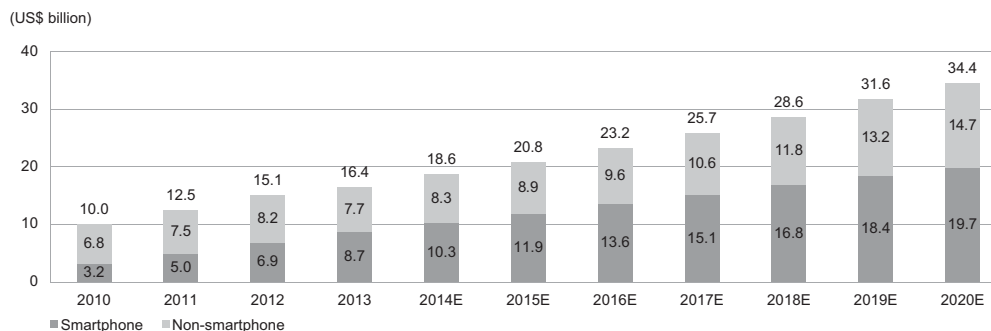
### GLOBAL CAMERA MODULES MARKET

A camera module is a device that converts an optical image into electronic video signals. These electronic signals are then converted into digital data on the display of a digital imaging device for users to store as a digital image. The booming demand for mobile phones, smartphones, multimedia tablets and other mobile devices has driven the demand for camera modules, which are the core components for built-in digital cameras and have become one of the key differentiating factors for such devices. According to the IBS Report, the global camera modules market grew from 2.1 billion units in 2010 to 3.8 billion units in 2013, representing a CAGR of 22.8%, and is expected to grow further to 7.3 billion units in 2020, representing a CAGR of 9.5% over 2013 to 2020. In terms of revenue, according to the IBS Report, the global camera modules market grew from US\$10.0 billion in 2010 to US\$16.4 billion in 2013, representing a CAGR of 17.8%, and is expected to further grow to US\$34.4 billion in 2020, representing a CAGR of 11.2% over 2013 to 2020.

#### Global Camera Modules Market by Volume



#### Global Camera Modules Market by Revenue



Source: International Business Strategies, Inc.

The two major segments in the global camera modules market are flip-chip and COB (chip-on-board). Flip-chip camera modules are generally smaller than COB camera modules but require higher precision packaging technologies. According to the IBS Report, flip-chip camera modules are expected to represent 76.3% of total camera module sales in 2020.

## INDUSTRY OVERVIEW

### Market Applications of Camera Modules

Camera module applications have expanded beyond their use traditionally as a component of digital still cameras to a wide range of markets in automotive devices, security, medical and other areas, due to the cost and performance advantages of camera modules.

Camera features are becoming key differentiating factors for mobile multimedia platforms such as smart phones and tablet computers and there is also growth in camera module demand in automotive, surveillance, medical and other areas.

Global camera module shipments are expected to increase in the coming years with the increase in the number of smartphone shipments, further enhanced by the rising demand for mobile phones with a camera at both ends (front and rear). Rear-end cameras are driving enhancements in camera modules for higher pixel count while front-end camera modules are at a lower pixel count and based on fixed focus technology. According to the IBS Report, the sales volume of rear-end camera modules grew from 1,315 million units in 2010 to 2,065 million units in 2013 and is expected to increase further to 3,040 million units in 2020, representing a CAGR of 5.7%. Front-end camera module sales grew faster from 405 million units in 2010 to 1,317 million units in 2013, representing a CAGR of 48.2%, and are expected to grow further to 2,778 million units in 2020, representing a CAGR of 11.3%. Rear-end and front-end camera modules represented 61.1% and 38.9% of total camera module sales volume in 2013, respectively. By 2020, rear-end and front-end camera modules are expected to represent 52.3% and 47.7% of total camera module sales volume, respectively. Rear-end camera modules have reached pixel counts of over 16 megapixels, but there still is a large market for 5 megapixels and 8 megapixels. Front-end camera modules are typically two megapixels in pixel count. Overall, camera module technology will be driven by the need to support a wide range of image resolution levels.

#### Global Camera Modules Market Volume<sup>(1)</sup>

|                     | <u>2010</u>            | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|---------------------|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                     | (in millions of units) |             |             |             |             |             |             |             |             |             |             |
| Rear-end . . . . .  | 1,315                  | 1,592       | 1,918       | 2,065       | 2,273       | 2,374       | 2,501       | 2,622       | 2,762       | 2,912       | 3,040       |
| Front-end . . . . . | 405                    | 716         | 1,033       | 1,317       | 1,565       | 1,705       | 2,002       | 2,204       | 2,414       | 2,616       | 2,778       |

(1) Includes camera modules for mobile devices with defined rear-end and front-end camera modules (including mobile phones and tablets)

Source: *International Business Strategies, Inc.*

### Smartphones

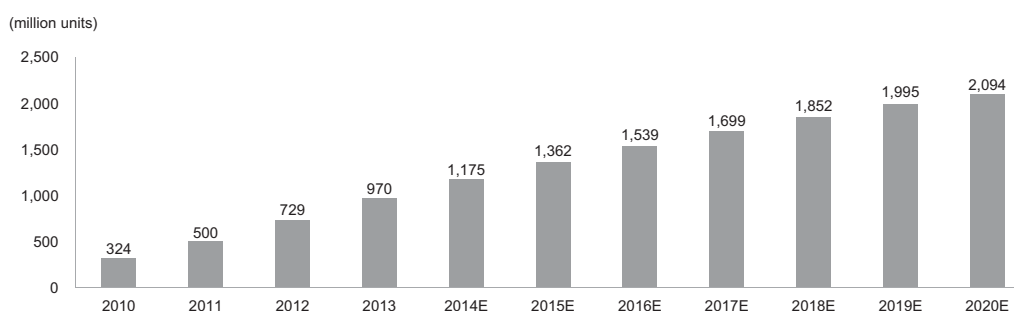
The camera modules market is primarily driven by increasing application of camera modules in smartphones.

According to the IBS Report, the volume of the global smartphones market is expected to increase from 970 million units in 2013 to 2.1 billion units in 2020, representing a CAGR of 11.6%, and will be a key driver for the camera modules market through 2020.

While the growth from non-China smartphone vendors is lower than that of Chinese smartphone vendors, the technology requirements of camera modules in the non-China market are typically higher, which leads to higher selling prices for camera modules. The volume of smartphones sold in the non-China region is expected to increase from 624 million units in 2013 to 895 million units in 2020, representing a CAGR of 5.3%.

## INDUSTRY OVERVIEW

### Global Smartphone Market Volume



Source: International Business Strategies, Inc.

According to the IBS Report, Samsung Electronics was the largest smartphone vendor in terms of sales volume with a 33.1% global market share in 2013. Apple and Huawei were the second and third largest smartphone vendors with market shares of 15.8% and 5.4% respectively in 2013. Other leading smartphone vendors during 2013 included Microsoft/Nokia, LG Electronics, Lenovo, ZTE, Sony, Coolpad, Xiaomi and Blackberry.

### Market Shares of Smartphone Vendors

| Company             | 2013                            |                     |
|---------------------|---------------------------------|---------------------|
|                     | Sales<br>(in millions of units) | Market Share<br>(%) |
| Samsung Electronics | 321.2                           | 33.1%               |
| Apple               | 153.4                           | 15.8%               |
| Huawei              | 52.0                            | 5.4%                |
| Microsoft/Nokia     | 51.8                            | 5.3%                |
| LG Electronics      | 47.6                            | 4.9%                |
| Lenovo              | 42.9                            | 4.4%                |
| ZTE                 | 40.0                            | 4.1%                |
| Sony                | 38.4                            | 4.0%                |
| Coolpad             | 36.7                            | 3.8%                |
| Xiaomi              | 18.7                            | 1.9%                |
| BlackBerry          | 18.4                            | 1.9%                |
| TCL                 | 17.6                            | 1.8%                |
| HTC                 | 16.1                            | 1.7%                |
| Google/Motorola     | 12.5                            | 1.3%                |
| Other               | 102.6                           | 10.6%               |
| <b>Total</b>        | <b>969.9</b>                    | <b>100.0%</b>       |

### **Tablets**

Camera modules are also gaining popularity and seeing increased demand in as components for multimedia tablets. As is the case for smartphones, front and rear cameras have become one of the key specifications for tablets.

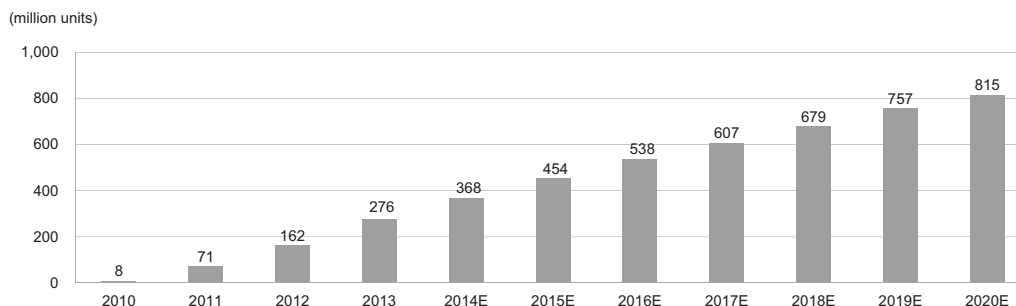
According to the IBS Report, the volume of the global tablet market is expected to increase from 276 million units in 2013 to 815 million units in 2020, representing a CAGR of 16.7%. The growth of mobile Internet usage serves as one of the main drivers for increasing sales of tablets on a global basis. The tablet market is expected to continue to experience strong growth despite increasing overlap with



## INDUSTRY OVERVIEW

large-area display smartphones and the low-end notebook computer market. The volume of tablets sold in the non-China region is expected to increase from 112 million units in 2013 to 267 million units in 2020, representing a CAGR of 13.2%.

### Global Tablet Market Volume



Source: International Business Strategies, Inc.

According to the IBS Report, Apple was the largest vendor of tablets in terms of sales volume in 2013 with a market share of 26.9%. Samsung Electronics and Asus were the second and third largest vendors of tablets with market share of 14.6% and 4.4% respectively in 2013.

### Market Shares of Tablet Vendors

| <u>Company</u>            | <u>2013</u>                            |                            |
|---------------------------|--|----------------------------|
|                           | <u>Sales</u><br>(in millions of units) | <u>Market Share</u><br>(%) |
| Apple .....               | 74.2                                   | 26.9%                      |
| Samsung Electronics ..... | 40.4                                   | 14.6%                      |
| Asus .....                | 12.1                                   | 4.4%                       |
| Amazon .....              | 10.2                                   | 3.7%                       |
| Lenovo .....              | 7.9                                    | 2.9%                       |
| Other .....               | 131.2                                  | 47.5%                      |
| <b>Total</b> .....        | <b>276.0</b>                           | <b>100.0%</b>              |

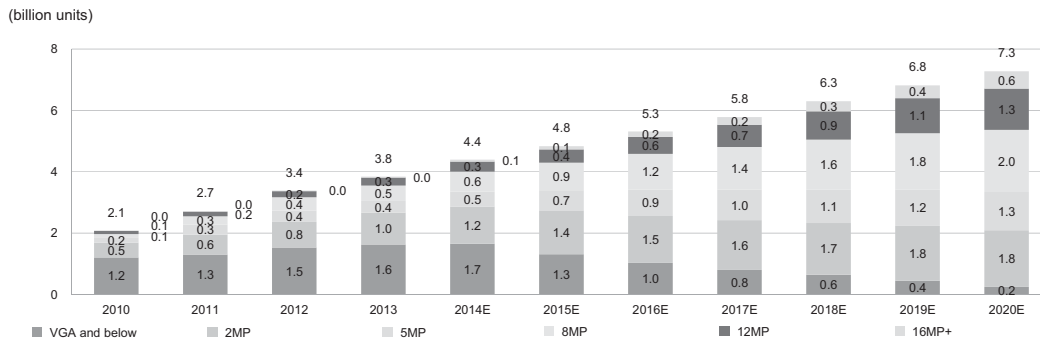
### **Camera Module Resolutions**

Image resolution for camera modules is measured by the pixel count and is one of the key metrics of camera module performance. Demand for higher pixel count camera modules continues to grow, driven by large end user demand for high quality pictures.

According to the IBS Report, global shipments of mid to high resolution camera modules, characterized by a pixel count of 5 megapixels and above, amounted to 725 million units in 2013 and are projected to jump to 5,182 million units in 2020, representing a CAGR of 32.4%. Camera modules with high resolution, characterized by a pixel count of 8 megapixels, 12 megapixels, 16 megapixels and above, had unit volumes of 342 million in 2013 which are expected to increase to 3,931 million units in 2020, representing a CAGR of 41.7%, reflecting increasing demand for high resolution cameras in smartphones, multimedia tablets and other applications, including in the automotive sector.

## INDUSTRY OVERVIEW

### Global Camera Modules Market Volume by Pixel Count



Source: International Business Strategies, Inc.

### Growth Drivers and Technology Innovations

While Japanese camera module manufacturers have been the technology leaders within digital still camera applications, their high cost structure has not allowed them to be competitive in the high volume market for smartphone camera modules. From 2014 onwards, cameras capable of generating content with a horizontal resolution on the order of 4,000 pixels (“4K”) are expected to become a key market segment, as demonstrated by the introduction of Panasonic’s 4K wearable camera.

The ability to manufacture high volumes of high-quality lens systems is another key element to becoming a market leader in camera modules. Lens systems require skills in a wide range of capabilities and having the ability to customize lens system features functions as an important competitive advantage.

Key trends in technology are increased pixel count to 20+ megapixels for rear-facing cameras that require powerful signal processing technology and reduced pixel size to 0.90µm. The inclusion of image signal processors (“ISPs”) within camera modules is another increasing trend.

### Camera Module Components and Materials

Major components for camera modules include CMOS image sensors, lens modules, substrates and filters. According to the IBS Report, the price of major components and materials for camera modules is expected to be flat or lower through 2020, as shortages of such components and materials are not expected due to the strengthening of production capabilities for CMOS image sensors, lens modules, substrates, filters and other components by PRC suppliers through 2020, and such increasing capabilities are likely to result in significant downward price pressure as PRC suppliers seek to gain market share.

For CMOS image sensors specifically, prices for certain specific pixel sensors, such as 8 megapixels and 22 megapixels, have historically declined over time, which is the normal pattern within the semiconductor industry. However, the migration to higher pixel count for front-facing cameras, due to the increasing demand for better image quality resulting from the increasing importance of self-taken images, had a counter-vailing impact of generally increasing the average prices of image sensors used in front-facing cameras, which is expected to continue.

## INDUSTRY OVERVIEW

The following table sets forth the historical and estimated average prices for image sensors for the periods indicated, as well as the growth rate of such prices between the periods, according to the IBS Report:

|                           | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014e</u> | <u>2015e</u> | <u>2016e</u> | <u>2017e</u> | <u>2018e</u> | <u>2019e</u> | <u>2020e</u> |
|---------------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Wireless handset</b>   |             |             |             |             |              |              |              |              |              |              |              |
| <b>Smartphones</b>        |             |             |             |             |              |              |              |              |              |              |              |
| Front-facing cameras      |             |             |             |             |              |              |              |              |              |              |              |
| (US\$) . . . . .          | 0.809       | 0.838       | 0.863       | 0.875       | 1.018        | 1.198        | 1.448        | 1.676        | 1.937        | 2.104        | 2.234        |
| Growth rate (%) . . . . . | N/A         | 3.640       | 2.950       | 1.380       | 16.360       | 17.700       | 20.870       | 15.750       | 15.590       | 8.600        | 6.170        |
| Back-facing cameras       |             |             |             |             |              |              |              |              |              |              |              |
| (US\$) . . . . .          | 4.766       | 4.588       | 4.412       | 3.620       | 3.194        | 3.250        | 3.320        | 3.462        | 3.585        | 3.730        | 3.882        |
| Growth rate (%) . . . . . | N.A*        | (3.740)     | (3.820)     | (17.950)    | (11.790)     | 1.770        | 2.160        | 4.270        | 3.530        | 4.050        | 4.090        |
| <b>Non-Smartphones</b>    |             |             |             |             |              |              |              |              |              |              |              |
| Front-facing cameras      |             |             |             |             |              |              |              |              |              |              |              |
| (US\$) . . . . .          | 0.292       | 0.275       | 0.252       | 0.241       | 0.241        | 0.242        | 0.244        | 0.245        | 0.249        | 0.259        | 0.308        |
| Growth rate (%) . . . . . | N.A*        | (5.720)     | (8.450)     | (4.360)     | 0.080        | 0.550        | 0.770        | 0.230        | 1.680        | 4.190        | 18.780       |
| Back-facing cameras       |             |             |             |             |              |              |              |              |              |              |              |
| (US\$) . . . . .          | 0.671       | 0.796       | 0.918       | 0.953       | 1.096        | 1.124        | 1.173        | 1.283        | 1.408        | 1.608        | 2.002        |
| Growth rate (%) . . . . . | N.A*        | 18.500      | 15.440      | 3.760       | 15.070       | 2.480        | 4.390        | 9.350        | 9.760        | 14.220       | 24.480       |
| <b>Tablet computer</b>    |             |             |             |             |              |              |              |              |              |              |              |
| Front-facing cameras      |             |             |             |             |              |              |              |              |              |              |              |
| (US\$) . . . . .          | —           | 0.855       | 0.886       | 0.904       | 1.048        | 1.166        | 1.262        | 1.336        | 1.443        | 1.575        | 1.760        |
| Growth rate (%) . . . . . | N.A*        | N.A*        | 3.680       | 1.990       | 15.900       | 11.340       | 8.190        | 5.880        | 7.960        | 9.200        | 11.710       |
| Back-facing cameras       |             |             |             |             |              |              |              |              |              |              |              |
| (US\$) . . . . .          | —           | 3.627       | 3.460       | 2.875       | 2.982        | 3.028        | 3.086        | 3.180        | 3.269        | 3.330        | 3.363        |
| Growth rate (%) . . . . . | N.A*        | N.A*        | (4.590)     | (16.910)    | 3.740        | 1.540        | 1.900        | 3.040        | 2.800        | 1.860        | 1.000        |

Source: International Business Strategies, Inc.

\* N.A. means not applicable

For lenses, adequate manufacturing capacity and heavy competition in the industry are expected to result in relative stability in supply through 2020. The following table sets forth the historical and estimated low and high price range for lens modules for smartphones and tablet computers for the periods indicated, according to the IBS report:

|                       | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014e</u> | <u>2015e</u> | <u>2016e</u> | <u>2017e</u> | <u>2018e</u> | <u>2019e</u> | <u>2020e</u> |
|-----------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Low (US\$) . . . . .  | 0.35        | 0.34        | 0.33        | 0.32        | 0.31         | 0.30         | 0.29         | 0.28         | 0.27         | 0.26         | 0.25         |
| High (US\$) . . . . . | 1.50        | 1.60        | 1.70        | 1.75        | 1.80         | 1.90         | 1.95         | 2.00         | 2.05         | 2.10         | 2.15         |

Source: International Business Strategies, Inc.

PCB consumption in camera modules has historically accounted for less than 0.1% of total global PCB consumption. PCBs used for COB camera modules are very small in size. Depending on tolerances and number of layers, the price of PCBs currently ranges from US\$0.15 to US\$0.45. It is not expected that there will be any shortages in the supply of PCBs or any limitations in technology for use in camera modules through 2020.

HTCC is a better substrate for flip-chip camera modules than PCB substrates. HTCC prices for smartphone camera modules currently range from US\$0.25 to US\$0.60, and prices are expected to be relatively flat through 2020.

## INDUSTRY OVERVIEW

### Competitive Landscape of Camera Modules Market

The global camera modules market is large and fragmented with many competitors. According to the IBS Report, our share of the global camera modules market was 5.0% in 2013, ranking us as the sixth largest supplier of camera modules in the world. Larger competitors such as LG Innotek and Samsung Electro-Mechanics (“SEMCO”) were ranked first and second, due to large demand for mobile devices produced by their affiliated companies, LG Electronics and Samsung Electronics. Similarly, Partron gained market share as a key camera module vendor to Samsung Electronics. Lite-On Technology gained market share with strong demand from China.

According to the IBS Report, we, along with LG Innotek, are one of the three largest suppliers of flip-chip camera modules in terms of production capacity. Our competitive advantages in the flip-chip camera modules market are our excellent services to our customers, high quality of our products and our manufacturing efficiency.

Also according to the IBS Report, smaller companies will be challenged to compete in the camera modules market in the long-term due to limitations on their ability to keep pace with the technological and manufacturing capabilities of market share leaders.

#### Global Camera Module Market Share by Revenue

| Company                  | 2010          |                  | 2011          |                  | 2012          |                  | 2013          |                  | 2010–<br>2013<br>CAGR |
|--------------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|-----------------------|
|                          | US\$MM        | Market Share (%) | US\$MM        | Market Share (%) | US\$MM        | Market Share (%) | US\$MM        | Market Share (%) |                       |
| LG Innotek               | 573           | 5.7%             | 1,049         | 8.4%             | 1,561         | 10.4%            | 2,389         | 14.6%            | 60.9%                 |
| SEMCO                    | 592           | 5.9%             | 619           | 5.0%             | 1,458         | 9.7%             | 1,982         | 12.1%            | 49.6%                 |
| Sharp                    | 653           | 6.5%             | 774           | 6.2%             | 795           | 5.3%             | 1,037         | 6.3%             | 16.7%                 |
| Lite-On Technology       | 291           | 2.9%             | 426           | 3.4%             | 781           | 5.2%             | 850           | 5.2%             | 42.9%                 |
| Partron                  | 95            | 0.9%             | 191           | 1.5%             | 557           | 3.7%             | 825           | 5.0%             | 105.5%                |
| <b>Cowell</b>            | <b>159</b>    | <b>1.6%</b>      | <b>323</b>    | <b>2.6%</b>      | <b>528</b>    | <b>3.5%</b>      | <b>814</b>    | <b>5.0%</b>      | <b>72.3%</b>          |
| Sunny Optical Technology | 109           | 1.1%             | 190           | 1.5%             | 400           | 2.7%             | 742           | 4.5%             | 89.5%                 |
| Foxconn Technology       | 902           | 9.0%             | 1,011         | 8.1%             | 857           | 5.7%             | 703           | 4.3%             | (8.0)%                |
| Chicony Electronics      | 357           | 3.6%             | 418           | 3.4%             | 456           | 3.0%             | 463           | 2.8%             | 9.1%                  |
| Toshiba                  | 527           | 5.3%             | 486           | 3.9%             | 445           | 3.0%             | 371           | 2.3%             | (11.0)%               |
| Other <sup>(1)</sup>     | 5,752         | 57.5%            | 6,969         | 55.9%            | 7,223         | 48.0%            | 6,208         | 37.9%            | 2.6%                  |
| <b>Total</b>             | <b>10,010</b> | <b>100.0%</b>    | <b>12,456</b> | <b>100.0%</b>    | <b>15,061</b> | <b>100.0%</b>    | <b>16,384</b> | <b>100.0%</b>    |                       |

Source: International Business Strategies, Inc.

(1) Other competitors include Primax Electronics, CammSys, STMicroelectronics, Truly Opto-electronics, PowerLogics, MCNEX, BYD and Tessera DOC.

### Barriers to Entry

To compete in the camera modules market, a camera module company not only needs to have strong and established relationships with leading mobile device manufacturers, but also needs an advanced and flexible manufacturing platform with large manufacturing capability and a competitive cost structure. It is critical to have high volume manufacturing capability and efficient logistics for packaging and to have a large manufacturing capacity for packaging technologies.

Strong engineering capability is also required for long-term success in the camera modules market. The ability to support and manufacture camera modules utilizing both flip-chip and COB technology represents a key competitive advantage for camera module manufacturers to cover the full low-, mid- and high-end camera modules market across different pixel counts.

## REGULATORY OVERVIEW

This section sets forth a summary of the most significant aspects of laws and regulations relating to our business operations in the PRC or our rights to receive dividends and other distributions from our PRC subsidiary.

### FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the “PRC Company Law”), which was promulgated on December 29, 1993 and amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013. Under the PRC Company Law, companies are generally classified into two categories: limited liability companies and limited companies by shares. The PRC Company Law also applies to foreign-invested limited liability companies but where other relevant laws regarding foreign investment have provided otherwise, such other laws shall prevail.

The latest amendment to the PRC Company Law took effect from March 1, 2014, pursuant to which there is no longer a prescribed timeframe for the shareholders to make full capital contribution to a company, except in situations where there are requirements otherwise in other relevant laws, administrative regulations and State Council decisions. Instead, shareholders are only required to state the capital amount that they commit to subscribe in the articles of association of the company. Further, the initial payment of a company’s registered capital is no longer subject to a minimum amount requirement and the business license of a company will not show its paid-up capital. In addition, shareholders’ contribution of the registered capital is no longer required to be verified by capital verification agencies.

The *Law of the PRC on Foreign-funded Enterprises* (中華人民共和國外資企業法) (the “Law on Foreign-funded Enterprises”) promulgated on April 12, 1986 and amended on October 31, 2000 forms the fundamental legal basis for the PRC Government to regulate a wholly foreign-owned enterprise. According to the Law on Foreign-funded Enterprises, in order to establish a wholly foreign-owned enterprise, the investor must apply to the Ministry of Foreign Trade and Economic Cooperation under the State Council (currently, the MOFCOM) or other administrations authorized by the State Council for approval. In the event of a split, merger or other major events of change, such event must be submitted to the approving authorities for approval, and the change shall be registered with the state or local administration for industry and commerce.

According to the *Rules for the Implementation of the Law of the PRC on Foreign-funded Enterprises* (中華人民共和國外資企業法實施細則) promulgated on December 12, 1990 and amended on April 12, 2001 and February 19, 2014, Foreign-funded enterprises may pay dividends only out of their accumulated profits, determined in accordance with PRC accounting standards and regulations. Foreign-funded enterprises are also required to set aside at least 10% of their respective after-tax profits each year, if any, to fund certain statutory reserve funds until the aggregate amount of such reserve funds reaches 50% of their registered capital and to allocate a discretionary portion of their respective after-tax profits to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

### IMPORT OR EXPORT OF GOODS

#### Foreign Trade Registration

The *Foreign Trade Law of the PRC* (中華人民共和國對外貿易法) (the “Foreign Trade Law”) was promulgated on May 12, 1994 and amended on April 6, 2004 to develop foreign trade such as the import and export of goods, technology and international service, and to maintain order in foreign trade and promote the advancement of China’s economy. The Foreign Trade Law and the *Measures for the Archival Filing and Registration of Foreign Trade Operators* (對外貿易經營者備案登記辦法) promulgated by the

## REGULATORY OVERVIEW

MOFCOM on June 25, 2004 require enterprises engaged in import or export of goods or technology to register with the relevant authorities in charge of foreign trade under the State Council unless otherwise provided by other laws, administrative regulations or by the relevant authorities in charge of foreign trade under the State Council. The MOFCOM issued the Circular on Relevant Issues Concerning the Filing and Registration of the Right to Foreign Trade by Foreign-invested Enterprises (關於外商投資企業外貿權備案登記有關問題的通知) on August 17, 2004, which provides that the following two types of foreign-invested enterprises do not need to go through the formalities of filing and registration of foreign trade operators: (i) foreign-invested enterprises lawfully established before July 1, 2004 that have not applied for changing their scope of business to add other import/export businesses, and (ii) foreign-invested enterprises lawfully established after July 1, 2004 that undertake import/export of self-use or self-produced goods and their own technologies.

### Customs Registration

The *Provisions of the Customs of the PRC on the Administration of Registration of Declaration Entities* (中華人民共和國海關報關單位註冊登記管理規定) was promulgated by the General Administration of Customs of the PRC and became effective from March 13, 2014, according to which the consignee or consignor of imported or exported goods shall register at the local customs office, and obtain the Registration Certificate of Customs Declaration issued by the Customs of the PRC (中華人民共和國海關報關單位註冊登記證書). After registering with relevant PRC customs office, the consignee or consignor of imported or exported goods may handle its declarations at any appropriate customs port within the customs territory of the PRC. The Registration Certificate of Customs Declaration issued by the Customs of the PRC shall be valid for an unlimited period.

### PROCESSING TRADE

According to the *Customs Law of the PRC* (中華人民共和國海關法) promulgated on January 22, 1987 and amended on July 8, 2000, June 29, 2013 and December 28, 2013, and the *Tentative Measures for the Management of Examination and Approval of Processing Trade* (加工貿易審批管理暫行辦法) promulgated on May 27, 1999, enterprises engaging in processing trade need to obtain the approval for processing trade issued by the competent authority and make a filing at the relevant customs office with such approval and the processing trade contract. The *Tentative Measures for the Management of Examination and Approval of Processing Trade* defines processing trade as business activities wherein an enterprise imports as bonded goods all or part of the raw or auxiliary materials, parts and components, component parts and packaging materials, and re-exports the finished products after processing or assembling.

For an enterprise to pass the examination and approval process and obtain an Approval Certificate for Processing Trade (加工貿易業務批准證), it shall first obtain a Certificate on Production Capacity for Processing Trade (加工貿易加工企業生產能力證明) from the competent department in charge of foreign trade and economy at or above the county level. The Certificate on Production Capacity for Processing Trade shall be valid for one year. In Guangdong Province, according to the Resolution of the Standing Committee of the NPC on Authorizing the State Council to Provisionally Adjust Certain Administrative Approval Matters under Relevant Laws and Regulations in Guangdong Province (全國人民代表大會常務委員會關於授權國務院在廣東省暫時調整部分法律規定的行政審批的決定) of December 28, 2012, there is no need for an enterprise to go through the processing trade examination and approval process and to obtain an Approval Certificate for Processing Trade, while it shall still obtain a Certificate on Production Capacity for Processing Trade for it to engage in processing trade.

The *Measures of the Customs of the PRC for the Supervision and Administration of Processing Trade Goods* (中華人民共和國海關加工貿易貨物監管辦法), which was promulgated on March 12, 2014,

## REGULATORY OVERVIEW

require an enterprise engaging in processing trade to go through the formalities of establishing the manual of processing trade goods with the competent customs office in the area where the enterprise is located.

### PRODUCT QUALITY

Product liability may arise if the products sold have any harmful effect on consumers. The injured party may claim for damages or compensation. The *General Principles of the Civil Law of the PRC* (中華人民共和國民法通則), which was promulgated on April 12, 1986 and amended on August 27, 2009, states that the manufacturers and sellers of defective products causing property damage and personal injury shall bear civil liabilities for such damage or injuries.

The *Product Quality Law of the PRC* (中華人民共和國產品質量法) was promulgated on February 22, 1993 and amended on July 8, 2000 and August 27, 2009 to strengthen the quality control of products and protect consumers' rights and interests. Under this law, manufacturers and retailers who produce or sell defective products shall be liable for any personal or property damage resulting from the defective products; may be subject to administrative penalties such as the confiscation of earnings from such sales, revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liabilities. A quality accreditation system for enterprises has been adopted in the PRC according to generally adopted international quality management standards. Enterprises can apply voluntarily to the accreditation agency recognized by the competent PRC authorities for enterprise quality system accreditation. An accreditation certificate for enterprise quality system shall be issued by the accreditation agency if the application has been approved.

The *Law of the PRC on Protection of the Rights and Interests of Consumers* (中華人民共和國消費者權益保護法) was promulgated on October 31, 1993 and amended on August 27, 2009 and October 25, 2013 to protect consumers' rights when they purchase or use goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to consumers.

The *Tort Liability Law of the PRC* (中華人民共和國侵權責任法), which became effective on July 1, 2010, provides that where a product endangers personal life or property due to its defect, the manufacturers and the distributors shall bear liability in tort.

### OCCUPATION SAFETY

The *Production Safety Law of the PRC* (中華人民共和國安全生產法), which was promulgated on June 29, 2002 and amended on August 27, 2009 and August 31, 2014 (with the latest amendment to come into effect on December 1, 2014), requires production entities to provide safe working conditions in compliance with relevant laws, rules and regulations. Any entity that is not equipped with measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions must offer education and training programs to their employees regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment must be in conformity with the national standards or industrial standards. In addition, enterprises and institutions must provide personal protective equipment that meet the national standards or industrial standards to the employees, and supervise and educate them to use such equipment according to the prescribed rules.

### FIRE PREVENTION

According to the *PRC Fire Prevention Law* (中華人民共和國消防法) adopted on April 29, 1998 and amended on October 28, 2008, for a construction project that is required to include fire control designs according to State standards, the design and drawings are required to be submitted to the relevant fire

## REGULATORY OVERVIEW

control bureau for approval or archival filing before the commencement of construction. Further, upon completion of such a construction project, it must either pass a fire control check to be made by, or as the case may be, make an archival filing with, the relevant fire control bureau.

### INTELLECTUAL PROPERTY

#### Patents

According to the *Patent Law of the PRC* (中華人民共和國專利法) promulgated on March 12, 1984 and amended on September 4, 1992, August 25, 2000 and December 27, 2008, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. After the grant of the patent right for an invention or utility model, except where otherwise provided for in such law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. In addition, after a patent right is granted for a design, no entity or individual may, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is established, the infringer must, in accordance with the applicable regulations, undertake to cease the infringement, take remedial action, and/or pay damages.

#### Trademarks

The *Trademark Law of the PRC* (中華人民共和國商標法) was promulgated on August 23, 1982 and amended on February 22, 1993, October 27, 2001 and August 30, 2013. This law requires natural persons, legal persons, or other organizations that wish to obtain the exclusive right to use trademarks for the goods they produce, manufacture, process, select or distribute to apply to the Trademark Office of the PRC for trademark registration. A trademark registrant shall be entitled to the exclusive right to use a registered trademark. A registered trademark is valid for ten years, commencing from the date when the registration is approved. If a trademark registrant wishes to use a trademark after the expiration of the ten-year period, a registration renewal application should be filed within twelve months prior to the expiration of the trademark's term. Each registration renewal is valid for a period of ten years. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Persons or entities who use trademarks without the consent of the trademark registrants, make imitated trademarks, or engage in activities that infringe upon trademarks shall be held liable to the trademark registrants for compensation and may be subject to fines or even criminal punishment.

### PRC TAXATION

#### Enterprise Income Tax

According to the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法), which became effective as of January 1, 2008, and the *Regulation on Implementing 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), which also became effective as of January 1, 2008 (collectively, the "EIT Law"), taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in the PRC in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the



## REGULATORY OVERVIEW

PRC, but (i) have entities or premises in the PRC, or (ii) have no entities or premises but have income generated from the PRC. According to the EIT Law, foreign invested enterprises in the PRC are subject to enterprise income tax at a uniform rate of 25%. A non-resident enterprise that has an establishment or premises within the PRC is required to pay enterprise income tax at a rate of 25% on its income that is derived from such establishment or premises inside the PRC and that is sourced outside the PRC but is actually connected with the said establishment or premises. A non-resident enterprise that has no establishment or premises within the PRC but has income from the PRC, and a non-resident enterprise that has an establishment or premises in the PRC but its income has no actual connection to such establishment or premises in the PRC, is subject to PRC withholding tax at the rate of 10% on its income sourced from the PRC.

On February 3, 2015, the PRC State Administration of Taxation issued Circular 7, which abolished certain provisions in Circular 698, as well as certain other rules providing clarification on Circular 698. Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of PRC Taxable Assets. Under Circular 7, the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. However, Circular 7 contains certain exemptions, including (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement.

### **Tax on Dividends**

According to the EIT Law, dividends paid by foreign-invested companies to their foreign investors that are non-resident enterprises as defined under EIT Law are subject to withholding tax at a rate of 10%, unless otherwise provided in the relevant tax agreements entered into with the central government of the PRC. The PRC and Hong Kong governments entered into the Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "Arrangement") on August 21, 2006. According to the Arrangement, the withholding tax rate on dividends paid by a PRC company to a Hong Kong resident entity is 5% if such Hong Kong resident entity directly holds at least 25% of the equity interest in the PRC company, and 10% if the Hong Kong resident entity holds less than 25% of the equity interest in the PRC company.

Pursuant to the *Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements* (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which became effective on February 20, 2009, all of the following requirements must be satisfied in order to enjoy the preferential tax rates provided under the tax agreements: (i) the tax resident that receives dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by the tax resident should reach the percentages specified in the tax agreement; and (iii) the equity interests of the PRC resident company directly owned by such tax resident at any time during the twelve months prior to receiving the dividends should reach a percentage specified in the tax agreement.

## REGULATORY OVERVIEW

According to the *Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial)* (非居民享受稅收協定待遇管理辦法 (試行)), which came into force on October 1, 2009, if a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the preferential tax treatments under the tax agreements, it is required to submit an application for approval to the competent tax authority.

### Value-Added Tax

According to the *Provisional Regulations of the PRC on Value-added Tax* (中華人民共和國增值稅暫行條例) promulgated on December 13, 1993 and amended on November 5, 2008 and the *Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax* (中華人民共和國增值稅暫行條例實施細則) promulgated on December 25, 1993 and amended on December 18, 2008 and October 28, 2011 (collectively, the “VAT Law”), all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. The value-added tax rate is generally 17%.

### ENVIRONMENTAL PROTECTION

According to the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法) promulgated on December 26, 1989 and amended on April 24, 2014 (the revision came into effect on January 1, 2015), entities that cause environmental pollution and other public hazards must adopt effective measures to prevent and control pollution and other environmental harms caused by waste gases, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical and electromagnetic radiation generated in the course of production, construction or other activities. In addition, entities that discharge pollutants must register with the relevant environmental protection authorities.

Pursuant to the requirements under the *Law on Prevention of Water Pollution of the PRC* (中華人民共和國水污染防治法), promulgated on May 11, 1984 and amended on May 15, 1996 and February 28, 2008, the *Law on Prevention of Air Pollution of the PRC* (中華人民共和國大氣污染防治法), promulgated on September 5, 1987 and amended on August 29, 1995 and April 29, 2000, and the *Administrative Regulations on Levy and Utilization of Sewage Charge* (排污費徵收使用管理條例), which became effective as of July 1, 2003, enterprises which discharge water or air pollutants must pay discharge fees based on the types and volumes of the pollutants discharged. The discharge fees are calculated by the local environmental protection authority, which will review and verify the types and volumes of pollutants discharged. In addition, the *Law on Prevention and Control of Environmental Noise Pollution of the PRC* (中華人民共和國環境噪聲污染防治法), which was promulgated on October 29, 1996, regulates the prevention and control of noise pollution. Under the *Law on Prevention of Environmental Pollution Caused by Solid Waste of the PRC* (中華人民共和國固體廢物污染環境防治法), promulgated on October 30, 1995 and amended on December 29, 2004 and June 29, 2013, entities and individuals that collect, store, transport, utilize or dispose of solid waste must take precautions against the spread, loss and leakage of such solid waste and adopt other measures to prevent solid waste from polluting the environment.

On November 29, 1998, the State Council promulgated the *Regulations on the Administration of Environmental Protection of Construction Project* (建設項目環境保護管理條例). On October 28, 2002, the *Law on Appraising of Environment Impact of the PRC* (中華人民共和國環境影響評價法) was promulgated. According to the aforesaid laws and regulations, the construction units responsible for construction projects must submit corresponding environmental impact appraisal documents to the relevant

## REGULATORY OVERVIEW

administrative departments of environmental protection for examination and approval and obtain approvals from such administrative departments of environmental protection before they commence construction. Environmental protection facilities should be designed, built and put into use together with the whole construction project. No permission may be given for a construction project to be used until its environmental protection facilities have been examined and assessed and determined to be up to standard by the relevant department of the environmental protection administration that is responsible for examining and approving the environmental impact statement of the applicant.

### LABOR

Under the *Labor Law of the PRC* (中華人民共和國勞動法) promulgated on July 5, 1994 and amended on August 27, 2009, and the *Labor Contract Law of the PRC* (中華人民共和國勞動合同法) (the “Labor Contract Law”) promulgated on June 29, 2007 and amended on December 28, 2012, labor contracts must be concluded in writing if labor relationships are to be or have been established between enterprises or entities on one hand and laborers on the other hand.

#### Labor Dispatch

Labor dispatch is mainly subject to the Labor Contract Law, *Interim Provisions on Labor Dispatch* (勞務派遣暫行規定) promulgated on January 24, 2014 and effective on March 1, 2014 and *Implementing Measures for Administrative Licensing for Labor Dispatch* (勞務派遣行政許可實施辦法) promulgated on June 20, 2013. According to the Labor Contract Law and the Interim Provisions on Labor Dispatch, labor dispatch employment is a supplemental form which can only be adopted for temporary, auxiliary or alternative job positions. Temporary positions are positions subsisting for no more than six months; auxiliary positions are positions of non-major business that serve positions of major businesses; and alternative positions are positions that can be held by substitute laborers for a certain period of time during which the laborers of the employers who originally hold such positions are unable to work as a result of full-time study, being on leave or other reasons. An employer is required to strictly control the number of dispatched laborers which may not exceed 10% of the total number of its workers.

Where a labor dispatch enterprise dispatches laborers, it must conclude a labor dispatch agreement with the enterprise that accepts labor services in the form of labor dispatch. The labor dispatch agreement must stipulate the dispatch positions and the number of personnel, the term of dispatch, the labor remuneration, the amount and payment method of social insurance and the liability for breach of the agreement. The dispatched workers are entitled to receive equal pay for equal work as the employees of the employing enterprises. Pursuant to the Implementing Measures for Administrative Licensing for Labor Dispatch, an administrative license must be obtained for the operation of a labor dispatch business from the competent authorities. No entity or individual is allowed to carry on a labor dispatch business without license.

### SOCIAL INSURANCE AND HOUSING PROVIDENT FUNDS

As required by the *Social Insurance Law of the PRC* (中華人民共和國社會保險法), effective as of July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine. If the overdue amount is still not settled

## REGULATORY OVERVIEW

within the stipulated time period, an additional fine with an amount of one to three times of the overdue amount will be imposed.

According to the *Housing Provident Fund Management Regulations* (住房公積金管理條例) promulgated on April 3, 1999 and amended on March 24, 2002, enterprises in the PRC shall complete the registration of a housing provident fund with the competent housing provident fund management centre and open the housing provident fund accounts for the employees with designated banks and contribute to the housing provident fund for their employees at the rate of not less than 5% of the employees' average monthly wages for the preceding year.

### FOREIGN EXCHANGE

The principal regulation governing foreign currency exchange in the PRC is the *Foreign Exchange Administration Regulations of the PRC* (中華人民共和國外匯管理條例) promulgated by the State Council on January 29, 1996 and amended on January 14, 1997 and August 1, 2008, according to which the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, and trade and service-related foreign exchange transactions. However, the RMB is not freely convertible for capital account items, such as direct investments, loans, capital transfer and investments in securities outside of the PRC, unless prior approval of the SAFE is obtained and prior registration with the SAFE or its competent local branches is made. Enterprises may only buy, sell or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and relevant supporting documents and, in the case of capital account item transactions, obtaining approval from the SAFE or its competent local branches.

On August 29, 2008, the SAFE promulgated the Notice on the Relevant Operating Issues Concerning the Improvements of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知) ("Circular 142"), which regulates the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. Circular 142 requires that the registered capital of a foreign-invested company settled in RMB converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments in other companies within the PRC. In addition, the SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in RMB converted from foreign currencies. Violations of Circular 142 will result in penalties, such as heavy fines.

### HOUSE LEASING

According to the *Administrative Measures for Commodity House Leasing* (商品房屋租賃管理辦法) promulgated by the Ministry of Housing and Urban-rural Development of the PRC on December 1, 2010 and effective on February 1, 2011, a lease agreement for the lease of commodity housing on state-owned land shall be registered with the relevant authority within 30 days after the lease agreement is entered into. If the lease agreement is not registered, the relevant authority shall request the parties to the lease agreement to rectify the situation within a prescribed time limit. If the parties still fail to register the lease agreement, if they are entities, they may be subject to a fine in the range of RMB1,000 to RMB10,000 for each lease agreement not registered, and if they are individuals, they may be subject to a fine of up to RMB1,000.

## REGULATORY OVERVIEW

### TRANSFER PRICING

#### Hong Kong

Provisions relevant to pricing for intra-group transactions can be found in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “IRO”) and the comprehensive double taxation agreements (the “DTAs”). The DTAs contain provisions which require the adoption of the arm’s length principle for pricing transactions between associated enterprises. The arm’s length principle uses the transactions of independent enterprises as a benchmark to determine how profits and expenses should be allocated for transactions between associated enterprises. The basic rule for DTA purposes is that profits tax charged or payable should be adjusted, where necessary, to reflect the position which would have existed if the arm’s length principle had been applied instead of the actual price transacted between the enterprises.

The existence of a DTA however is not a prerequisite for making intra-group transaction price adjustments. Where the circumstances warrant, adjustments may be made to transactions, domestic or otherwise, under the provisions of the IRO. In March 2012, the Inland Revenue Department published Departmental Interpretation and Practice Notes No. 48, which provides a mechanism for taxpayers to pre-agree their transfer pricing arrangements with the Inland Revenue Department.

#### PRC

According to the EIT Law and Guoshuifa [2009] No.2 (特別納稅調整實施辦法 (試行)), business transactions between an enterprise and its related parties, shall follow the arm’s length principle. In case of a failure to follow such principle which results in a reduction of taxable income, the PRC tax authorities will have the right to make reasonable adjustments. According to the EIT Law, business transactions between related parties may be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the business transactions are conducted. If the relevant PRC tax authorities determine that the related party transactions have not been conducted on an arm’s length basis, they may adjust the taxable income through a transfer pricing adjustment and impose additional taxes on the relevant enterprise, as well as require payment of related interest accrued daily for the tax recovery period beginning from June 1 of the year subsequent to the applicable tax year to the date of payment of the additional taxes. The interest shall be computed at the RMB loan benchmark interest rate announced by the People’s Bank of China in the tax year in respect of the additional tax amount for the same period as the tax recovery period, plus five percentage points. The five percentage points could be waived if the taxpayer submits relevant materials (including the applicable contemporaneous documents) to the relevant PRC tax authorities pursuant to the EIT Law.

The EIT Law further provides that, where an enterprise submits to the tax authority its annual income tax return, it shall enclose a statement of its annual business transactions effected with its related parties. If the PRC tax authorities conduct an investigation regarding related party transactions, the enterprise and its related parties will be required to provide relevant information to the PRC tax authorities.

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

### OVERVIEW

We were incorporated in the Cayman Islands on November 28, 2006 as an exempted company with limited liability under the Cayman Companies Law. As part of our internal restructuring exercise, we became the holding company of our Group since December 15, 2006. We currently conduct our businesses and operations through our subsidiaries, namely Cowell Hong Kong, Cowell China and Cowell Korea. We were listed on the KOSDAQ on January 29, 2008 until November 26, 2011 when we were delisted pursuant to our privatization exercise.

### HISTORY AND DEVELOPMENT

The history of our Group dates back to 2001 when Mr. Kwak, the current chairman, chief executive officer and controlling shareholder of our Company, began to acquire an equity interest in Cowell Korea. Mr. Kwak started his business venture by establishing his toy manufacturing business in 1992 with his personal savings. In June 2001, he diversified his business portfolio by making an initial investment of KRW750 million in Cowell Korea, a company which had been primarily engaged in the manufacture and sale of optical components at the time, to subscribe for and acquire in aggregate approximately 22.47% of the then total issued share capital of Cowell Korea. After subsequent purchases of additional shares, Mr. Kwak became the single largest shareholder of Cowell Korea holding approximately 77.53% of its then total issued share capital by October 2003. Please refer to “— Our Subsidiaries — Cowell Korea” below for further details of the change in the shareholding structure of Cowell Korea.

We expanded and diversified our business to include the manufacture and sale of camera modules after we began our business relations with LG Electronics in 2002. Since then, we further expanded our customer base for our camera module business.

Set out below are the key milestones in our development:

2001 Mr. Kwak invested in Cowell Korea and became its shareholder holding approximately 22.47% of the then total issued share capital of Cowell Korea.

2002 Cowell Hong Kong and Cowell China were established.

We expanded and diversified our business to include the manufacture of camera modules after we began our business relations with LG Electronics.

2003 Mr. Kwak became the single largest shareholder of Cowell Korea holding approximately 77.53% of its then total issued share capital by October 2003.

We transferred our manufacturing equipment from our factory located in Korea to our factory located in Hengkeng, Dongguan.

We received ISO 9001:2008 certification for our quality management system for the manufacture of optical and optic-electronic products.

We began our business relations with Samsung Electronics.

2004 We received ISO 14000 certification for our environment management system for the manufacture of optical and optic-electronic products.

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- 2006 Our Company became the holding company of Cowell China, Cowell Hong Kong and Cowell Korea.
- 2007 We received TS 16949 certification for our quality management system for the manufacture of optical and optic-electronic products.
- 2008 Our Company was listed on the KOSDAQ on January 29, 2008.
- 2009 We became Apple's approved supplier of camera modules.
- 2011 Our Company was delisted from the KOSDAQ on November 26, 2011.
- 2012 We began to manufacture flip-chip camera modules at our new factory located in Huanan, Dongguan.
- We received ISO 9001:2008 certification for our quality management system for the manufacture of optical and optic-electronic products.
- We received ISO 14001:2004 + Cor 1:2009 certification for our environmental management system for the manufacture of optical and optic-electronic products.
- 2013 Our PRC subsidiary was awarded the highest performance (AA) grade for our customs practice by Huangpu Customs.
- 2014 Our PRC subsidiary was branded as a Model Enterprise for Transformation and Upgrading of Processing Trade by the People's Government of Dongguan.

### OUR SUBSIDIARIES

The following table sets forth information in relation to the identities, places and dates of incorporation or establishment and principal businesses of our subsidiaries.

| <u>Name of our subsidiary</u> | <u>Place of incorporation or establishment</u> | <u>Date of incorporation or establishment</u> | <u>Principal businesses</u>  |
|-------------------------------|--|---|--|
| Cowell Korea                  | Korea  | January 29, 1997                              | Entering into business relations with international companies based in Korea and conducting research and development |
| Cowell China                  | PRC  | February 5, 2002                              | Manufacturing camera modules and optical components and conducting research and development                          |
| Cowell Hong Kong              | Hong Kong                                      | March 6, 2002                                 | Entering into business relations with global customers, obtaining financing and arranging logistics                  |

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

### **Cowell Korea**

Cowell Korea was incorporated under the laws of Korea as a stock corporation on January 29, 1997 with an authorized share capital of KRW10 billion divided into 2,000,000 shares of KRW5,000 each.

In June 2001, Mr. Kwak first acquired 30,000 shares in Cowell Korea from its then existing shareholders, namely Mr. Cho Hyeon-Sik, the former chief executive officer of Cowell Korea, Mr. Kim Jin-Hoon, who did not hold any position in our Group, Mr. Choi Yang-Oh, the former head of laboratory of Cowell Korea, and Mr. Noh Yang-Jin, the former general manager of Cowell Korea, for a total consideration of KRW150 million, and then subscribed for 10,000 new shares in Cowell Korea for a consideration of KRW600 million. These individuals currently do not hold any position within our Group and are Independent Third Parties. Consequently, Mr. Kwak held a total of 40,000 shares of Cowell Korea, representing approximately 22.47% of its then total issued share capital.

Between 2001 and 2003, Mr. Kwak purchased an additional 98,000 shares in Cowell Korea from Mr. Cho Hwa-Hyeon, the former senior manager of Cowell Korea, who currently does not hold any position within our Group and is an Independent Third Party, for a total consideration of KRW2,033 million. As a result, Mr. Kwak became the single largest shareholder of Cowell Korea holding approximately 77.53% of its then total issued share capital by October 2003.

Subsequently, Mr. Kwak acquired a total of 21,880 shares in Cowell Korea from its then existing shareholders, namely Mr. Kim Kwang-Seong, the former senior executive director of Cowell Korea, Mr. Cho Hyeon-Sik, the former senior manager of Cowell Korea, Mr. Yoon Byeong-Hwa, the former department manager of Cowell Korea, and Mr. Kim Jin-Hoon, for a total consideration of KRW328.2 million. These individuals currently do not hold any position within our Group and are Independent Third Parties. After this acquisition, Mr. Kwak held in aggregate 89.82% of the then total issued share capital of Cowell Korea by November 2006. The total investment of KRW3,111.2 million made by Mr. Kwak in Cowell Korea was financed by his personal funds.

Pursuant to a share subscription agreement dated December 6, 2006 entered into between Mr. Kwak and our Company, Mr. Kwak agreed to transfer all of his shares in Cowell Korea, being 159,880 shares representing approximately 89.82% of the then total issued share capital of Cowell Korea, to our Company in exchange for 39,999 new Shares. The transfer was completed on December 15, 2006. On September 6, 2007, our Company subscribed for 200,002 new shares in Cowell Korea for a consideration of approximately KRW100 million. By May 2012, our Company acquired all of the then remaining issued share capital of Cowell Korea, being 27,026 shares, from the then existing shareholders, namely Mr. Lee Nam-Oh, the former chief executive officer and current executive advisor of Cowell Korea, Mr. Kim Il-Soo, the former director of Cowell Korea, Mr. Lee Young-Soo and C-PRO Electronics Co., Ltd, for a total consideration of KRW135.13 million. Mr. Kim Il-Soo and Mr. Lee Young-Soo currently do not hold any position within our Group and are Independent Third Parties. C-PRO Electronics Co., Ltd is a strategic investor and an Independent Third Party. As a result, Cowell Korea has been a wholly-owned subsidiary of our Company since May 2012.

The considerations for the abovementioned transfers were determined on an arm's length basis as a result of negotiations between the parties concerned with reference to the equity valuation of Cowell Korea. Each of the abovementioned transfers was properly and legally completed and settled.

### **Cowell China**

Cowell China was established under the laws of the PRC as a wholly foreign-owned enterprise on February 5, 2002 with a total investment and registered capital of US\$760,000 by New Time Trading



## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Limited (“New Time”), a company incorporated in Hong Kong on March 19, 1999 with limited liability and was wholly-owned by Mr. Kwak.

On May 8, 2002, New Time entered into an equity transfer agreement with Cowell Hong Kong, pursuant to which New Time agreed to transfer its 100% equity interest in Cowell China to Cowell Hong Kong for the consideration of US\$760,000, consisting of payment to New Time of US\$121,300 (equivalent to 15.96% of the registered capital of Cowell China paid up by New Time) and Cowell Hong Kong’s commitment to pay the unpaid registered capital of Cowell China in the amount of US\$638,700. The transfer was properly and legally completed and settled on June 6, 2002. Accordingly, Cowell Hong Kong became the sole shareholder of Cowell China.

### **Cowell Hong Kong**

Cowell Hong Kong was incorporated in Hong Kong as a limited liability company on March 6, 2002 with an authorized share capital of HK\$10,000 divided into 100 shares of HK\$100 each. On the date of its incorporation, 99 shares and 1 share were allotted and issued at par to Mr. Kwak and Ms. Ho Mei Ling, Rosana (“Ms. Ho”), a former director and current employee of Cowell Hong Kong, respectively. On December 13, 2006, Mr. Kwak and Ms. Ho transferred their respective shares in Cowell Hong Kong to our Company in exchange for 950,400 new Shares and 9,600 new Shares, respectively. On December 13, 2006, Ms. Ho transferred her 9,600 new Shares to Mr. Kwak for a total consideration of US\$96 at the then par value. Accordingly, we became the sole shareholder of Cowell Hong Kong. Each of these transfers was properly and legally completed and settled.

### **LISTING ON KOSDAQ**

Our Company was listed on the KOSDAQ on January 29, 2008 pursuant to a public offering in Korea at the offer price of KRW1,900 per Share, upon which 62.67% and the remaining 37.33% of the then total issued share capital of our Company was held by Mr. Kwak and the public shareholders respectively.

### **INVESTMENT BY HAHN & CO. EYE AND SUBSEQUENT DELISTING FROM THE KOSDAQ**

On August 1, 2011, Mr. Kwak and Hahn & Co. Eye entered into a share sale and purchase agreement (the “Share Purchase Agreement”) and a shareholders agreement (the “Shareholders Agreement”). Pursuant to the Share Purchase Agreement, Hahn & Co. Eye initiated a tender offer to purchase Shares in order for our Company to be delisted from the KOSDAQ (the “Privatization Offer”) and purchase such additional Shares from Mr. Kwak so that Mr. Kwak and Hahn & Co. Eye would own an equal number of Shares following the transactions contemplated under the Share Purchase Agreement.

### **Privatization**

On August 2, 2011 (the “Privatization Offer Announcement Date”), Hahn & Co. Eye announced that it intended to make the Privatization Offer to acquire all of the then outstanding Shares, other than the 19,957,407 Shares held by Mr. Kwak representing approximately 66.52% of the then issued share capital of our Company (such Shares subject to the Privatization Offer, the “Privatization Shares”), with a view to seeking the voluntary delisting of our Company from the KOSDAQ, at an offer price of KRW4,300 (equivalent to approximately HK\$29.81) per Share. The offer price was determined based on the then and historical market prices of the Shares plus a premium. The Privatization Offer was fully financed by Hahn & Co. Eye via capital contributions from its shareholder.

Hahn & Co. Eye commenced the Privatization Offer on August 2, 2011 which was closed on August 23, 2011. Following the closing of the Privatization Offer, valid acceptances in respect of

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

8,488,001 Privatization Shares, representing approximately 84.52% of the total Privatization Shares, have been received. On September 5, 2011, we announced our plan to file for voluntary delisting from the KOSDAQ, and Hahn & Co. Eye subsequently commenced acquisition of Shares in the open market at a purchase price of KRW4,300 (equivalent to approximately HK\$29.81) per Share, which was equivalent to the price for the Privatization Offer. This round of acquisitions was completed on October 25, 2011 resulting in Hahn & Co. Eye having acquired an additional 1,104,423 Privatization Shares and the aggregate shareholding of Mr. Kwak and Hahn & Co. Eye in our Company coming to approximately 98.50%. On October 27, 2011, we filed for voluntary delisting from the KOSDAQ, which was approved by the KOSDAQ on November 15, 2011. In connection with the delisting application, Hahn & Co. Eye undertook to the KOSDAQ to purchase the remaining Privatization Shares tendered to it until June 4, 2012, and hence Hahn & Co. Eye commenced acquisition of the remaining Privatization Shares in the open market on November 17, 2011. This round of acquisitions was completed on November 25, 2011. As a result, Hahn & Co. Eye acquired an additional 74,910 Privatization Shares and together with Mr. Kwak held a total of approximately 98.75% of the then total issued share capital of our Company. We were delisted from the KOSDAQ on November 26, 2011.

As part of the undertaking given to the KOSDAQ, Hahn & Co. Eye initiated on November 28, 2011 a six-month over-the-counter offer, at KRW4,300 (equivalent to approximately HK\$29.81) per Share, to acquire the additional Privatization Shares tendered to it until May 27, 2012. As a result, Hahn & Co. Eye further acquired a total of 308,011 Privatization Shares and together with Mr. Kwak owned a total of approximately 99.78% of the then total issued share capital of our Company. All the transactions under the Privatization Offer have been properly and legally completed and settled.

To achieve equal ownership in our Company between Mr. Kwak and Hahn & Co. Eye, Mr. Kwak first sold 5,023,017 Shares to Hahn & Co. Eye for the total consideration of KRW43,301,850,100 (equivalent to approximately HK\$300,153,959) or approximately KRW8,621 (equivalent to approximately HK\$59.76) per Share on January 4, 2012. Subsequently, on June 4, 2012, after the six-month over-the-counter offer was completed, Hahn & Co. Eye transferred 31,986 Shares to Mr. Kwak for the total consideration of approximately KRW137,539,800 (equivalent to approximately HK\$953,380) or KRW4,300 (equivalent to approximately HK\$29.81) per Share. The above considerations were determined on an arm's length basis as a result of negotiations between Hahn & Co. Eye and Mr. Kwak with reference to the equity valuation of our Group. The abovementioned transfers of Shares between Mr. Kwak and Hahn & Co. Eye were properly and legally completed and settled.

The principal reasons for the Privatization Offer were:

- the trading liquidity of the Shares on the KOSDAQ was generally thin, as Mr. Kwak owned more than 60% of the then issued share capital of our Company. The average daily trading volume of the Shares on the KOSDAQ was approximately 61,610 Shares in the first six months of 2011, representing only approximately 0.21% of the then issued share capital of our Company. We believed that the trading price of our Company on the KOSDAQ might not reflect the underlying values of our business because of the lack of liquidity; and
- the Privatization Offer represented a clean cash exit opportunity for accepting Shareholders to realize their investment at an attractive premium. The offer price under the Privatization Offer represented a premium of approximately 25.01% to approximately 44.64% over the one-month, six-month and twelve-month volume weighted average price of the Shares. The offer price also represented a premium of approximately 22.51% and approximately 126.32% over the last closing price as quoted on the KOSDAQ on August 1, 2011 (being the last trading day of the Shares on the KOSDAQ prior to the Privatization Offer Announcement Date) and our Company's initial public offering price of KRW1,900 on the KOSDAQ, respectively.

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

### Discount to the Offer Price

Hahn & Co. Eye acquired 50% of the then total issued Shares of our Company, comprising (i) the Privatization Shares at an offer price of KRW4,300 (equivalent to approximately HK\$29.81) per Share; and (ii) the Shares sold by Mr. Kwak at a purchase price of KRW8,621 (equivalent to approximately HK\$59.76) per Share. The offer price and purchase price were determined on an arm's length basis as a result of negotiations with reference to the equity valuation of the Group. A summary of the purchases of Shares made by Hahn & Co. Eye is set out in the table below:

| Date of the purchase                   | Total consideration  | Purchase price per Share                            | Discount to the Offer Price <sup>(1)</sup> | Number of Shares purchased |
|--|--|---|--|----------------------------|
| August 2, 2011 to August 23, 2011      | KRW36,498,404,300<br>(equivalent to approximately HK\$252,994,745) | KRW4,300<br>(equivalent to approximately HK\$29.81) | 75.57%                                     | 8,488,001                  |
| September 5, 2011 to October 25, 2011  | KRW4,749,018,900<br>(equivalent to approximately HK\$32,918,612)   | KRW4,300<br>(equivalent to approximately HK\$29.81) | 75.57%                                     | 1,104,423                  |
| November 17, 2011 to November 25, 2011 | KRW322,113,000<br>(equivalent to approximately HK\$2,232,780)      | KRW4,300<br>(equivalent to approximately HK\$29.81) | 75.57%                                     | 74,910                     |
| November 28, 2011 to May 27, 2012      | KRW1,324,447,300<br>(equivalent to approximately HK\$9,180,626)    | KRW4,300<br>(equivalent to approximately HK\$29.81) | 75.57%                                     | 308,011                    |
|  | KRW43,301,850,100<br>(equivalent to approximately HK\$300,153,959) | KRW8,621<br>(equivalent to approximately HK\$59.76) | 51.02%                                     | 5,023,017 <sup>(2)</sup>   |

*Notes:*

- (1) Assuming the Offer Price is fixed at the mid-point of the maximum Offer Price and the minimum Offer Price; calculated after adjusting the purchase price per share to give effect to the 1:25 subdivision of the Shares in September 2014.
- (2) Such 5,023,017 Shares were acquired by Hahn & Co. Eye from Mr. Kwak on January 4, 2012.

As a result of the Privatization Offer and the subsequent acquisitions of Shares from Mr. Kwak as described above, Hahn & Co. Eye held a total of 14,966,376 Shares. Immediately following the completion of the Global Offering (but before the exercise of the Over-allotment Option), Hahn & Co. Eye will be entitled to exercise voting rights of approximately 29.99% of our issued share capital.

### The Merger

In order to become the sole Shareholders, Hahn & Co. Eye and Mr. Kwak undertook a merger plan. On May 7, 2012, Cowell Eye Co., Ltd ("Cowell Eye") was incorporated in the Cayman Islands by Mr. Kwak and Hahn & Co. Eye as a bidder for the purposes of merging with our Company pursuant to Part XVI of

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

the Cayman Companies Law (the “Merger”). Pursuant to the Merger, all issued Shares not owned by Mr. Kwak and Hahn & Co. Eye (the “Remaining Shares”) immediately prior to the effective time of the Merger, except the Shares held by those Shareholders having objected to the Merger pursuant to section 238 of the Cayman Companies Law (the “Dissenting Shares”), would be converted into the right to receive the merger consideration of KRW4,300 per Share (the “Merger Consideration”). The Merger Consideration was determined with reference to the offer price of the privatization and the equity valuation of our Company. When the Merger became effective, all Remaining Shares, including the Dissenting Shares, would be cancelled and extinguished. The holders of the Dissenting Shares would then be entitled to the rights set out in section 238 of the Cayman Companies Law, including the ultimate resort of court determination of the fair value of the Dissenting Shares. Furthermore, upon completion of the Merger, Cowell Eye would cease to be a separate company and merge with our Company and our Company would continue as the surviving company in the Merger.

An extraordinary general meeting of our Company was held on July 10, 2012 in which special resolutions were passed to approve the Merger. On August 28, 2012, our Company, Cowell Eye, Mr. Kwak and Hahn & Co. Eye entered into a merger agreement to give effect to the Merger. On the same day, the Registrar of Companies of the Cayman Islands issued the certificate of merger and consequently the Merger was completed and became legally effective.

The purposes of the Merger were to:

- provide the holders of the Remaining Shares with liquidity for their investment in our Company via payment of the Merger Consideration; and
- enable Mr. Kwak and Hahn & Co. Eye to be the sole Shareholders so as to streamline our Company’s capital structure and provide greater flexibility in managing our Company’s business and pursuing strategic goals.

All holders of the Remaining Shares, except one, namely Ms. Kim Ki In (“Ms. Kim”) who held 42,000 Dissenting Shares, accepted the Merger Consideration in exchange for their Shares. Following the statutory procedures set out in section 238 of the Cayman Companies Law, our Company filed a petition with the Grand Court of the Cayman Islands on January 3, 2013 (the “Petition”) to request for the court to determine the fair value of Ms. Kim’s Dissenting Shares. Subsequently on April 23, 2013, Ms. Kim and our Company reached a consensus and entered into a settlement agreement under which Ms. Kim agreed that the payment of KRW4,300 per Share was fair and our Company should withdraw the Petition. Therefore, our Company withdrew the Petition on May 30, 2013. The dispute with Ms. Kim has been fully settled.

### Share Subdivision

Pursuant to the resolutions in writing of our Shareholders passed on September 19, 2014, each issued and unissued Share of US\$0.10 each was subdivided into 25 Shares of US\$0.004 each, among other matters. As a result, each of Mr. Kwak and Hahn & Co. Eye held 374,159,400 Shares, representing 50% each of our issued share capital immediately prior to the Global Offering.

### Background of Hahn & Co. Eye

Hahn & Co. Eye is a company incorporated in Korea on July 15, 2011. It is an investment vehicle of Hahn & Company 1 Private Equity Fund (“Hahn & Co. PEF”), a private equity fund operating in the Asia Pacific region. Prior to its investment in our Company, Hahn & Co. Eye was an Independent Third Party. As of the Latest Practicable Date, Hahn & Co. Eye was a wholly-owned subsidiary of Hahn & Co. PEF and

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Hahn & Company LLC (“Hahn & Co. LLC”) is the general partner of Hahn & Co. PEF. The Shares held by Hahn & Co. Eye will not be counted towards the public float after the Listing.

Other than its shareholding interest in our Company as disclosed in this prospectus and the Directors nominated by Hahn & Co. Eye, namely Mr. Yoon Yeo Eul, Mr. Lee Dong-Chun and Mr. Kim Jae Min, Hahn & Co. Eye and its beneficial owners are independent from our Group and connected persons of our Company.

### **The strategic benefits from Hahn & Co. Eye**

Our Directors believe that Hahn & Co. Eye has brought a positive impact on the image of our Group, enhancing our internal control, corporate governance and management to an international level.

### **Special rights of Hahn & Co. Eye prior to the completion of the Global Offering**

Set out below is a summary of the principal special rights granted to Hahn & Co. Eye pursuant to the Shareholders Agreement, all of which will be terminated upon Listing.

- **Information and inspection rights:** Hahn & Co. Eye shall have access to certain financial information, including our proposed annual budget and operating plan, annual audited financial statements, consolidated monthly management accounts and unaudited quarterly financial information. In addition, Hahn & Co. Eye shall have full and complete access to the directors, officers and employees of the Group and the right to inspect audit, copy and retain copies of our books and records, and to inspect our plans, properties and physical assets upon reasonable advance notice.
- **Board appointment rights:** Hahn & Co. Eye is entitled to appoint four Directors out of a total of seven Directors unless and until Hahn & Co. Eye owns less than half of its current shareholding (the “Threshold Ownership”). The number of directors which may be appointed by Hahn & Co. Eye will be decreased to three if and after Hahn & Co. Eye owns less than the Threshold Ownership, provided, however, that if Hahn & Co. Eye owns less than 5% of the issued and outstanding Shares, Hahn & Co. Eye shall forfeit its right to nominate any Director.
- **Right to nominate senior management and R&D team:** Hahn & Co. Eye may nominate for approval by Mr. Kwak and us various candidates to serve in executive officer-level and key employee positions, including the chief financial officer, chief technical officer and other key members of the research and development team.
- **Restrictions on transfer:** Mr. Kwak shall not transfer any Shares unless Hahn & Co. Eye has first fully disposed of all its Shares or Mr. Kwak obtains the prior written consent of Hahn & Co. Eye.
- **Tag-along rights:** If Mr. Kwak proposes to transfer any of his Shares to a third party purchaser, Hahn & Co. Eye shall have the right (but not the obligation) to include its Shares in such proposed transfer at the same price and on the same terms and conditions.
- **Initial public offering:** Hahn & Co. Eye has full control over the initial public offering process of our Company. It also has the right to require all or a portion of its Shares to be sold or offered for sale in the initial public offering in priority over any other Shares. Mr. Kwak shall use his reasonable best efforts to ensure that, to the fullest extent permitted under applicable law, Hahn & Co. Eye shall be able to sell as many Shares in the initial public offering in priority over any other Shares and at least 70% of all Shares publicly offered or sold in the initial public offering (or any other percentage to be determined by Hahn & Co. Eye).

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Based on documentary evidence of settlement, the Sole Sponsor has confirmed that the investment by Hahn & Co. Eye in our Company is in compliance with (i) the Interim Guidance on Pre-IPO Investments issued by the Listing Committee as the consideration for Hahn & Co. Eye's investment in our Company was settled more than 28 clear days before the date of our first submission of the listing application form to the Listing Division of the Hong Kong Stock Exchange in relation to the Listing; (ii) the Guidance Letter HKEx-GL43-12 as the special rights granted to Hahn & Co. Eye will terminate upon Listing; and (iii) the requirements under the Guidance Letter HKEx-GL44-12 as the investment by Hahn & Co. Eye in our Company did not involve convertible instruments.

### APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

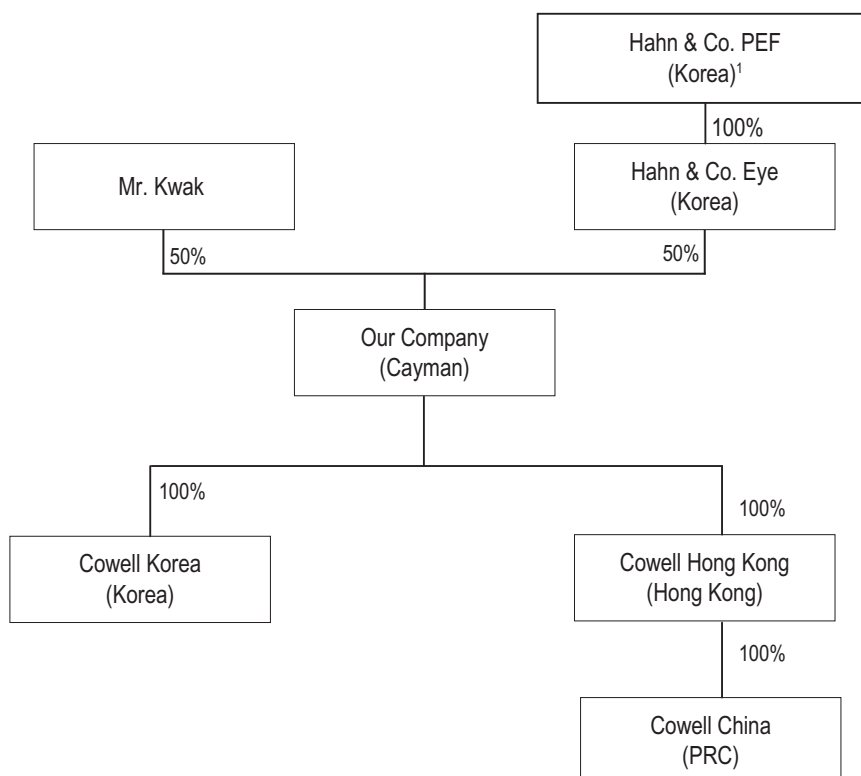
Our Directors consider Hong Kong to be a suitable place for listing as they believe that, with our businesses and operations being primarily located, managed and conducted in the PRC, a listing in Hong Kong will not only contribute to opportunities for future fund-raising but also provide better synergy for us in terms of branding and raising our corporate profile.

### COMPLIANCE RECORD DURING OUR LISTING ON THE KOSDAQ

Our Directors confirm that there were no material non-compliance incidents during the period in which our Company was listed on the KOSDAQ.

### OUR STRUCTURE IMMEDIATELY PRIOR TO THE GLOBAL OFFERING

The following diagram sets forth our corporate and shareholding structure immediately prior to the Global Offering:



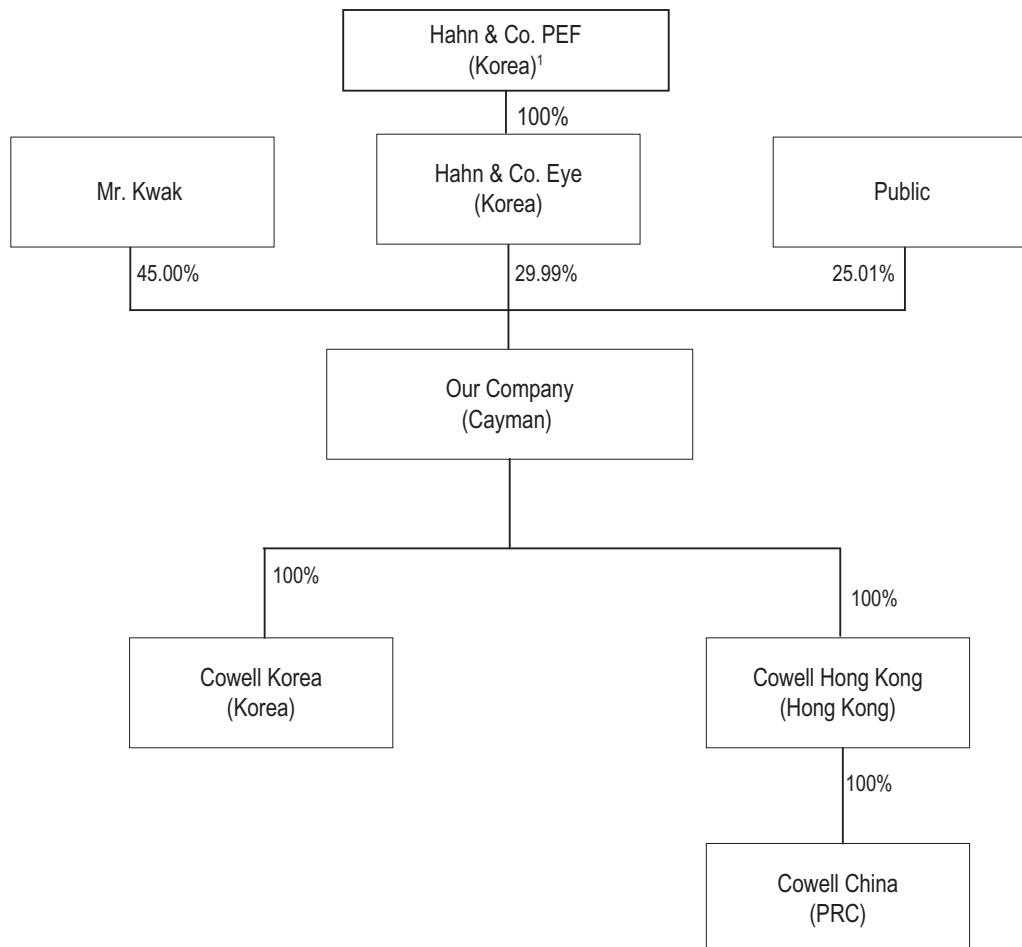
Note:

(1) Hahn & Co. LLC is the general partner of Hahn & Co. PE.

## OUR HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

### OUR STRUCTURE IMMEDIATELY FOLLOWING THE GLOBAL OFFERING

The following diagram sets forth our corporate and shareholding structure immediately following the Global Offering (assuming the Over-allotment Option is not exercised):



Note:

(1) Hahn & Co. LLC is the general partner of Hahn & Co. PEF.

## Overview

We are a major supplier of camera modules for mobile devices. We primarily engage in the design, development, manufacture and sale, on an OEM basis, of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Our camera modules are manufactured utilizing either “flip-chip” technology (where a semiconductor processor chip, generally referred to as a die, is mounted directly onto a substrate in a “face-down” manner) or “chip-on-board” technology (where a die is directly mounted on and electrically interconnected to a substrate by using metallic wires). According to data compiled by IBS, our share of the global camera modules market in terms of sales was 1.6% in 2010, 2.6% in 2011, 3.5% in 2012 and 5.0% in 2013, making us the sixth largest supplier of camera modules in the world in 2013. Leveraging our experience and expertise in manufacturing camera modules based on COB technology, we began producing fixed-focus camera modules utilizing advanced flip-chip technology starting in 2012. Our largest customer is Apple, which has been purchasing our camera modules since 2009. Major customers for our camera modules also include other leading mobile device manufacturers in the world, such as LG Electronics and, commencing in October 2013, Samsung Electronics.

We also design, develop, manufacture and sell optical components used in a number of consumer electronics products. Major customers for our optical components include Optis (which is a supplier of electronic components to Samsung Electronics and Toshiba) and subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi.

We believe that our state-of-the-art manufacturing facilities, engineering capabilities, technical expertise and accumulated know-how in manufacturing camera modules and optical components, as well as our strong relationships with our customers, will continue to differentiate us as a provider of high-performance and cost-effective camera modules and optical components, and position us to take advantage of attractive growth opportunities. Mobile device and consumer electronics manufacturers seek suppliers with whom they can better align component technology development with their own product development efforts. We aim to combine engineering innovation with specific commercialization strategies and tailor our technology development efforts to our customers’ requirements, taking advantage of our close working relationship with our customers to develop new products and refine existing products in cooperation with them.

We plan to solidify existing relationships with our major customers as well as leverage our market position to strategically expand our global customer base. In line with these plans, we entered into new sales arrangements for the supply of fixed-focus COB camera modules to Samsung Electronics commencing in October 2013 and high-end camera modules with resolutions higher than 8 megapixels to LG Electronics starting in August 2014, and have agreed with LG Electronics to supply high-end camera modules with resolutions of 13 megapixels starting in the third quarter of 2015. We believe that leading global mobile device and consumer electronics manufacturers will continue to select component suppliers such as us that offer advanced technological capabilities, a leading-edge product portfolio, a proven track-record of stable supply and superior customer service to satisfy their camera module and optical component requirements.

We operate two production facilities at Hengkeng and Huanan in Dongguan, Guangdong Province, PRC, where we are able to take advantage of a high-quality labor force, extensive infrastructure for our operations, and a strategic location to facilitate the transportation of products to our customers. As of October 31, 2014, we had monthly production capacity to produce up to 14.8 million flip-chip camera modules, 14.5 million COB camera modules and 33.1 million optical components. We plan to maintain a flexible capacity expansion strategy that can effectively respond and adjust to evolving industry and market conditions and customer demand trends, and we plan to upgrade our manufacturing lines and



## BUSINESS

selectively increase our production capacity to achieve additional economies of scale that will enable us to generate further production cost savings.

Our turnover amounted to US\$323.1 million in 2011, US\$527.5 million in 2012, US\$813.9 million in 2013, US\$616.1 million in the first ten months of 2013 and US\$638.4 million in the first ten months of 2014. We recorded a profit for the period of US\$18.2 million in 2011, US\$13.2 million in 2012, US\$50.2 million in 2013, US\$32.1 million in the first ten months of 2013 and US\$30.6 million in the first ten months of 2014. We had total assets of US\$442.7 million and total equity of US\$169.2 million as of October 31, 2014, compared to total assets of US\$400.2 million and total equity of US\$139.9 million as of December 31, 2013.

We were incorporated on November 28, 2006 under the laws of the Cayman Islands. We were listed on the KOSDAQ on January 29, 2008 until November 26, 2011 when we were delisted pursuant to our privatization exercise. See “Our History, Development and Corporate Structure.” Our registered office is at Ugland House, South Church Street, PO Box 309GT, George Town, Cayman Islands.

### **Competitive Strengths**

We believe that the following competitive strengths provide us with a number of advantages over our competitors and position us favorably to take advantage of attractive growth opportunities:

#### ***Major camera module manufacturer serving the growing mobile devices market***

We are the sixth largest camera module manufacturer with a 5.0% share of the global market in 2013, according to the IBS Report. This compares to a 1.6% market share in 2010. Our camera module products are currently being integrated in a variety of smartphones, multimedia tablets and other mobile devices of global leading mobile device manufacturers. We believe our camera modules represent critical components of our customers’ end-products and enable our customers to differentiate themselves based on performance, functionality and time to market. According to the IBS Report, in 2013, the global camera modules market was US\$16.4 billion and is expected to reach US\$34.4 billion by 2020, representing a CAGR of 11.2%.

#### ***Strong relationship with major mobile device companies***

We have well-established relationships with three of the largest global mobile device brands, as measured by revenues in 2013. Our major customers are global leaders in the mobile devices industry with a dominant market share and a track record of technology and product innovation. They impose stringent requirements and standards for product design and production efficiency, product quality, costs, delivery and services.

We have been able to expand the number of products of our customers that our camera module products are integrated into, as well as our share of their requirements. In particular, in light of our proven track record of supporting the development and supply of camera modules that meet their demanding product specifications, we believe that our major customers have come to rely on us in the near term to supply high-quality camera modules for their mobile device products.

We believe it is difficult for newcomers to penetrate into the camera modules market as suppliers for major mobile device brand manufacturers, as there are significant technical requirements to be met, as well as investments in time and resources required, in order to be selected as an approved supplier. Our customers select us based on our highly skilled engineering team, ability to control costs, product development capabilities, and reliable and efficient manufacturing process management with stable high yields and strong quality control.

***Strong management team supported by extensive engineering capabilities***

We are a technology leader in our industry with a strong innovation track record supported by one of the industry's largest pool of experienced camera module engineers, with more than 360 engineers with an average of eight years of experience, including at leading electronics products and semiconductor back-end services companies.

Our senior management team is led by our current Chairman Mr. Kwak, who has spearheaded our growth into one of the world's major camera module manufacturers. We believe our streamlined management structure allows us to respond to customer demands and mobilize resources more quickly when compared to our competitors.

In addition, our engineering capability enables us to engage with our customers in the preliminary stages of their product development process and to innovate successive generations of camera modules for their new products. A significant portion of our revenues are from products that are "designed-in" to our customers' products. We offer customized solutions to better meet our customers' respective technical, design and performance requirements. Hence, despite the lack of long term supply contracts (which is a standard feature of the camera modules industry), we believe we will be able to continue to secure adequate demand for our products.

***Competitive manufacturing capabilities with advanced process technologies***

We focus our manufacturing operations on utilizing a portfolio of advanced process technologies that enable us to develop and manufacture products that can satisfy the demanding performance requirements of global leading mobile device manufacturers. For example, our flip-chip technologies and high volume manufacturing capabilities at low costs allow us to meet the requirements of our major customers.

Our process technologies and operational controls drive innovation in camera module production methodologies and deliver manufacturing scale advantages which we believe result in high production quality and effective yield management for advanced technology products. For example, we have recently filed a series of patent applications in PRC and the U.S., covering manufacturing process innovations relating to the method of bonding chips to substrates and plasma cleaning of wafers in an in-line cleaning process. We are able to present prototypes designed according to our customers' changing requirements and rapidly ramp up and adjust manufacturing volumes in order to meet customer demand. In addition, by concentrating our manufacturing activities in PRC, we believe we have a competitive cost base and are in close proximity to the manufacturing and supply chain operations of our customers and their contract manufacturers.

**Strategies**

Our strategic objective is to enhance our position as a major manufacturer of camera modules that meet the demands of our global customer base which we believe will maximize our value. To achieve this objective, we plan to pursue the following strategies:

***Continue to focus on leading global mobile device companies***

We intend to continue to provide strong technology and product development expertise, manufacturing execution and customer service in order to strengthen our relationships with our major customers and to grow our business with them. We plan to maximize benefits from key mobile device products introduced by our large customers and aim to expand our share of their demand for camera

modules. For example, we commenced volume shipments of camera modules for Samsung Electronics in October 2013. We are dedicated to understanding and anticipating our customers' specific needs by analyzing our customers' end markets, anticipating the market trends, and leveraging our strengths to offer products with a competitive combination of price and quality. We may also expand and enhance our production lines and capacity from time to time in anticipation of increased technological requirements and demand from our customers for both existing camera modules and potential new products.

***Expand product offerings and market applications***

We are seeking to increase our penetration of the camera modules market by expanding our product portfolio from primarily fixed-focus camera modules to a variety of high-end camera modules. In addition, we aim to produce higher resolution camera modules, which we believe will help us achieve higher profit margins. In line with our strategy, we commenced supplying high-end camera modules with resolutions higher than 8 megapixels to LG Electronics in August 2014 and have agreed with LG Electronics to supply high-end camera modules with resolutions of 13 megapixels starting in the third quarter of 2015. We hope to achieve similar success with our other customers.

We intend to work with our customers to develop camera module solutions for new product introductions. These new products may be improvements in existing categories which we currently do not serve or enable the creation of new market segments. We also intend to develop and manufacture components which may be used in camera modules, including advanced IR cut filters, and other optical components which provide synergistic value. We believe this will provide us with higher control over, and strengthen our position in, the camera module supply chain, as well as offer an attractive profit contribution.

Our camera module solutions may also be applied to various other market segments such as security, industrial and automotive applications, where end users will benefit from improved optical capabilities. Although we do not currently supply products for these applications, we are also actively evaluating potential opportunities in these new market segments.

***Continue to drive product innovation, design capabilities, enhance operational efficiencies and expand production capacity***

We intend to continue to enhance and expand our flip-chip and COB technologies and manufacturing capabilities and production capacity to align our camera module solutions with expected customer requirements. We believe our close relationships with our customers provide us with access to market trends and allow us to collaborate with them in the development of new technologies, production processes and products. For example, we believe that there is an opportunity to leverage our packaging technology and proprietary knowledge to make components smaller in size and lighter in weight and further expand our product offerings and their market applications. We have already applied our knowledge of system-in-package, or "SiP," technology, where several chips are packaged together as a "system" utilizing semiconductor packaging technology, in connection with camera module assembly with respect to one of our major customers. We intend to further apply and leverage our knowledge of such SiP technology for other applications, such as high-end camera modules and wearables, where smaller form factors and lighter weight are becoming more important. We plan to invest in attracting additional engineering talent, training and retaining engineers and technical staff as well as partnerships with strategic partners for new product development and selective licensing or acquisitions of key technologies and intellectual property rights. We may also consider enhancing and expanding our manufacturing capabilities to manufacture other applications.

We also aim to continuously enhance our operational efficiency by improving our manufacturing technologies and processes, which can lead to increased productivity, higher production yields and reduced costs. For example, we are in the process of increasing the level of automation of our flip-chip manufacturing lines. All of the production lines at our production facilities in Huanan were upgraded to

## BUSINESS

in-line production in August 2014. We expect that the upgrade will increase the consistency of manufacturing, reduce particle contamination (which will lower the probability of defects), reduce the need for plant space and lower labor costs. We are also working on reducing the cycle time for various manufacturing processes, which would allow us to reduce unit costs and increase output without requiring substantial investments.

### **Enlarge customer base and served market segments**

We believe our successful relationships with global leading mobile device companies provide important validation of our technology and process capabilities for potential new customers who may consider integrating our camera module solutions into their mobile device products. For example, a number of brand manufacturers in the PRC have introduced smartphone products with camera module specifications that have similar functionality to those of certain products of our existing customers. We intend to regularly assess opportunities to target such brand manufacturers as customers, with a view to continuing to enlarge and diversify our customer base through the medium term. Camera modules and optical components are critical for a wide range of electronics end-products.

### **Products**

We manufacture and sell camera modules utilizing flip-chip and COB technologies in a variety of specifications, which are used as critical components in various mobile devices with camera functions. We also manufacture and sell optical components used in a number of consumer electronics products such as CD, DVD and Blu-ray players, as well as CD and DVD drives used in computers.

The following table presents a breakdown of our turnover by product type for the periods indicated:

|                              | Year ended December 31, |       |       | Ten months ended October 31, |       |
|------------------------------|-------------------------|-------|-------|------------------------------|-------|
|                              | 2011                    | 2012  | 2013  | 2013                         | 2014  |
|                              |                         |       |       | (unaudited)                  |       |
|                              |                         |       |       | (US\$ in millions)           |       |
| <b>Turnover:</b>             |                         |       |       |                              |       |
| Camera modules               |                         |       |       |                              |       |
| Flip-chip . . . . .          | —                       | 225.0 | 588.5 | 422.7                        | 435.0 |
| COB . . . . .                | 306.8                   | 289.5 | 214.3 | 183.9                        | 193.5 |
|                              | 306.8                   | 514.5 | 802.8 | 606.6                        | 628.5 |
| Optical components . . . . . | 16.3                    | 13.0  | 11.1  | 9.5                          | 9.9   |
| <b>Total</b> . . . . .       | 323.1                   | 527.5 | 813.9 | 616.1                        | 638.4 |

The following table shows our average selling prices (defined as the applicable turnover divided by the applicable number of units sold for each product group) and our number of units sold by product group for the periods indicated:

| Product Group                | Year ended December 31,          |         |                      |         |                      |         | Ten months ended October 31, |         |                      |         |
|------------------------------|----------------------------------|---------|----------------------|---------|----------------------|---------|------------------------------|---------|----------------------|---------|
|                              | 2011                             |         | 2012                 |         | 2013                 |         | 2013                         |         | 2014                 |         |
|                              | (In US\$ and thousands of units) |         |                      |         |                      |         |                              |         |                      |         |
|                              | Average                          |         | Average              |         | Average              |         | Average                      |         | Average              |         |
|                              | Selling                          | Units   | Selling              | Units   | Selling              | Units   | Selling                      | Units   | Selling              | Units   |
|                              | Price <sup>(1)</sup>             | Sold    | Price <sup>(1)</sup> | Sold    | Price <sup>(1)</sup> | Sold    | Price <sup>(1)</sup>         | Sold    | Price <sup>(1)</sup> | Sold    |
| Camera modules . . . . .     | \$ 2.91                          | 105,315 | \$ 3.51              | 146,757 | \$ 4.06              | 197,554 | \$ 3.94                      | 153,880 | \$ 4.21              | 149,209 |
| Optical components . . . . . | \$0.052                          | 314,528 | \$0.050              | 256,786 | \$0.047              | 238,975 | \$0.047                      | 200,702 | \$0.045              | 217,177 |

(1) Turnover divided by number of units sold.

### **Camera Modules**

As markets for mobile devices continue to evolve and become more specialized, camera modules are becoming increasingly differentiated by specific physical and functional characteristics such as thinness, image resolution and clarity, and the demand for customized camera modules has been increasing in recent years. In line with this trend, we have focused on diversifying our product portfolio and offering camera modules with a wide variety of features that aim to satisfy different product specifications, in accordance with the specific requirements of each of our customers. Our camera modules vary in size, features and resolution, depending on the mobile device models that the modules are intended for, allowing our customers to select from a variety of specifications that meet their product needs.

We produce the following types of camera modules:

*Flip-Chip.* The term “flip-chip” refers to an assembly technology where a semiconductor processor chip, generally referred to as a die, is mounted directly onto a substrate (which is an HTCC board in the case of flip-chip camera modules) in a ‘face-down’ manner. Electrical connection is achieved through conductive bumps built on the surface of the die, which allows the mounting process to be face-down. During the mounting, the die is flipped on the substrate with the bumps being precisely positioned on their target locations. Because flipped dies do not require wirebonding, the resulting modules are typically thinner than modules produced utilizing different mounting technology, such as COB technology. Camera modules utilizing flip-chip technology are structurally different from other modules assembled using traditional packaging technology, and therefore require additional assembly steps and specialized equipment and are more time-consuming and expensive to produce. We began producing our flip-chip camera modules starting in 2012.

Our flip-chip camera modules are produced in a wide range of resolutions ranging from 1.3 megapixels to 5.3 megapixels. Our flip-chip camera modules, which are used as fixed-focus cameras in several versions of smartphones and multimedia tablets as well as other mobile devices, accounted for 42.6% of our turnover in 2012, 72.3% of our turnover in 2013 and 68.1% of our turnover in the first ten months of 2014. Demand for our flip-chip camera modules has increased significantly in recent years, causing such modules to become the largest source of our revenue. As mobile devices become more complex, camera module thinness and resolution requirements, along with focus functions and picture clarity, have become increasingly important because these properties have a significant impact on the popularity of our customers’ products.

*Chip-on-Board.* The term “chip-on-board,” also known as “direct chip attachment,” refers to an assembly technology where a die is directly mounted on and electrically interconnected to a substrate (which is a PCB in case of COB camera modules) by using metallic wires. As the process involves only three major steps, namely die attach, wirebonding and encapsulation of the die and wires, it is a popular production method for camera modules due to its relative simplicity. However, due to the encapsulation necessary to protect the die surface and the bonded wires, the resulting modules are slightly thicker than modules produced utilizing flip-chip technology.

Our COB camera modules are produced in a wide range of resolutions ranging from 0.3 megapixels to 8 megapixels, and are available with auto-focus or fixed-focus functions. We supply our COB camera modules to a number of mobile device manufacturers for use in several models of mobile devices as either fixed-focus or auto-focus cameras. Our COB camera modules accounted for 94.9% of our turnover in 2011, 54.9% of our turnover in 2012, 26.3% of our turnover in 2013 and 30.3% of our turnover in the first ten months of 2014. We believe that the additional cleaning, quality assurance and curing procedures we apply in the production of our COB camera modules result in higher yield and product quality.

## BUSINESS

The following are illustrations of some of the camera modules that we produce:

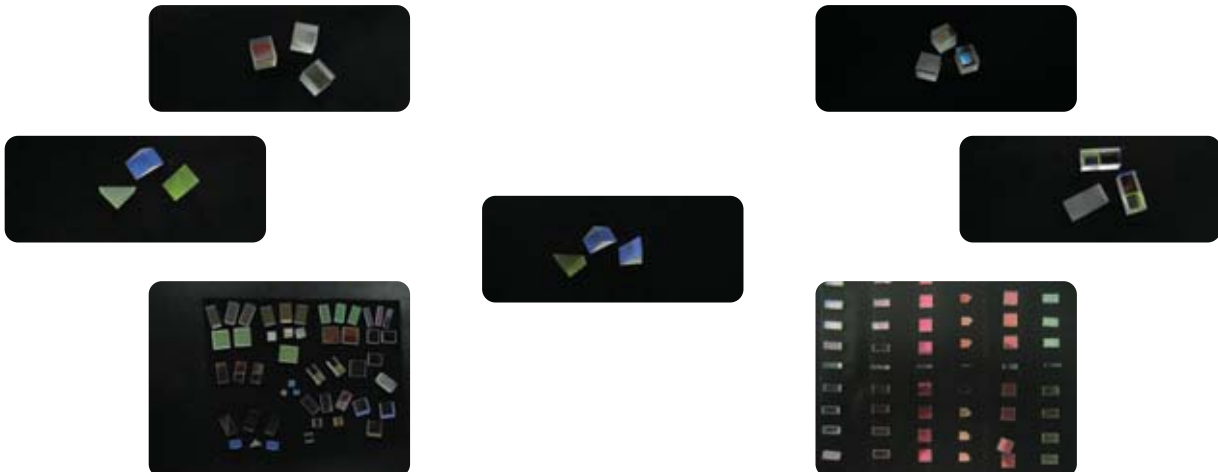


### **Optical Components**

The main optical components currently produced by us include glass plates, lenses and prisms, which are primarily used in CD, DVD and Blu-ray players and computer CD and DVD drives. Glass plates, lenses and prisms are important components in the process of converting light into digital data. The quality of plates, lenses and prisms is of significant importance for the processing and conversion speed of the electronic equipment incorporating the component. By directly managing the entire manufacturing process for our glass plates, lenses and prisms from their raw optical glass form, without relying on any third-party contract manufacturers, we are able to manufacture glass plates, lenses and prisms offering a minimal margin of error between the actual product and its planned specification. We also have the technology to apply different types of coatings on the surface of the glass plates, lenses and prisms.

We also began pilot production of blue filters in 2013, which are a type of IR cut filters used in camera modules, and commenced commercial production on a limited basis in April 2014. We believe that the optical component industry offers attractive growth opportunities in the long-term, and we plan to continue to strategically invest in research and development activities in pursuit of technical refinements and product innovation. As our optical component operations are our highest margin business, we plan to make additional capital investments in a disciplined and flexible manner to optimize our revenue mix for optical components. However, in part due to the recent global trend of utilizing digital data storage methods other than CD/DVD/Blu-Ray (such as flash drives), as well as diversification in the means of delivering multimedia contents, we expect that the growth of the total market size for optical components will be limited in the near future, and also expect our revenues from sales of optical components to remain small compared to revenues from sales of camera modules.

The following are illustrations of some of the optical components that we produce:



### **Manufacturing Process**

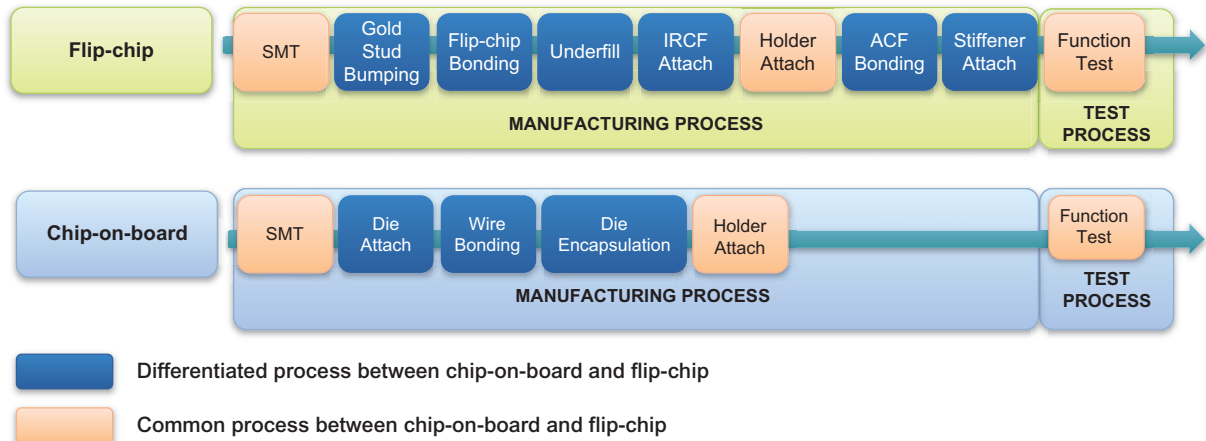
#### **Camera Modules**

The fabrication of camera modules requires a large number of complex processing steps to layer different materials and imprint various features into a single module thin enough for inserting in mobile

## BUSINESS

devices. A typical camera module is composed of a CMOS image sensor chip, a substrate, an IR cut filter, a lens holder and other passive components.

The following is a diagram and summary description of the most important steps in the manufacturing process for our camera modules:



- **SMT mounting:** as the first step in the manufacturing process for both flip-chip and COB camera modules, capacitors and other electronic components are mounted on a substrate (which is an HTCC board in the case of flip-chip camera modules, and is a PCB in the case of COB camera modules), utilizing surface-mount technology.
- **Flip-chip**
  - Gold stud bumping: bumps are formed on the CMOS image sensor chip, to provide an electrical connection between the chip and the HTCC board. We utilize the “stud bumping” technique, where the end of a gold wire is melted to form a stud, which is attached to a bond pad, and the wire is then broken off.
  - Flip-chip bonding: the bumped chips are bonded to the HTCC board in a face-down fashion.
  - Underfill: the open space between the chip surface and the HTCC board is filled with non-conductive adhesive or “underfill” material to protect the bumps and the chip surface and to lock the flipped chip surface to the HTCC board.
  - IRCF attach: an IR cut filter is attached to the bonded chip.
  - Holder attach: the lens holder is attached to the surface of the HTCC board with the bonded chip. A module that has undergone this step is referred to as a “cube.”
  - ACF bonding: ACF tape, which is a conductive adhesive tape, is laminated to interconnect the cube to an FPCB, to create an assembled module that can be incorporated into the end-product.
  - Stiffener attach: a stiffener is attached to solidify the assembled module, which enhances its stability for further incorporation into the end-product.

## BUSINESS

- **Chip-on-board**
  - Die attach: die attach adhesive is applied to the PCB and a CMOS image sensor chip is mounted on the PCB.
  - Wire bonding: electrical connections are established between the mounted chip and the PCB using very fine bonding gold wires.
  - Die encapsulation: the bonded chip and the bond wires are encapsulated to protect them from mechanical and chemical damage, which is generally achieved by dispensing a liquid encapsulant material, usually epoxy-based, over the chip and the wires. Encapsulants may also need to undergo curing, depending on the type of encapsulant used.
  - Holder attach: the lens holder is attached to the surface of the PCB with the encapsulated chip. As the COB process utilizes a PCB as the substrate, the assembled module is now ready for incorporation into the end-product.
- **Final testing/outgoing quality assurance:** the image formulation function, including focusing and color calibration, of the entire module is tested several times to ensure that the finished camera module satisfies all applicable technical specifications.
- **Packaging/shipping:** The finished camera modules that have passed quality inspection are packaged in accordance with the specifications of customer, then shipped to our warehouse for storage or further shipping to customers.

### **Optical Components**

The manufacturing process for our optical components, mainly glass plates, lenses and prisms, begins with coarse-grinding shaped glass and other supplemental materials in a grinding machine to generate the required shape. Then, the shaped glass goes through a further precision grinding and polishing process, where each side of the glass is processed with other supplemental materials in a grinding machine in accordance with the required specifications. The finished plate or lens is then cleaned to remove stains and dust on the surface with a chemical solution.

In the case of glass prisms, the edges of the glass are trimmed with a centering machine to achieve the required external diameter and eccentricity of a prism. Centered prisms then are put through an ultrasonic cleaning process before they are coated with chemicals either on a single-layer or multi-layer basis, in accordance with the spectrum specifications required. Upon completion of coating, two or more prisms may be attached together with adhesive depending on requirements for the electronic equipment in which they will be used, after which an even layer of paint is applied over the prism in accordance with the applicable design and layout requirements to avoid image deviation. The finished prisms are then put through the final quality assurance process, after which they are packaged and either stored or shipped to customers.

### **Production Facilities**

We manufacture our products at our two production facilities located in Huanan and Hengkeng, in Dongguan, PRC. We began operation of our production facilities at Hengkeng in February 2002, and at Huanan in May 2012. Our flip-chip camera module manufacturing lines are located in Huanan, while our COB camera module and optical component manufacturing lines are located in Hengkeng. Dongguan is where some of the world's leading manufacturers of high-technology products are located, which enables us to take advantage of access to a high-quality labor force and an extensive infrastructure for our



## BUSINESS

operations. Dongguan is also strategically located near major airports and ports in Shenzhen and Hong Kong, which facilitates the transportation of our products to our customers both in the PRC and globally, as well as shipments of required components and materials and manufacturing equipment to us.

### **Manufacturing Lines**

Our manufacturing lines operate throughout the year on a two shifts per day, nine hours per shift basis, except during PRC public holidays and during factory line changes, which generally occur one day per month. As of October 31, 2014, we had a quality control staff of 574 engineers, technicians and other employees whose duty is to monitor production processes to ensure high-quality product output. These employees include line inspectors who work with members of the production staff to conduct examination, testing and fine-tuning of products during the production process. Normal manufacturing risks include errors in the manufacturing process, defects in components and materials, unexpected power outages and environmental pollutants. In addition, whenever process technology is upgraded, manufacturing operations may be disrupted. To date, we have not experienced material disruptions in our manufacturing operations.

The following table sets forth certain information regarding our production facilities at Hengkeng and Huanan, Dongguan as of October 31, 2014:

### **Hengkeng**

| <u>Principal products</u> | <u>Capacity per month (units)</u> | <u>Total floor area (square meters)</u> | <u>Number of production workers</u> |
|---------------------------|-----------------------------------|---|-------------------------------------|
| COB camera modules .....  | 14,500,000                        | 2,286                                   | 1,067                               |
| Optical components .....  | 33,050,000                        | 3,224                                   | 212                                 |

### **Huanan**

| <u>Principal products</u>      | <u>Capacity per month (units)</u> | <u>Total floor area (square meters)</u> | <u>Number of production workers</u> |
|--------------------------------|-----------------------------------|---|-------------------------------------|
| Flip-chip camera modules ..... | 14,833,333                        | 25,160                                  | 4,484                               |

The following table sets forth our monthly production capacity for COB and flip-chip camera modules as of the end of each period in the Track Record Period:

|                                | <u>Year ended December 31,</u> |             |             | <u>Ten months ended October 31,</u> |
|--------------------------------|--------------------------------|-------------|-------------|-------------------------------------|
|                                | <u>2011</u>                    | <u>2012</u> | <u>2013</u> | <u>2014</u>                         |
|                                | (units)                        |             |             |                                     |
| Flip-chip camera modules ..... | N/A <sup>(1)</sup>             | 14,000,000  | 14,000,000  | 14,833,333                          |
| COB camera modules .....       | 14,000,000                     | 14,000,000  | 14,000,000  | 14,500,000                          |

(1) N/A means not applicable.

## BUSINESS

While we can use some of our existing equipment for the manufacture of either COB or flip-chip camera modules, the major equipment we currently use, and our existing production capacities for, the manufacture of COB and flip-chip camera modules are not entirely interchangeable. However, should the need arise, we believe we would be able to acquire the necessary additional equipment from third-party suppliers and re-tool our existing manufacturing lines for flip-chip camera modules for the production of COB camera modules, and vice versa.

The following table sets forth, for the periods indicated, our number of units entering production, production capacity and capacity utilization rate by principal product category:

| Product Type                      | Year Ended<br>December 31,                 |          |                     |                      |          |                     |                      |          |                     | Ten Months Ended<br>October 31,            |          |                     |                      |          |                     |
|-----------------------------------|--|----------|---------------------|----------------------|----------|---------------------|----------------------|----------|---------------------|--|----------|---------------------|----------------------|----------|---------------------|
|                                   | 2011                                       |          |                     | 2012                 |          |                     | 2013                 |          |                     | 2013                                       |          |                     | 2014                 |          |                     |
|                                   | (In millions of units, except percentages) |          |                     |                      |          |                     |                      |          |                     | (In millions of units, except percentages) |          |                     |                      |          |                     |
|                                   | Utilization                                |          |                     | Utilization          |          |                     | Utilization          |          |                     | Utilization                                |          |                     | Utilization          |          |                     |
|                                   | Input <sup>(1)</sup>                       | Capacity | rate <sup>(2)</sup> | Input <sup>(1)</sup> | Capacity | rate <sup>(2)</sup> | Input <sup>(1)</sup> | Capacity | rate <sup>(2)</sup> | Input <sup>(1)</sup>                       | Capacity | rate <sup>(2)</sup> | Input <sup>(1)</sup> | Capacity | rate <sup>(2)</sup> |
| Camera modules <sup>(3)</sup>     | 114.1                                      | 169.7    | 67.2%               | 161.1                | 247.4    | 65.1%               | 213.9                | 339.5    | 63.0%               | 172.9                                      | 283.2    | 61.1%               | 163.2                | 293.3    | 55.6%               |
| Optical components <sup>(4)</sup> | 325.3                                      | 360.0    | 90.4%               | 260.7                | 360.0    | 72.4%               | 254.1                | 360.0    | 70.6%               | 214.2                                      | 300.0    | 71.4%               | 215.1                | 330.5    | 65.1%               |

- (1) For camera modules, the total number of CMOS image sensors inputted into the production process; for optical components, the total number of pieces of raw optical glass which entered into the grinding process.
- (2) Calculated as the percentage of the applicable number of total units inputted compared to the applicable production capacity. The annual capacity utilization rate for, and production volume of, our camera module production facilities is relatively low due to seasonal fluctuations from quarter to quarter in the demand for our camera modules. We normally experience the highest production and sales volume for our camera modules in the fourth quarter of each year when our customers increase their inventories of mobile devices in light of increased seasonal demand. Correspondingly, our production and sales levels also tend to be the lowest in the first and second quarters of each year.
- (3) In the case of camera modules, our production capacity and number of total units inputted increased in 2012 and 2013, mainly as a result of the ramp-up of our production capacity for and production of flip-chip camera modules during the second half of 2012. However, our capacity utilization rate decreased from 67.2% in 2011 to 65.1% in 2012, as we increased our production capacity for flip-chip camera modules during the second half of 2012, while orders for COB camera modules from a major customer decreased in 2012 due to the migration of such customer's orders for camera modules toward flip-chip camera modules in the second half of 2012. Our capacity utilization rate decreased further to 63.0% in 2013, as orders for COB camera modules further declined in 2013 compared to 2012 principally due to the continued migration of such customer's orders toward flip-chip camera modules in 2013. Our camera module production capacity increased, while our capacity utilization rate decreased, from the first ten months of 2013 to the first ten months of 2014, as we added production capacity for new models of flip-chip camera modules while reducing production of older models of such camera modules in the first ten months of 2014, in anticipation of the increase in production of such new models during the fourth quarter of 2014 in line with the new product launch of a major customer.
- (4) In the case of optical components, our capacity utilization rate decreased from 90.4% in 2011 to 72.4% in 2012, as orders for optical components declined in 2012 compared to 2011 due mainly to the general global decline in the demand for CD/DVD/Blu-Ray players. Our capacity utilization rate further decreased to 70.6% in 2013, as orders for optical components continued to decrease in 2013 compared to 2012, in line with the continual global decline in demand for such players. Our optical component production capacity increased, while our utilization rate decreased, from the first ten months of 2013 to the first ten months of 2014, as we added new production capacity in the first ten months of 2014 for blue filters, which we began to produce commercially on a limited basis starting in April 2014.

## BUSINESS

The following table sets forth certain information regarding our principal production equipment as of the Latest Practicable Date. Certain equipment listed below was loaned to us by Apple in 2012 in connection with our sales arrangements with this customer. Such Apple-owned equipment, which has been loaned to us and is installed in our production facilities in Huanan, is used for the manufacture of flip-chip camera modules supplied to Apple. We are not required to make any payments to Apple (lease or otherwise) for the use of such equipment. However, Apple imposes restrictions on our use of its equipment for other customers, and retains the right to require us to return such equipment to it at its request. Such equipment is not accounted for as assets or otherwise included in our consolidated financial statements. For a description of certain non-compliance matters relating to such equipment, see “— Legal Proceedings and Regulatory Compliance — Non-Compliance Matters.”

| Major equipment                | Ownership | Age      | Time when replaced or upgraded |
|--------------------------------|-----------|----------|--------------------------------|
| Best focus machine 1           | Loaned    | 2 years  | N/A                            |
| Camera test machine 1          | Loaned    | 2 years  | N/A                            |
| Character test quality machine | Loaned    | 2 years  | N/A                            |
| Flip bonder                    | Loaned    | 2 years  | N/A                            |
| Lens holder attach machine 1   | Loaned    | 2 years  | N/A                            |
| IR glass attach machine        | Loaned    | 2 years  | N/A                            |
| Lamination machine             | Loaned    | 2 years  | N/A                            |
| Mounter 1                      | Loaned    | 2 years  | N/A                            |
| Stiffener bonder               | Loaned    | 2 years  | N/A                            |
| Stud bumper                    | Loaned    | 2 years  | N/A                            |
| Underfill machine              | Loaned    | 2 years  | N/A                            |
| Chip mount machine             | Loaned    | 2 years  | N/A                            |
| Screen printer machine 1       | Loaned    | 2 years  | N/A                            |
| Flex baking oven               | Loaned    | 2 years  | N/A                            |
| Laser marker                   | Loaned    | 2 years  | N/A                            |
| Screen printer machine 2       | Owned     | 4 years  | N/A                            |
| Mounter 2                      | Owned     | 4 years  | N/A                            |
| Reflowing machine              | Owned     | 4 years  | N/A                            |
| Die bonder                     | Owned     | 5 years  | N/A                            |
| Wire bonder                    | Owned     | 4 years  | N/A                            |
| Lens holder attach machine 2   | Owned     | 4 years  | N/A                            |
| ACF attach machine             | Owned     | 1 year   | N/A                            |
| FPCB pick & place machine      | Owned     | 1 year   | N/A                            |
| ACF bonder                     | Owned     | 1 year   | N/A                            |
| Best focus machine 2           | Owned     | 1 year   | N/A                            |
| Camera test machine 2          | Owned     | 1 year   | N/A                            |
| Grinding machine               | Owned     | 1 year   | N/A                            |
| Lapping machine                | Owned     | 12 years | 2014                           |
| Polishing machine              | Owned     | 1 year   | N/A                            |
| Coating machine                | Owned     | 1 years  | N/A                            |
| Multi-saw                      | Owned     | 8 years  | N/A                            |
| Dicing saw                     | Owned     | 1 year   | N/A                            |
| Ultrasonic cleaning machine    | Owned     | 1 year   | N/A                            |
| Automated loading machine      | Owned     | 1 year   | N/A                            |
| Automated inspection machine   | Owned     | 1 year   | N/A                            |

The equipment identified above as being owned by us is mainly installed in our production facilities in Hengkeng and used for the manufacture of COB camera modules and optical components. As of October 31, 2014, the aggregate net book value of such owned equipment was US\$15.5 million.

## BUSINESS

We plan to continue to strategically invest in enhancing and expanding our manufacturing lines to add production capacity selectively and achieve additional economies of scale that will enable us to generate further production cost savings. We have spent approximately US\$21.5 million in capital expenditures for the full-year 2014, primarily to purchase equipment to produce more advanced flip-chip camera modules. See “Financial Information — Capital Expenditures and Commitments.”

We acquired many of the key technologies used in our manufacturing processes through our own research and development efforts, and we believe our manufacturing technology is recognized by our customers as one of our competitive advantages when compared against that of our competitors. During the Track Record Period, we did not pay any licensing fees for any technologies used in the manufacturing process for our products.

We also believe that we have access to adequate and stable sources of water and electricity in Dongguan. There are also liquid propane gas back-up power supply facilities in our manufacturing facilities in Huanan with a capacity of approximately 4,000 kilowatts per hour and in Hengkeng with a capacity of approximately 1,990 kilowatts per hour, which allows us to maintain a certain level of operations if there should be a blackout or a shortage of electricity. During the Track Record Period, we did not experience shortages of electricity and water supplies that resulted in a material disruption of our operations, nor did we experience any accidents causing material damage to our production facilities or a material suspension of production.

### **Components and Materials**

We use a variety of components and materials in our manufacturing process. The main components used in our manufacturing process for camera modules are CMOS image sensors, PCBs, lenses (including lens holders) and HTCC boards, which accounted for approximately 91.6% of our component and material costs in 2011, 87.9% in 2012, 86.1% in 2013 and 87.3% in the first ten months of 2014. Accordingly, a stable source of such components is crucial to our success. We obtained all of our needs for CMOS image sensors, PCBs, lenses (including lens holders) and HTCC boards from 38 independent suppliers in the first ten months of 2014, 23 of which were designated by our three largest customers. Components and materials purchased from suppliers designated by our three largest customers accounted for 91.4% of our component and material costs in 2011, 86.5% in 2012, 80.4% in 2013 and 74.6% in the first ten months of 2014. Other key components and materials utilized in our manufacturing process include connectors, capacitors, ambient light sensors, raw optical glass and coating chemicals.

In accordance with their general practice, our major customers typically enter into short-term supply agreements with suppliers for our main components, pursuant to which we are designated as an authorized purchaser, and most of which contain pricing terms that may be adjusted from time to time between the customer and the supplier. As we generally have minimal control over the prices of our main components, the prices which are agreed between our major customers and the suppliers are typically reflected in the price of our products supplied to such customers. In the event that we or our customers cannot reach agreement on pricing terms with our suppliers in the future or our suppliers fail to deliver on their volume commitment, we will need to seek alternative supply sources after consultation with our customers. In particular, in the case of camera modules that we produce for some of our major customers, we are required to source certain components only from a select group of suppliers approved by the customer, which further limits our ability to find alternative suppliers in the event of a supply disruption. Our quality control staff checks the quality of our components and materials upon their arrival at our production facilities to ensure that they conform to our and our customers' quality standards. We are generally granted a credit period of 30 to 90 days from the date of billing by our suppliers.

## BUSINESS

Purchases of components or materials from our top five suppliers represented approximately 77.8% of our total cost of sales in 2011, 58.0% in 2012, 55.2% in 2013 and 48.9% in the first ten months of 2014. Furthermore, purchases of components or materials from our largest supplier represented approximately 29.5% of our total cost of sales in 2011, 24.1% in 2012, 26.4% in 2013 and 19.9% in the first ten months of 2014. We believe that our relationship with our suppliers are good, and we have not experienced any major difficulty in obtaining adequate supplies of components and materials to meet our production requirements during the Track Record Period. During the Track Record Period, we purchased a variety of IR cut filters, which serve as critical components for camera modules, from Bai Shi, which is wholly owned by a brother-in-law of one of our Controlling Shareholders and is therefore a connected person under the Listing Rules. See “Connected Transactions – Connected Persons” and “– Continuing Connected Transactions – Non-exempt Continuing Connected Transactions.” During the Track Record Period, none of our other suppliers were connected persons.

### Quality Assurance

We are subject to PRC and international regulatory requirements relating to product quality standards which must be satisfied before products can be sold in the relevant jurisdiction. Our customers also require us to satisfy strict quality standards with respect to the products we sell to them. As markets for camera modules and optical components continue to evolve and become more specialized, quality standards for our products are becoming stricter. Our management is actively involved in setting quality assurance policies and managing quality assurance performance to ensure quality control of our products as well as a safe working environment for our employees. In order to ensure that our quality assurance policies are effectively applied, manufacturing line employees are provided with regular job training. We believe that we have a well-trained equipment maintenance team with qualified personnel to oversee the operation of our manufacturing lines to ensure adequate quality control, as well as to avoid any unintended interruption, and to minimize the down time, of the manufacturing lines.

We have received international certifications for our quality assurance programs and safety management systems, which we believe demonstrate our technological capabilities and help promote customer confidence. The following table sets forth a summary of certifications that we have received and major test standards that we have satisfied:

| <b>Certification/ Standards</b> | <b>Description</b>  |
|---------------------------------|---|
| ISO 9001:2008                   | Certification for our quality management system in connection with the manufacturing of optical and optic-electronic products |
| ISO 14001:2004 +<br>Cor 1:2009  | Certification for our environmental management system in connection with the manufacturing of optic-electronic products       |

As of October 31, 2014, we had a quality control staff of 574 of engineers, technicians and other employees. In addition, there are product quality inspectors stationed at the manufacturing lines responsible for testing semi-finished products. We provide mandatory training courses (which are periodically updated) for our new quality control staff, and also provide additional regular training for quality control staff and product quality inspectors from time to time covering different aspects of our production, including understanding of International Organization for Standardization (“ISO”) standards and quality control techniques. The value of initially returned goods from customers resulting from product quality issues detected through sampling procedures amounted to approximately US\$2.2 million in 2011, US\$7.7 million in 2012, US\$11.2 million in 2013 and US\$3.4 million in the first ten months of 2014. When goods are returned to us, they are promptly re-tested individually without any sampling and goods which

prove to be non-defective are re-shipped to the customer. Goods which prove to be defective after individual testing are first stored, then physically destroyed on site after receiving approvals from our customers and the relevant regulatory authorities. The full amount of the turnover and accounts receivables previously recorded in respect of such destroyed goods are cancelled, with no reversal of the applicable reduction in inventories previously charged against the cost of sales. We believe that the portion of our returned goods compared to our turnover is smaller compared to industry norms due in part to our stringent quality assurance programs.

### **Customers, Sales and Marketing**

We currently sell a substantial portion of our products to a limited number of customers. Our three largest customers accounted for approximately 97.3% of our turnover in 2011, 98.8% in 2012, 99.1% in 2013 and 98.6% in the first ten months of 2014.

### ***Relationship with Apple***

Our largest customer is Apple. According to Apple's public filings, Apple designs, manufactures, and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. Apple sells its products worldwide through its retail stores, online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers, and value-added resellers. In addition, Apple sells a variety of third-party products that are compatible with Apple's products, including application software, and various accessories, through its online and retail stores. Apple sells to consumers; small and mid-sized businesses; and education, enterprise and government customers.

According to Apple's public filings, for the fiscal years ended September 28, 2013 and September 27, 2014, Apple generated revenues of US\$170.9 billion and US\$182.8 billion, respectively. According to the IBS Report, Apple was the second largest manufacturer of smartphones with a global market share of 15.8% in terms of smartphone units sold in the year ended December 31, 2013, and the largest manufacturer of multimedia tablets with a global market share of 26.9% in terms of multimedia tablet units sold during the same period.

We have historically supplied fixed-focus camera modules that are attached to the front-end of mobile device products to Apple. We began supplying COB camera modules directly to Apple in 2009, and we expanded our relationship by supplying flip-chip camera modules starting in 2012. Apple directly or indirectly accounted for 86.9% of our turnover in 2011, 87.9% of our turnover in 2012, 85.8% of our turnover in 2013 and 74.4% of our turnover in the first ten months of 2014. As a result of increasing sales to LG Electronics and Samsung Electronics, the share of our turnover accounted for directly or indirectly by Apple was approximately 77.7% (compared to approximately 19.4% for LG Electronics and approximately 1.5% for Samsung Electronics) for the full-year 2014, based on our unaudited management accounts.

Based on the fact that we have been supplying camera modules to Apple since 2009 and in light of our proven track record of supporting the development and supply of camera modules that meet Apple's demanding product specifications, we believe that we are one of multiple suppliers that Apple relies on in the near term to supply high-quality camera modules for their mobile device products. Furthermore, based on our calculations and data compiled by us solely from public sources regarding the historical sales volumes of Apple's mobile device products, we believe that front-end camera modules supplied by us accounted for a material portion (over 30% according to our estimates) of all front-end camera modules incorporated in Apple's mobile phone and multimedia tablet devices sold during each of 2011, 2012 and 2013. We believe that these factors demonstrate a complementary relationship between us and Apple.

## BUSINESS

We have been supplying camera modules that are designed into Apple's end-products, and such camera modules have been customized to meet its specific technical, design and performance requirements after much production research undertaken together by both parties. To facilitate production of this important component of their end-products, Apple arranges for the sourcing and supply of certain key manufacturing equipment and technology for our production of specific camera module products for Apple. Apple imposes restrictions on our use of such equipment and technology for other customers and retains the right to require us to return such equipment and technology to it at its request. In particular, from time to time, Apple has provided us with key manufacturing equipment and technology used in our production facilities in Huanan. See "— Production Facilities — Manufacturing Lines." Apple has not agreed to any form of technology transfer to us under these arrangements. We believe the fact that Apple has made such significant investments in time and resources in us further demonstrates the complementary relationship between us and Apple.

Apple closely monitors each stage of our product development and supply relevant to Apple, from inception up to full production, and has ample channels to provide feedback at any time. We also have three dedicated teams to deal with Apple-related matters and such teams include members of our management, including Mr. Kwak, Mr. Seong Seokhoon, our executive Director and chief financial officer with significant financial and management experience, Mr. Lee David Hyung Tek, our finance director and head of the corporate strategy team with significant legal and financial experience, and Mr. Lee Donggoo, the head of our engineering project management department and an engineer with over 12 years of experience in the camera modules and packaging industry. Such arrangement ensures a constant line of communication between Apple and our management, which in turn ensures that we will be kept fully aware of all material developments relating to Apple. Another important function of our dedicated teams is to closely monitor our compliance with the terms of our agreements with Apple. For instance, we will regularly request updates from Mr. Kwak to ensure that our obligations under the agreements with Apple as described in "Relationship with the Controlling Shareholders — Independence from Our Controlling Shareholders — Operational Independence" are being complied with. Furthermore, in the event that Mr. Kwak engages in any personal dealings in or effects any pledge of his Shares that could adversely affect our ability to comply with such obligations, he would be required, as a Director and our chief executive officer, to promptly inform our Board of such dealings or pledges, in order to ensure that both he and we are in compliance with the Inside Information Provisions (as defined in the Listing Rules). We expect to also inform our Shareholders, by way of announcement, of any material developments between Apple and us after the Listing and Global Offering. Future transactions between us and Apple are expected to be reviewed and approved by our Directors, including our independent non-executive Directors, and to the extent applicable, our Shareholders in compliance with the Listing Rules.

### *Sales Arrangements*

Our sales arrangements with Apple, as well as other major customers, set out the basic terms of development and supply of particular products for a specified period, typically for a term of one year but which may vary depending on the customer's needs as well as the type of product and its expected commercial longevity. For a description of such sales arrangements, see "— Sales and Pricing." In the case of Apple, the customer has historically introduced new or modified mobile device products once every year, and accordingly we seek to develop and supply new or modified camera module products to Apple in accordance with such product launch cycle. The nature of Apple's product launch cycle therefore makes it commercially suitable for us to enter into a new or modified sales arrangement with Apple once every year to set forth the terms of development and supply of such new or modified camera module products. Pursuant to our sales arrangements with Apple, Apple has granted us a royalty-free license to use certain technology owned by Apple in our manufacturing process for production of camera modules for Apple.

## BUSINESS

In addition, as discussed further below in “— Sales and Pricing,” our sales arrangements do not establish fixed purchase commitments, and purchase volumes are generally determined on an ongoing basis based on purchase orders provided by the customer. While Apple does not enter into long-term purchase commitments, it does provide non-binding rolling forecasts to guide us on its anticipated requirements and the amount of actual purchase orders have generally been consistent with such periodic forecasts throughout the Track Record Period. This industry-wide arrangement reflects the commercial reality that it is not possible for customers to predict their mobile device sales volumes, and therefore their camera module volume requirements, on a long-term basis. As in the case of our other major customers, Apple is not legally obligated to issue purchase orders to us in accordance with its forecasts. Furthermore, under our sales arrangements with Apple, Apple will only be deemed to have accepted delivery of our products if such products have not been rejected by Apple within 90 days after delivery. If Apple rejects our products for failing to comply with the relevant specifications, it has the right to require us to (i) refund the full amount paid for the rejected items, or (ii) repair or replace such items. During the Track Record Period, we have not experienced such rejections in material quantities.

We are subject to strict confidentiality provisions imposed by Apple, including the prohibition of our disclosure to third parties of the terms of our sales arrangements with Apple and any information about the products we supply to Apple.

In addition, Apple has the right to terminate its sales arrangements with us generally, for cause (including events such as a material breach by us of the terms of the sales arrangements, our insolvency or bankruptcy, or the assignment of our rights for the benefit of creditors), as well as the right to terminate its sales arrangements with us relating to particular types of products supplied by us, without cause, in each case upon provision of 30 days’ prior notice to us. Accordingly, there is no guarantee that Apple will continue to purchase products from us. See “Risk Factors — Risks Relating to Our Business — We currently sell a substantial portion of our camera modules and optical components to a limited number of customers. Our dependence on these customers subjects us to events that may cause material fluctuations or declines in our revenues” and “— We rely substantially on Apple.”

If our sales to Apple were to decline or we were to lose Apple as a customer, we believe we possess the necessary technology, engineering and manufacturing capabilities and other competitive strengths to adapt our current business model, which is reliant on Apple as a major customer. See “— Competitive Strengths.” We have established strong relationships with other major customers such as LG Electronics and Samsung Electronics, which are two of the largest global mobile device manufacturers as measured by revenues in 2013. As part of our efforts to reduce the percentage of our turnover accounted for by Apple, we entered into new sales arrangements for the supply of fixed-focus COB camera modules to Samsung Electronics commencing in October 2013 and high-end camera modules with resolutions higher than 8 megapixels to LG Electronics starting in August 2014, and have agreed with LG Electronics to supply high-end camera modules with resolutions of 13 megapixels starting in the third quarter of 2015. We believe that such new sales arrangements demonstrate our ability to find customers to substitute for Apple.

### *Certain Remedies*

Apple has various stringent requirements relating to component suppliers, based on the skills of the supplier’s engineering teams, ability to control costs, product development capabilities, reliable manufacturing process, stable high yield and strong quality control, that must be demonstrated over a substantial track record period before a potential supplier can become accredited. Apple demands strict contractual rights and remedies from its suppliers, in order to ensure that they will consistently meet such high standards and that it will not experience any disruptions in the supply of components necessary for



## BUSINESS

its products, which has a direct bearing on its market reputation. As part of the commercial terms negotiated between us and Apple, we pledged all of the outstanding shares of Cowell Hong Kong to Apple, as security for any damages that may result from a breach by us of our obligations under our sales arrangements with Apple.

In preparation for the Listing and the Global Offering, we have agreed with Apple to replace such share pledge with alternative remedial arrangements, which will only become effective as of the Listing Date, consisting of (i) a stand-by letter of credit to be issued by a major bank in favor of Apple in the amount of US\$50 million and (ii) certain “step-in” rights granted to Apple with respect to our production facilities in Huanan, which are used exclusively for the manufacture of camera modules supplied to Apple. Pursuant to such alternative remedial arrangements, a material breach by us of our supply obligations to Apple (which could be indirectly triggered by our insolvency or bankruptcy or assignment of rights for the benefit of our creditors if those events do result in such breach) or our obligation to obtain its consent prior to a “change of control transaction” whereby Mr. Kwak loses “control” over our Company, as described in “Relationship with the Controlling Shareholders — Independence from Our Controlling Shareholders — Operational Independence,” will give Apple the right to (i) draw upon the stand-by letter of credit in whole or in part and hold such amount as security for, or apply the same to, our obligations under the sales arrangements and (ii) exercise its “step-in” rights to require us to transfer, at Apple’s option, certain specified assets and liabilities relating to our production facilities in Huanan to Apple, including principally the property leases for the facilities and the manufacturing equipment and technology used at the facilities. In addition, Apple may require us to facilitate the direct hiring of employees working at the facilities and assignment of the supply agreements with suppliers of components and materials to the facilities. However, we would not be required to transfer any accumulated earnings from the Huanan production facilities to Apple upon its exercise of the “step-in” rights. As the “step-in” rights are intended to serve as alternative remedial arrangements relating to certain of our obligations under our sales arrangements with Apple, such rights will cease to apply only upon the termination of such sales arrangements.

The stand-by letter of credit, once effective, will be treated as a contingent liability and any drawdowns thereunder will be treated as a bank loan under our statement of financial position and as other loss under our statement of profit or loss for accounting purposes. The stand-by letter of credit will expire upon the earlier of December 31, 2015 and our net cash balance being at or above a certain level for two consecutive quarters. In addition, after one year from the takeover of the production facilities in Huanan by Apple pursuant to the exercise of its “step-in” rights, we will have the right to re-acquire the facilities from Apple.

We believe that Apple’s reason for requiring these remedies from us is principally to ensure the continuity of supply of camera modules by us. Since we started supplying camera modules to Apple in 2009, there have been no incidents of any breaches occurring, including no instance of a material breach (or anticipated material breach) of our supply obligations under the sales arrangements with Apple. Furthermore, we have a close and stable relationship, and maintain constant communication, with Apple, such that any future supply or other issues will most likely be discussed and resolved well before they lead to the occurrence of an actual breach under our agreements with Apple. Therefore, we believe it is highly unlikely that the stand-by letter of credit will ever be drawn upon, or the “step-in” rights will ever be exercised, by Apple. However, in the worst case scenario where Apple is able to draw the full amount under the stand-by letter of credit and exercise the “step-in” rights:

- We would be required to reimburse the issuing bank for the amount drawn under the stand-by letter of credit, which would accrue interest until the time of reimbursement.
- We would lose ownership and control over our production facilities in Huanan, and would lose the turnover and profit generated by such facilities, which represented 72.3% and 68.1% of

## BUSINESS

our turnover and a majority of our gross profit for the year ended December 31, 2013 and the ten months ended October 31, 2014, respectively. As of October 31, 2014, the property, plant and equipment at our Huanan production facilities (all of which are subject to Apple's "step-in" rights, and not including any principal production equipment loaned to us by Apple in 2012) accounted for approximately 61.8% of the total net book value of our property, plant and equipment, and our Huanan production facilities accounted for approximately 51% of our total monthly production capacity for camera modules.

- It is also possible that we may decide not to re-acquire the facilities from Apple under certain circumstances: for example, if (i) the business performance and market standing of Apple deteriorate significantly after the exercise of the "step-in" rights such that the costs of re-acquiring the Huanan production facilities and operating it to supply camera modules to Apple are likely to exceed the turnover that could be generated from continued sales to Apple, (ii) the relevant supply or other issues with Apple cannot be resolved, such that Apple is likely to terminate its sales arrangements with us, and the costs to us of re-acquiring and re-tooling the Huanan production facilities to supply other customers are likely to exceed the costs of establishing new production facilities for such purpose, or (iii) we are experiencing financial difficulties.

Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

If Apple were to terminate its sales arrangements with us without exercising the "step-in" rights, we believe we would be able to utilize our Huanan production facilities (excluding any manufacturing equipment supplied by Apple, which must be returned to Apple upon such termination and replaced with other equipment) to manufacture products for other customers, after re-tooling such production facilities to match the product specifications of such customers. We believe such re-tooling would require a relatively modest amount of time and expense, with the actual time and expense dependent on our production requirements at that time.

### ***Relationship with Other Major Customers***

For COB camera modules, our major customers include LG Electronics and Samsung Electronics. LG Electronics, our second largest customer, directly or indirectly accounted for 8.7% of our turnover in 2011, 9.9% of our turnover in 2012, 12.6% of our turnover in 2013 and 22.1% of our turnover in the first ten months of 2014. Our major customers for camera modules look to us for reliable and timely delivery of high-quality and cost-competitive products, and we believe that our close relationship with these major customers, most of which are leaders in the global mobile devices market, enables us to anticipate market trends and evolving customer product needs.

We sell our optical components globally to a wide range of consumer electronics manufacturers, which use our optical components in a variety of electronics products. Our major customers for optical components include Optis Co (which is a supplier of electronic components to Samsung Electronics and Toshiba) and subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi. Optis, our third largest customer for 2011, 2012 and 2013, accounted for 1.7% of our turnover in 2011, 0.9% of our turnover in 2012, 0.7% of our turnover in 2013 and 0.7% of our turnover in the first ten months of 2014 (Samsung Electronics became our third largest customer for the ten months ended October 31, 2014, accounting for 2.1% of our turnover for such period).

## BUSINESS

During the Track Record Period, none of our customers were our connected persons and none of our Directors or their respective close associates (as defined under the Listing Rules) or any of our Shareholders who to the knowledge of our Directors owned more than 5% of our issued share capital had any interest in our top five customers.

### ***Sales and Pricing***

In line with the industry norm for mobile device component suppliers, we generally enter into sales arrangements with our major customers, pursuant to which the parties agree on the basic terms of development and supply of particular products for a specified period, typically for a term of one year (including in the case of LG Electronics and Samsung Electronics, as well as Apple) but which may vary depending on the customer's needs as well as the type of product and its expected commercial longevity. Our sales arrangements usually establish parameters for determining the price of the relevant products being supplied, which is typically subject to adjustment on a regular basis based on a variety of factors such as decreases in our operating costs, changes in the prices of components and materials and improvements in our production yield for the products. In evaluating potential pricing parameters prior to entering into a sales arrangement, we generally use a pricing model that takes into account factors such as our production costs (including the cost of components and materials and labor costs), production cycle, production yield and transportation costs plus a targeted manufacturing margin for the relevant products. Our sales arrangements do not establish fixed purchase volume commitments, and purchase volumes are generally determined on an ongoing basis based on purchase orders provided by the customer. While our major customers usually provide us with a forecast of their supply needs on a regular basis, they are not legally obligated to issue purchase orders to us in accordance with such forecasts and in certain cases have the right to terminate, without cause, their sales agreements relating to particular types of products supplied by us. While we have not experienced any such termination during the Track Record Period, there is no guarantee that our major customers will continue to purchase products from us. See "Risks Factors — Risks Relating to Our Business — We currently sell a substantial portion of our camera modules and optical components to a limited number of customers. Our dependence on these customers subjects us to events that may cause material fluctuations or declines in our revenues" and "— We rely substantially on Apple." In addition, most of our major customers arrange for sourcing and supply of particular components for our production of specific products for them. See "— Components and Materials."

As further confirmed by IBS, we believe that such arrangements are not unusual in the mobile devices industry.

Turnover, cost of sales and related profit from sales of certain COB camera modules to Apple and LG Electronics are recognized on a vendor-managed inventory basis, whereby finished products are first delivered to the customer's warehouse and related turnover, cost and profits are recognized when the customer takes the products from the warehouse for use. With respect to such vendor-managed inventory, we receive daily inventory reports automatically sent by the customer's inventory management service provider whenever products are taken out of the customer's warehouse, as well as stationing an employee at important sites to monitor inventory management. Furthermore, for LG Electronics, we are connected to and use a real-time inventory monitoring system managed and shared with LG Electronics. We also engage in monthly stock checks to discover any discrepancies and to ensure that turnover is recognized properly. Turnover, cost of sales and related profit from sales of all flip-chip camera modules and certain COB camera modules to Apple are recognized upon delivery of the products to the customer's warehouse, while those from sales of COB camera modules to Samsung Electronics and optical components are recognized upon our shipment of the products to the customer. We believe our recognition policies comply with the relevant accounting standard (International Accounting Standard 18,

## BUSINESS

*Revenue*) due to the historically minimal rate of returned goods that are ultimately proven to be defective and destroyed (thereby requiring a reversal of related turnover). See “— Quality Assurance.”

### **Sales Channels**

We market our products primarily through our sales force. Sales outside of the PRC are supported by our two sales subsidiaries located in Hong Kong and Korea. Such subsidiaries support our operations by locating suitable local suppliers and potential new customers (especially for our optical components business), identifying possible business opportunities and providing information regarding local market conditions, as well as maintaining relationships with our existing customers.

Our sales and marketing strategy is to develop and maintain long-term strategic relationships with key customers that are market leaders or strong niche players in their respective industrial segment or geographic region. Due to the recent trend of increased demand for camera modules, in line with the increased demand for mobile devices with camera functions, we have focused our sales and marketing activities on expanding our base of long-term strategic customers who look to us as their preferred supplier of camera modules. We implement this strategy through multi-functional teams of technical, sales and marketing, customer support and manufacturing personnel. These teams work closely with our customers to continually optimize our products for their needs. Our close relationships with our customers are built upon lengthy and detailed review processes conducted by potential customers to determine the qualification of our manufacturing facilities and products. Once a customer relationship is established, we monitor the changing needs of the customer, seek regular feedback on our performance and target our research and development and manufacturing processes to produce camera modules and optical components adapted to the customer’s evolving product requirements and production process.

We typically grant our customers credit terms ranging from 30 to 90 days from the date of billing. We assess the credit terms on a case-by-case basis, taking into account the customer’s creditworthiness, prior dealing history and additional information specific to the customer as well as economic environment in which the customer operates.

### **Logistics and Transportation**

Upon completion of manufacturing and testing of our products at our production facilities, the products are packaged and sent to our finished goods warehouse in Hong Kong through independent third-party logistics companies. From there, we deliver the products directly to locations specified by customers by sea, air or land transportation through independent third-party logistics companies, who typically bear the risks and losses associated with the delivery. We typically engage one logistics company for a one-year term to handle our delivery process.

In relation to certain customers, our finished products are shipped from our production facilities in the PRC to our warehouse in Hong Kong, and such finished products are then delivered to a location in the PRC as designated by the customer for further assembly purposes. The primary reason for such arrangement is to enable us to benefit from the preferential tax treatment in the PRC relating to processing trade. Such arrangement is a common practice adopted by enterprises engaging in the processing trade in the PRC and, as advised by our PRC counsel, such practice is in compliance with the relevant laws and regulations in the PRC.

The geographical segment reporting of our revenue in Hong Kong and Korea, as set forth in Note 3(b)(iii) to the Accountants’ Report included in Appendix I to this prospectus, is based on the location at which we delivered our products. The location of delivery is based on our judgment of when we consider such products delivered to a customer, which may be when we deliver the products to a third

party logistics operator in Hong Kong or Korea hired by the customer (which further ships such products to the customer's warehouse or factory in a location other than Hong Kong or Korea), or directly to the customer's warehouse in Hong Kong or Korea.

During the Track Record Period, we did not experience any delays in product delivery which had a material adverse impact on us.

***Warranties and After-Sales Service***

Under the terms of our sales arrangements with our customers, we provide product warranties that are usually limited to replacement of defective items or a credit with respect to amounts paid for such items. We do not accrue any provisions for estimated costs of warranties, as the historical amount of claims under our warranties have been minimal. During the Track Record Period, we did not experience any issues relating to warranties, product recalls, product liability claims or after-sale service which had a material adverse impact on us.

***Inventory Management***

Our inventory includes components and materials, work in progress and finished goods. We have a stringent inventory control policy to monitor our inventory levels and minimize obsolete inventory. We keep track of the usage of the current period's inventory and estimate any obsolete components and materials and finished goods. We have instituted the following major inventory management procedures to ensure efficient management of our inventory:

- all purchases of components and materials must be authorized and approved by our head of procurement and recorded in our inventory management system;
- all incoming components and materials must be examined through sampling procedures and verified against purchase orders before acceptance;
- all components and materials are tagged with references after acknowledgement of receipt;
- all outgoing components and materials for production use must be authorized by the relevant production manager and recorded in our inventory management system;
- all finished goods delivered are acknowledged by customers upon delivery and recorded in our inventory management system; and
- monthly and annual stock counts are carried out to ensure that the number of stored items corresponds with entries recorded during the relevant period.

We generally keep stocks of components and materials at a level sufficient for use for up to seven to eight days for camera modules and two to four weeks for optical components, which we consider to be safe stock levels. However, to avoid any shortage of supplies, we may strategically keep a higher level of stocks for certain components and materials.

## BUSINESS

Our inventory balances as of the dates indicated were as follows:

| Inventory type                 | As of<br>December 31,                     |        |        |        |        |        | As of<br>October 31, |        |
|--------------------------------|---|--------|--------|--------|--------|--------|----------------------|--------|
|                                | 2011                                      | 2012   |        | 2013   |        | 2014   |                      |        |
|                                | (In millions of US\$, except percentages) |        |        |        |        |        |                      |        |
| Components and materials . . . | \$16.5                                    | 42.2%  | \$25.6 | 44.0%  | \$29.6 | 53.8%  | \$28.3               | 34.3%  |
| Work in progress . . . . .     | 2.8                                       | 7.1%   | 6.2    | 10.7%  | 7.5    | 13.6%  | 15.8                 | 19.2%  |
| Finished goods . . . . .       | 19.9                                      | 50.7%  | 26.4   | 45.3%  | 17.9   | 32.6%  | 38.3                 | 46.5%  |
| Total . . . . .                | 39.2                                      | 100.0% | 58.2   | 100.0% | 55.0   | 100.0% | 82.4                 | 100.0% |

### Research and Development

The camera module and optical component markets are characterized by rapid technological changes and product innovation, and we believe that continued and timely development of new products and enhancements to existing products and manufacturing processes are critical to maintaining our competitive position. Our goal in research and development is to maintain a close working relationship with our key customers to continually develop new products and refine existing products to meet their evolving needs. We aim to combine engineering innovation with specific commercialization strategies and align our technology development efforts with our customers' requirements. In order to strengthen our customer relationships and interaction to obtain a better knowledge of our customers' requirements and target our research and development efforts, we assign a number of our engineers to key customers and dedicate them to specific accounts.

Our engineers in the technology division are located in Dongguan and Korea. We are currently planning to establish a research and development center in Huanan, Dongguan in 2015. The following are research and development activities that we are currently focusing on:

- implementation of an "in-line" manufacturing process for our camera modules, which we believe will improve our manufacturing efficiency, and further automation of our production processes;
- developments to enhance the reliability and performance of padding material for camera modules; and
- improvements to the precision of lens and chip placement technology.

As of October 31, 2014, we employed 158 engineers in our technology division and 103 engineers in our operations division involved directly in the production process, whose salaries and benefits are included as part of our administrative expenses. Our research and development expenses, which primarily relate to expenses of research activities undertaken by our subsidiary in Korea, were approximately US\$0.4 million in 2011, US\$0.4 million in 2012, US\$0.4 million in 2013 and US\$0.5 million in the first ten months of 2014, or 0.1%, 0.1%, 0.1% and 0.1% of our turnover for those periods, respectively.

### Intellectual Property

We rely primarily on a combination of patent, trademark and trade secret protections, as well as confidentiality agreements, to safeguard our intellectual property. As of October 31, 2014, we held six trademarks (three of which were registered in the PRC and three of which were registered in Hong Kong) and three patents (all of which were registered in the PRC), and had a perpetual license to use two

trademarks (both of which were registered in Korea). We also currently have nine additional patent applications pending (seven of which are pending in the PRC and two of which are pending in the United States). Our issued and pending patent applications relate primarily to camera modules and optical components and their manufacturing processes. With respect to proprietary know-how that is not patentable and production processes for which patents are difficult to enforce, we rely on trade secret protections and confidentiality agreements to safeguard our interests. We believe that many elements of our products and manufacturing processes involve proprietary know-how that is not covered by patents. To safeguard our intellectual property, all of our full-time employees have entered into a confidentiality agreement with us as part of their terms of employment, which also contains non-competition provisions. We also take other precautionary measures, such as using a dedicated server for technical data and hiring specialized third-party IT firms to manage our data security. During the Track Record Period, we have not experienced any material disputes or infringements regarding our intellectual property.

### **Information Systems**

To enhance our management, we implemented an enterprise resource planning system in December 2011, which is utilized to track all aspects of our daily operations, including financial reporting, inventories, purchasing, manufacturing and sales. In August 2012, we implemented a manufacturing execution system to further enhance our control over our manufacturing processes. In November 2012, we also implemented an electronic data interchange system to facilitate the exchange of electronic documents with our customers and suppliers. In addition, in December 2013, we implemented an electronic document management system, which allows us to improve our tracking, storing and managing of electronic documents. Our aggregate expenditures on our information systems amounted to US\$0.2 million in 2011, US\$0.3 million in 2012, US\$1.0 million in 2013 and US\$1.1 million in the first ten months of 2014.

### **Competition**

The camera module industry and the optical component industry are intensely competitive. We face significant competition in each of our product lines, as we believe there are certain products from other manufacturers that are competitive with our products in terms of quality and price. Although barriers to entry exist in the design and manufacturing of camera modules and optical components in terms of technical expertise, substantial capital requirements and difficulties relating to building customer relationships and establishing market credibility, new entrants may seek to develop or acquire the required technical capability and customer base through substantial investments in the necessary technology, production facilities and marketing network to compete with our existing business.

We compete in our different product lines based on a number of factors, including the following:

- product performance, quality and reliability;
- competitive pricing;
- availability of adequate production capacity;
- ability to accurately identify and respond to emerging technological trends and demand for product features and performance characteristics;
- successful and timely development of new products and manufacturing processes;
- ability to develop and maintain customer and supplier relationships;

## BUSINESS

- customer service, including after-sales service of products and technical support; and
- brand recognition and financial strength.

### **Camera Modules**

Our principal competitors in the camera module industry currently include LG Innotek Co., Ltd., Samsung Electro-Mechanics Co., Ltd., Partron Co., Ltd. and Sharp Corporation. We believe that competition in the camera modules industry is intense as our competitors are also capable of providing similar manufacturing services for leading mobile device companies, especially for COB camera modules. While some of our competitors may have more developed sales networks to facilitate their marketing efforts, we believe that our strong market position, well-established customer relationships, advanced manufacturing capabilities and recognized technical expertise allow us to differentiate ourselves from our competitors.

In particular, we are one of several suppliers of camera modules for Apple. However, we cannot guarantee that Apple will not choose additional approved suppliers of camera modules in the future, or that it will continue to purchase camera modules from us in similar volumes or at all.

### **Optical Components**

We also compete with various companies in the optical components industry. Our principal competitors are manufacturers from the PRC such as Optron Tech Co., Ltd. We also face potential competition from emerging companies that may be seeking to significantly expand the scale of their operations.

### **Environmental, Health and Safety Matters**

#### **Environmental Matters**

Our manufacturing operations use and generate a variety of chemicals and gases, and we are subject to certain regulations in the PRC relating to the use, storage, discharge and disposal of such chemicals and gases and other emissions and waste. We are required to obtain a permit from, or to submit a report to, the relevant PRC governmental authorities in order to install facilities that emit pollution. Also, prior to commencing operation on a new manufacturing line or an extension of an existing line, we may be required to obtain a safety appraisal and government permits or filings for storage and use of hazardous chemicals and use of high pressure gas.

We engage licensed environmental specialists for each environmental area, including air quality, water quality, toxic materials and radiation to assist us in the compliance with environmental requirements. We have a comprehensive environmental management system to eliminate or minimize the possible negative effects of our manufacturing processes on the environment. We educate and train our employees on environmental issues and the proper handling of hazardous substances and require adherence to corporate guidelines on environmental protection measures. We have installed equipment and processes designed to comply with environmental laws and regulations in the PRC as well as our own internal compliance thresholds.

We received ISO 14001 (environmental management system) certification for all of our manufacturing facilities in Dongguan in December 2012. We believe that we have adopted anti-pollution measures for the effective maintenance of environmental protection standards, and that we are in compliance in all material respects with applicable environmental laws and regulations. We are not



## BUSINESS

currently involved in any material environmental claims, lawsuits, penalties or administrative sanctions. There is, nevertheless, a risk that we may be subject to environmental liabilities or litigation that could result in the assessment of damages, imposition of fines against us, suspension of production or cessation of operations. In addition, changes in environmental regulations could necessitate additional capital expenditures, modification of operations or other compliance actions.

Our aggregate expenditures on environmental and safety matters amounted to a negligible amount in 2011, and approximately US\$46,300 in 2012, US\$78,800 in 2013 and US\$91,700 in the first ten months of 2014. Our Directors currently expect that such cost of compliance for the full-year 2014 would be in the same range as that incurred during the years in the Track Record Period.

### **Health and Safety Matters**

The health and safety of our employees are top priorities at all of our manufacturing facilities. We promote the health and safety of all employees through enhanced awareness programs to minimize the occurrence of personal and physical injuries. We educate our employees at various levels and functions through customized health and safety training programs and require adherence to corporate guidelines on health and safety issues. Our manufacturing facilities also have emergency response protocols to respond to, and cope with, emergencies such as fires and explosions or leakages of various harmful substances. We believe that we are in compliance with applicable health and safety laws and regulations in all material respects, and have not experienced any material accidents in the course of our operations. We also have not been subject to material claims for personal or property damages or for health or safety related compensation from our employees.

### **Insurance**

We maintain property insurance policies with reputable insurance companies covering our equipment, facilities, and inventories of components and materials and products. These insurance policies cover losses due to fire, earthquake, flood and other natural disasters as well as power outages. Insurance coverage for our fixed assets other than land amounted to a total of approximately US\$222.2 million as of October 31, 2014. We currently do not carry business interruption insurance and therefore are not covered against the interruption of normal operation of our manufacturing facilities. In addition, although we currently maintain commercial general liability insurance against third party claims relating to personal injury arising from accidents at our properties or relating to our operations, our recoveries under such policy may not be sufficient to cover our losses resulting from such claims.

We consider our insurance coverage to be sufficient and consistent with general industry practice. However, significant damage to any of our manufacturing facilities and buildings, whether as a result of fire or other causes, could have a material adverse effect on our results of operations. We paid US\$15,787 in insurance premiums in 2011, US\$20,823 in 2012, US\$151,362 in 2013 and US\$146,817 in the first ten months of 2014.

### **Risk Management**

Our management has designed and implemented risk management policies to address various potential risks identified in relation to our operations, including strategic risks, operational risks, financial risks and legal risks. Our risk management policies set forth procedures to identify, analyze, categorize, mitigate and monitor various risks. We are dedicated to monitoring the effectiveness of such policies and modifying them as necessary from time to time. Our Board is responsible for overseeing our overall risk management and assessing and updating our risk management policies on a quarterly basis. Our risk

management policies also set forth the reporting hierarchy of risks identified in our operations. For details regarding the risks involved in our operations, see “Risk Factors.”

## **Transfer Pricing Arrangements**

### ***Commercial Rationale***

Our Hong Kong subsidiary is primarily responsible for our sales and marketing as well as for maintaining and entering into business relationships with our global customers and suppliers. In addition, it coordinates financing for the Group. On the other hand, our PRC subsidiary is primarily responsible for manufacturing our products and conducting certain research and development activities.

Our Hong Kong subsidiary purchases certain materials used for manufacturing finished products from third party suppliers and sells such materials to our PRC subsidiary, and our PRC subsidiary manufactures finished products using the materials supplied by our Hong Kong subsidiary and sells almost all of the finished products it manufactures to our Hong Kong subsidiary, which re-sells such finished products to third party customers. As advised by Jingtian & Gongcheng, our PRC legal advisor, such transactions between our Hong Kong subsidiary and our PRC subsidiary constitute processing trade businesses pursuant to the relevant PRC laws and regulations.

Our Directors believe that such arrangements (i) enhance the effectiveness of our overall management and operations and avoid the concentration of our marketing and production functions into any single entity within our Group; and (ii) enable us to benefit from the relevant PRC laws and regulations encouraging the development of processing trade, such as those relating to preferential treatment on subsidies, customs, government approval, electricity usage and land usage for expansion.

### ***Tax Implications and Compliance***

For information regarding the transfer pricing-related laws and regulations in Hong Kong and the PRC, see “Regulatory Overview — Transfer Pricing.”

Under the EIT Law, intra-Group purchase and sale transactions between our Hong Kong subsidiary and our PRC subsidiary constitute related party transactions, which must be conducted on an arm’s length basis according to the Regulation on Implementing 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). Furthermore, pursuant to such laws and regulations, our PRC subsidiary, as a company that enters into related party transactions with other companies, is required to submit an annual related party transactions reporting form (年度關聯業務往來報告表) to the relevant PRC tax authorities. In the event that its related party transactions exceed a certain threshold, our PRC subsidiary is required to keep contemporaneous documents (同期資料) relating to the related party transactions in question. If the relevant PRC tax authorities conduct any investigation on the related party transactions carried out by our PRC subsidiary, our PRC subsidiary and its related parties are required to submit relevant materials (including the applicable contemporaneous documents) to the relevant PRC tax authorities. Also see “Risk Factors — Risks Relating to Conducting Business in the PRC — Sales between our PRC subsidiary and our Hong Kong subsidiary are related party transactions which may be subject to scrutiny by the PRC tax authorities, and additional PRC taxes or penalties imposed on us as a result of such scrutiny may adversely affect our business and performance.” As of the Latest Practicable Date, our PRC subsidiary has made all the required filings relating to its related party transactions in compliance with the relevant PRC laws and regulations and has not been subject to any penalties for non-compliance with such laws and regulations.

## BUSINESS

We have adopted written policies and procedures to monitor our transfer pricing arrangements and are current in our filings with the relevant PRC tax authorities. The pricing for our intra-Group transactions is generally established based on a cost plus methodology, which we review annually or more frequently when necessary. Our financial accounting head determines the pricing of such intra-Group transactions and such pricing is reviewed and approved by the Directors. We have also engaged a PRC tax consultant (the “PRC Tax Consultant”) to periodically review the assumptions underlying the pricing of our intra-Group transactions (including the continued suitability of the cost-plus methodology) and to assist us in finalizing the necessary filings to be made with the relevant PRC tax authorities, including the preparation and filing of the annual transfer pricing report (the “TP Report”). In preparing the TP Report, the PRC Tax Consultant performed an analysis of intra-Group transactions entered into by our PRC subsidiary by, among other things; (i) assessing the financial impact on our PRC subsidiary of the terms of such intra-Group transactions, (ii) reviewing our PRC subsidiary’s owned assets and its ability to bear risks; (iii) obtaining certain financial and other information for comparable companies; and (iv) developing a range of profit level that complied with the applicable arm’s length principle.

In preparation for the Listing, we have further engaged another tax consultant (the “Tax Consultant”) to conduct a benchmarking study, the procedures for which involved (i) the obtaining of financial and other information for comparable companies from a third-party database, (ii) selecting companies comparable to our PRC subsidiary based on its functional and risk profile as provided by our management, (iii) the calculation of the profit level of such selected comparable companies and (iv) the comparison of the inter-quartile range of the profit level of such selected comparable companies with that of our PRC subsidiary, which formed the basis of our consolidated financial statements. In connection with the benchmarking study, the Tax Consultant referred to the details set out in the TP Report on the understanding with us that our senior management has reviewed and agreed with the details of the TP Report. The outcome of the benchmarking study was used as a reference by our senior management in their assessment of our transfer pricing arrangements.

After the benchmarking study was concluded, we compared the Tax Consultant’s findings against the TP Report. Our senior management found that our PRC subsidiary’s financial results fell within the range of the comparable results in the benchmarking study completed by the Tax Consultant and concluded, having taken into account the functions of the entities of the Group and the senior management’s knowledge and experience in the industry, that the intra-Group transactions between our Hong Kong subsidiary and our PRC subsidiary have been conducted on an arm’s length basis during the Track Record Period.

The Sole Sponsor has conducted a due diligence interview with the PRC Tax Consultant to assess, among others, the PRC Tax Consultant’s competence and the fairness of the TP Report. The Sole Sponsor further discussed the methodology of the benchmarking study carried out by the Tax Consultant to understand, among other things, the Tax Consultant’s assessment procedures, the benchmarking methodology adopted, basis and assumptions. The Sole Sponsor also reviewed (i) the TP Report to assess the continued suitability of the methodology applied to our transfer pricing policies and (ii) the benchmarking study carried out by the Tax Consultant, and found the results from the benchmarking study to be in line with the TP Report and satisfactory.

In view of the foregoing, we believe that the intra-Group transactions between our Hong Kong subsidiary and our PRC subsidiary have been conducted on an arm’s length basis during the Track Record Period.

As of the Latest Practicable Date, our Directors were not aware of any inquiry, audit or investigation by any tax authority in the PRC or Hong Kong with respect to our related party transactions. Having

## BUSINESS

reviewed and assessed our transfer pricing arrangements relating to transactions between our PRC subsidiary and our Hong Kong subsidiary, our Directors are also of the view that, although such related party transactions remain subject to audit and scrutiny by the relevant PRC tax authorities, we have reasonable grounds to defend against any legal challenges to our transfer pricing arrangements. The PRC Tax Consultant is of the view that we are in compliance with the relevant PRC laws and regulations relating to transfer pricing.

Furthermore, Dongguan Customs issued a letter dated October 23, 2014 confirming that, during the period between January 1, 2011 to October 17, 2014, our PRC subsidiary has complied with the relevant customs laws and regulations and no incidents in violation of such laws and regulations were discovered within the territory governed by Dongguan Customs.

### **Legal Proceedings and Regulatory Compliance**

#### ***Legal Proceedings***

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse impact on our business, results of operations, financial condition or reputation. However, we may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business.

**Non-Compliance Matters**

Our PRC legal advisor, Jingtian & Gongcheng, has advised us that, during the Track Record Period and up to the Latest Practicable Date, Cowell China has complied with relevant PRC laws, rules and regulations in all material respects, including obtaining all the necessary licenses, approvals and permits, except for a number of non-compliance incidents. The non-compliance incidents that are not considered to be immaterial are set forth below. As described below, Jingtian & Gongcheng has further advised us that the chance of retrospective or future imposition of penalties in respect of such incidents (other than the requirement to pay the Underpaid EIT and the applicable late payment surcharge in connection with the Depreciation Overstatement, as described below) is low. Each of our Controlling Shareholders has entered into a deed of indemnity and undertaking with us to provide indemnities in respect of, among others, any claims, costs, penalties, fines, damages, losses, expenses and liabilities which may be incurred or suffered by our Group relating to the non-compliance incidents described below, subject to certain exceptions such as taxes that have been provisioned for in our accounts, as further described in “Statutory and General information — E. Other Information — 2. Indemnities” in Appendix VI to this prospectus.

| No. | Non-compliance incidents and reasons  | Potential sanctions, penalties and other liabilities   | Remedial actions and status as of the Latest Practicable Date   | Enhanced internal control measures to prevent recurrence of the non-compliance  |
|-----|---|--|---|---|
| 1   | <p>During 2012, one of our major customers supplied certain manufacturing equipment (the “Customer Equipment”) to Cowell Hong Kong, which Cowell Hong Kong in turn supplied to Cowell China. See “— Production Facilities — Manufacturing Lines.” Cowell China registered the Customer Equipment with the relevant PRC government authorities as capital contributed by Cowell Hong Kong for an aggregate value of US\$77,795,912 (the “Capital Registration”).</p> <p>The Capital Registration was effected by Cowell China’s former finance director, Mr. Yu Yeon</p> | <p>As advised by Jingtian &amp; Gongcheng, our PRC legal advisor, if the capital contribution made by Cowell Hong Kong into Cowell China is deemed invalid by the relevant PRC government authorities, we may be imposed a maximum fine of 15% of the relevant capital contribution (i.e. approximately US\$11,669,387) by the Dongguan Administration of Industry and Commerce, which is the competent authority for industry and commerce.</p> <p>On the other hand, as advised by our PRC legal advisor, there would essentially be no difference in customs or import VAT treatment for Cowell China even if the</p> | <p>We applied for a reduction of Cowell China’s registered capital by a corresponding amount of US\$77,795,912 so as to remove the Customer Equipment from the registered capital of Cowell China. Our application was approved by the competent PRC authority, which is the Dongguan Bureau of Foreign Trade and Economic Cooperation, on June 6, 2014, and we have completed other applicable formalities with respect to the capital reduction including the related registration at the Dongguan Administration of Industry and Commerce (the “Dongguan AIC”). Since the relevant local authority was aware of this non-compliance incident</p> | <p>We have strengthened internal reviews of our compliance with PRC laws and regulations. In this connection, we also (a) hired Mr. Qin Zhijun in December 2013, a qualified accountant in the PRC, who had close to 15 years of experience formulating internal control policies and overseeing accounting and taxation matters for PRC based companies (Mr. Qin left our Company in July 2014 and we are currently in the process of finding a suitable replacement with similar qualifications; until we find a suitable replacement, Mr. Nam Hoi, our senior finance manager and a certified accountant under the American Institute of Certified</p> |

| No. | Non-compliance incidents and reasons  | Potential sanctions, penalties and other liabilities  | Remedial actions and status as of the Latest Practicable Date  | Enhanced internal control measures to prevent recurrence of the non-compliance   |
|-----|---|---|--|--|
|     | <p>Woong, and former senior manager, Mr. Yu Chan II (both of whom resigned and left our Group in 2012), who at the time were responsible for the registration of capital of Cowell China with the relevant PRC government authorities. However, these former finance managers did not possess an accurate understanding of PRC laws and regulations relating to the requirements for registration of manufacturing equipment supplied by a parent company as capital (the "Relevant PRC Requirements"), and effected the Capital Registration despite the fact that the legal title to the Customer Equipment was unsettled at the time (and was subsequently agreed to be retained by the customer). Based on such inaccurate understanding, the former finance managers incorrectly informed the then existing directors of Cowell China, namely, Mr. Kim Kab Cheol, Mr. Ryu Ho Yong, Mr. Yoon Yeo Eul and Mr. Sang Won Hahn, of the Relevant PRC Requirements at the time of the Capital Registration. As a result, such directors were not aware of the</p> | <p>Customer Equipment had not been registered as its capital in the Capital Registration. The reason is that, had the Customer Equipment not been registered as capital, based on the way Cowell China uses such equipment, it would have constituted non-priced imported equipment supplied by a customer for processing trade purpose ("Non-priced Processing Equipment"). As Cowell China obtained the related Confirmation Letter Regarding Domestic and Foreign Invested Project Encouraged by the State (國家鼓勵發展的內外資項目確認書) issued by the Guangdong MOFCOM for the importation of the Customer Equipment, according to our PRC legal advisor, Cowell China was subject to import VAT at the rate of 17% and customs duty-exempt qualification (although it actually paid the customs duty), while if Cowell China had imported the Customer Equipment by way of Non-priced Processing Equipment, Cowell China would have been subject to the same import VAT and customs treatment.</p> | <p>and the cause of the non-compliance was removed by the capital reduction process, on December 4, 2014, we obtained a certificate from the Dongguan AIC confirming that no record of non-compliance with industry and commerce laws and regulations by Cowell China was found for the period from January 1, 2011 to December 4, 2014. We also received verbal confirmation from the official in charge of the matter at the Department of Corporation Management (企業管理) of the Dongguan AIC that there is no outstanding non-compliance under the relevant PRC laws and regulations.</p> <p>As advised by Jingtian &amp; Gongcheng, our PRC legal advisor, under the relevant PRC laws and regulations, the Dongguan AIC is the competent authority to issue the written confirmation and provide the verbal confirmation described above. We therefore believe there is no need to obtain any confirmation from the provincial level PRC authorities in relation to this matter.</p> <p>As further advised by Jingtian &amp; Gongcheng, our PRC legal advisor,</p> | <p>Public Accountants and the Korean Institute of Certified Public Accountants, whom Mr. Qin reported to prior to his departure, will be overseeing our compliance with applicable PRC laws and regulations; Mr. Nam joined us in March 2012, after the occurrence of the non-compliance incident and was not involved therein; and (b) entered into a retainer-based arrangement with Jingtian &amp; Gongcheng, pursuant to which we plan to obtain their assistance in monitoring our compliance with applicable PRC laws and regulations, including review of all documents submitted to the relevant PRC government authorities to ensure such compliance (the "PRC Internal Control Measures").</p> |

| No. | Non-compliance incidents and reasons  | Potential sanctions, penalties and other liabilities  | Remedial actions and status as of the Latest Practicable Date   | Enhanced internal control measures to prevent recurrence of the non-compliance |
|-----|---|---|---|--|
|     | <p>potentially non-compliant nature of the Capital Registration, especially since it had passed the requisite capital verification process and relevant capital verification reports were issued, and there was no objection to the Capital Registration raised by the Dongguan Bureau of Foreign Trade and Economic Cooperation.</p> <p>Furthermore, as a result of the Capital Registration, Cowell China recorded depreciation expenses on the Customer Equipment in 2012 and 2013 that would not otherwise have been deductible for PRC EIT purposes, in its previous regulatory filings with the relevant PRC tax authorities (the “Depreciation Overstatement”). Consequently, it is possible that the relevant PRC tax authorities may deem that Cowell China underpaid PRC EIT for 2012 and 2013 by up to RMB6.3 million and RMB12.3 million, respectively (the “Underpaid EIT”).</p> <p>The directors of Cowell China became aware of such potential</p> | <p>With respect to the Depreciation Overstatement, as advised by Jingtian &amp; Gongcheng, our PRC legal advisor, Cowell China may be required to pay the Underpaid EIT in the aggregate amount of up to RMB18.6 million<sup>(1)</sup> as a result of the Depreciation Overstatement. As advised by Jingtian &amp; Gongcheng, Cowell China may also be subject to a late payment surcharge at a rate of 0.05% of the amount of taxes in arrears calculated on a daily basis from the date on which such taxes became due. Based on such advice, the maximum aggregate amount of such potential late payment surcharge would have been approximately RMB3.1 million<sup>(1)</sup> as of December 31, 2014 and would be approximately RMB4.5 million<sup>(1)</sup> as of May 31, 2015. In the event that Cowell China is required to pay the Underpaid EIT (and any related late payment surcharge), in the total maximum amount of RMB21.7 million as of December 31, 2014 and RMB23.1 million as of May 31,</p> | <p>given that the Customer Equipment has been removed from the registered capital of Cowell China by a registered capital reduction process and the confirmations we received from the competent government authorities, the likelihood that we will be subject to the penalties mentioned in this section is very low.</p> <p>Based on the rectifications we have carried out, the advice from our PRC legal advisor and the indemnity provided by each of our Controlling Shareholders, we have not made any provision in connection with such non-compliance incident.</p> <p>With respect to the Depreciation Overstatement, for purposes of its regulatory filings with the relevant tax bureau, and as verbally instructed by the official in charge of the matter at the Liaobu National Tax Bureau (as defined below) (as it is their preference to review the Depreciation Overstatement issue together with our annual regulatory filing since it</p> |  |

(1) The amounts of Underpaid EIT and potential late payment surcharge as of December 31, 2014 and May 31, 2015 were calculated by our management in accordance with the applicable PRC tax law, and the underlying applicable tax rate and late payment surcharge rate upon which such amounts were calculated were confirmed by Jingtian & Gongcheng, our PRC legal advisor.

| <b>No.</b> | <b>Non-compliance incidents and reasons</b>  | <b>Potential sanctions, penalties and other liabilities</b>   | <b>Remedial actions and status as of the Latest Practicable Date</b>  | <b>Enhanced internal control measures to prevent recurrence of the non-compliance</b> |
|------------|--|---|---|---|
|            | <p>non-compliance with the Relevant PRC Requirements when the new finance team, which was appointed to replace the former finance managers discovered and raised these issues during the course of their review of such financial statements in 2013. Upon becoming aware of the issues, the directors of Cowell China instructed its management to discuss potential alternatives for resolving them with PRC counsel and the relevant PRC government authorities and, based on such discussions, decided to effect the remedies described in this section.</p> | <p>2015, and does not make such payments within the time prescribed by the relevant PRC tax authorities, Cowell China may be imposed a fine of not less than 50% of and not more than five times the unpaid amount.</p> | <p>may have an impact on our annual EIT), Cowell China will rectify the Depreciation Overstatement during its next annual regulatory filing, which is required to be made within the first five months of 2015, unless otherwise further instructed by the relevant tax bureau. For purposes of its regulatory filings with the local administration for industry and commerce, as Cowell China is subject to an annual report publication procedure which has replaced the previous annual inspection procedure as of March 1, 2014, Cowell China will make all required rectification relating to the Depreciation Overstatement in its next annual report, which is due on June 30, 2015, unless otherwise instructed by the local administration for industry and commerce.</p> |   |
|            |  |   | <p>Apart from the filing with the local administration for industry and commerce referred to above, we have previously disclosed and discussed the Depreciation Overstatement with the Liaobu Branch of the Dongguan Municipal Office of State Administration of</p>  |   |



## BUSINESS

| No. | Non-compliance incidents and reasons | Potential sanctions, penalties and other liabilities | Remedial actions and status as of the Latest Practicable Date  | Enhanced internal control measures to prevent recurrence of the non-compliance |
|-----|--------------------------------------|--|--|--|
|     |                                      |  | <p>Taxation (東莞市國家稅務局寮步稅務分局) (the "Liaobu National Tax Bureau") during the course of Cowell China's capital reduction, which is the competent PRC government authority as advised by our PRC legal advisor, and the Liaobu National Tax Bureau has not instructed us to carry out any immediate rectification actions. In addition, the Liaobu National Tax Bureau issued tax payment certificates on March 27, 2014 and October 20, 2014 (the "Liaobu National Tax Certificates") confirming that, from Cowell China's date of incorporation to the issuance date of the certificate, Cowell China made tax declarations and tax payments in accordance with PRC national tax laws and regulations and that there was no record of material PRC tax administrative sanctions imposed on Cowell China during such period. Moreover, as of the Latest Practicable Date, we have not been subject to any fine or penalty arising from such non-compliance incident imposed by the PRC government authorities. Based on the foregoing, our PRC legal advisor is of the view</p> |  |

## BUSINESS

| No. | Non-compliance incidents and reasons | Potential sanctions, penalties and other liabilities | Remedial actions and status as of the Latest Practicable Date   | Enhanced internal control measures to prevent recurrence of the non-compliance |
|-----|--------------------------------------|--|---|--|
|     |                                      |  | <p>that, other than the potential assessment of the Underpaid EIT (and the related late payment surcharge), the risk of retrospective or future liability or penalty being imposed on us in respect of the Depreciation Overstatement is low.</p> <p>Unless otherwise instructed by the relevant PRC authorities, we will undertake to make full payment of the Underpaid EIT and the related late payment surcharge, if required, by May 31, 2015 and expect all other rectifications regarding the Depreciation Overstatement to be completed by June 30, 2015.</p> <p>In light of the possibility that Cowell China will be required to pay the Underpaid EIT, we established provisions for the Underpaid EIT for 2012 and 2013, which are included in “notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned” for the applicable years, as disclosed in Note 6(b) to the Accountants’ Report included in Appendix I to this prospectus.</p> |  |

## BUSINESS

| No. | Non-compliance incidents and reasons   | Potential sanctions, penalties and other liabilities      | Remedial actions and status as of the Latest Practicable Date   | Enhanced internal control measures to prevent recurrence of the non-compliance                                      |
|-----|--|---|---|---|
| 2.  | <p>Prior to September 2013, a number of our expatriate employees paid individual income tax ("IIT") in the PRC in respect of one-third of the income which was paid to them in the PRC but not in respect of the remaining two-thirds of the income because such income was paid to them in Hong Kong. For details, please see "— Non-compliance regarding IIT" below.</p> | <p>Please see "— Non-compliance regarding IIT" below.</p> | <p>The total maximum Underpaid EIT in the amount of RMB18.6 million is provisioned for as "provision for tax outside Hong Kong" under current tax payable in our consolidated statement of financial position, as disclosed in Note 21(a) to the Accountants' Report. If we are required to pay the Underpaid EIT and make such payment, such payment will be reflected in our cash flow statement and the corresponding amount will be removed from our consolidated statement of financial position.</p> <p>Any late payment surcharge imposed with respect to the Underpaid EIT will be covered by the indemnity provided by each of our Controlling Shareholders.</p> | <p>Please see "— Non-compliance regarding IIT" below.</p> <p>Please see "— Non-compliance regarding IIT" below.</p> |

| No. | Non-compliance incidents and reasons   | Potential sanctions, penalties and other liabilities   | Remedial actions and status as of the Latest Practicable Date  | Enhanced internal control measures to prevent recurrence of the non-compliance  |
|-----|--|--|--|---|
| 3.  | <p>Cowell China did not set up a housing provident fund account and pay housing provident fund contributions for all of its employees in accordance with the applicable PRC laws and regulations before December 2013. Since December 2013, Cowell China has registered housing provident fund accounts and paid housing provident fund contributions for certain of its employees. For the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014, the amount of the shortfall in our contributions to the housing provident fund was approximately RMB1.9 million, RMB3.9 million, RMB4.9 million and RMB4.9 million, respectively. Cowell China did not apply for registration of housing provident fund nor pay the housing provident fund contributions for certain of its employees because such employees refused to make their own housing provident fund contributions, for which Cowell China would be required to make matching contributions. Some of the employees refused to make their own housing provident fund</p> | <p>Pursuant to the Housing Provident Fund Management Regulations (住房公積金管理條例), employers failing to (a) register housing provident fund accounts within the prescribed time may be subject to a fine ranging from RMB10,000 to RMB50,000; (b) pay housing provident fund contributions may be ordered to make outstanding contributions within the prescribed time, and the relevant housing provident fund authority may apply to the PRC courts for enforcement of such payments for any further failure to make such payments. Therefore, in addition to the payment of outstanding contributions, we would be subject to a potential maximum fine of RMB50,000.</p> | <p>We have liaised with the relevant employees with a view to rectifying the non-compliances and have made remedial payments in respect of past contributions required from us. However, certain employees still chose not to make their own housing provident fund contributions.</p> <p>We have liaised with the relevant housing provident fund authority and based on its review of our case, the housing provident fund authority issued a letter to us on February 24, 2014 confirming that Cowell China has legally established a housing provident fund system and paid housing provident fund contributions for its employees and that Cowell China had not been penalized by it for breach of the relevant PRC laws and regulations relating to the housing provident fund. The housing provident fund authority issued a letter on October 27, 2014 confirming the same.</p> <p>As advised by Jingtian &amp; Gongcheng, our PRC legal advisor, given the confirmation</p> | <p>In addition to the PRC Internal Control Measures, the head of the human resources department of Cowell China has been designated to ensure that there is oversight of setting up housing provident accounts and making housing provident fund contributions by (a) reviewing the status of housing provident fund contributions made by Cowell China on a monthly basis; and (b) attending meetings of the internal audit department of Cowell China to report on the status of housing provident fund contributions to be made by Cowell China.</p> |

| <b>No.</b> | <b>Non-compliance incidents and reasons</b>   | <b>Potential sanctions, penalties and other liabilities</b> | <b>Remedial actions and status as of the Latest Practicable Date</b>  | <b>Enhanced internal control measures to prevent recurrence of the non-compliance</b> |
|------------|---|---|---|---|
|            | <p>contributions because they believed it will not offer the benefit they desired as contributions paid in Dongguan may not be transferable to their home cities.</p> |   | <p>issued by the relevant PRC government authority, the likelihood that we will be fined or be required by the relevant housing provident fund authority to pay the outstanding housing provident fund contributions is low.</p> <p>Based on the confirmation received from the housing provident fund authority, we have not made any provision in connection with such non-compliance incident.</p> |   |

| No. | Non-compliance incidents and reasons   | Potential sanctions, penalties and other liabilities   | Remedial actions and status as of the Latest Practicable Date   | Enhanced internal control measures to prevent recurrence of the non-compliance  |
|-----|--|--|---|---|
| 4.  | <p>During the Track Record Period, Cowell China has been contributing to the employee social welfare schemes calculated based on an amount of wages accepted by the relevant social insurance authorities in Dongguan, which is lower than the actual wages of employees as required under the applicable PRC laws and regulations. For the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014, the difference between the social insurance contributions we made and the amount of contributions calculated based on the actual wages of employees was approximately RMB3.5 million, RMB7.5 million, RMB6.9 million and RMB6.6 million, respectively.</p> | <p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), we may be required by the relevant social insurance authorities to pay (i) the difference in social insurance contribution based on the actual wages of employees and (ii) an overdue fine at a daily rate of 0.05% of the total amount of the difference, and if the required payment is not made within the prescribed time limit, the relevant social insurance authorities may impose an additional fine of one to three times the overdue amount.</p> | <p>We received a confirmation letter dated January 22, 2014 issued by Dongguan Social Security Department (東莞市社會保障局) which is the competent and responsible authority in Dongguan, Guangdong province in respect of our social welfare schemes stating that, (i) there has been no incident of any outstanding payment of social insurance contribution by Cowell China, and (ii) there has been no record of administrative penalty imposed by Dongguan Social Security Department on Cowell China for breach of social insurance related PRC laws and regulations. Dongguan Social Security Department issued a letter on November 4, 2014 confirming the same for the period from January 22, 2014 to October 31, 2014. Furthermore, as of the Latest Practicable Date, we have not received any notice from the relevant social insurance authorities requiring us to make payments in respect of the difference in social insurance contributions, nor were we aware of any employees' complaints or demands for</p> | <p>In addition to the PRC Internal Control Measures, as an annual compliance measure following the Listing, we will continue to communicate with our employees with regard to the employee social welfare schemes and contribute to the employee social welfare schemes for our employees in line with the standards stipulated under the applicable PRC laws and regulations or the standards set by the social insurance authorities in Dongguan.</p> |

## BUSINESS

| No. | Non-compliance incidents and reasons | Potential sanctions, penalties and other liabilities | Remedial actions and status as of the Latest Practicable Date   | Enhanced internal control measures to prevent recurrence of the non-compliance |
|-----|--------------------------------------|--|---|--|
|     |                                      |  | <p>payment of social insurance contributions, nor had we received any legal documentation from the labor arbitration tribunals or the People's Courts regarding disputes of social insurance contributions. As advised by Jingtian &amp; Gongcheng, our PRC legal advisor, in light of the above and given the confirmation issued by the relevant government authorities, the risk of us being required to pay the difference in contributions or penalized by Dongguan Social Security Department for such non-compliance is low.</p> <p>Based on foregoing and the indemnity provided by each of our Controlling Shareholders, we have not made any provision for the difference in social insurance contributions based on the actual wages of employees. Nevertheless, we will properly pay the difference in social insurance contributions if requested by the relevant social insurance authorities based on the actual wages of employees.</p> |  |

| No. | Non-compliance incidents and reasons  | Potential sanctions, penalties and other liabilities   | Remedial actions and status as of the Latest Practicable Date  | Enhanced internal control measures to prevent recurrence of the non-compliance   |
|-----|---|--|--|--|
| 5.  | <p>Cowell China did not go through the “Three Simultaneities” (referring to the requirement that the occupational disease prevention facilities of a construction project must be designed, constructed and put into operation and used simultaneously with the main part of the project) procedures for the occupational disease prevention facilities during the construction of our manufacturing facilities in Hengkeng and Huanan according to the applicable PRC laws and regulations.</p> <p>Such non-compliance incident was mainly caused by our designated staff’s unintended and inadvertent oversight of the relevant PRC laws and regulations.</p> | <p>Pursuant to the Interim Measures for the Supervision and Management of the “Three Simultaneities” for Occupational Health at Construction Projects (建設項目職業衛生“三同時”監督管理暫行辦法), a party failing to go through the necessary procedures may be required to pay a fine ranging from RMB100,000 to RMB500,000 or, under serious circumstances, cease production or shut down its manufacturing facilities. Therefore, we would be subject to a potential maximum fine of RMB500,000.</p> | <p>We have obtained a letter dated March 12, 2014 from the relevant government authorities confirming that our manufacturing facilities in Hengkeng and Huanan are workplaces with ordinary occupational disease hazard and that the occupational disease hazard factors comply with the relevant legal standards and that we have established the necessary occupational disease prevention measures.</p> <p>As advised by Jingtian &amp; Gongcheng, our PRC legal advisor, given the confirmation issued by the relevant government authorities, our non-compliance is not serious and the risk of us being penalized for such non-compliance incident is low.</p> | <p>In addition to the PRC Internal Control Measures, we have adopted internal policies to engage experts and professional advisers to ensure our construction in the future is in compliance with the relevant PRC laws and regulations.</p> |



***Non-compliance regarding IIT***

A number of our expatriate employees in the PRC, including Korean engineers as well as two executive Directors, Mr. Kim Kab Cheol and Mr. Seong Seokhoon (the “Expatriate Employees”), have been employees of Cowell China and have rendered services in the PRC while receiving salaries in Hong Kong and the PRC. Some of these Expatriate Employees have since left our Group. In many cases, their services in the PRC exceeded 183 days per year, which attracted PRC income tax in respect of their full salaries.

Prior to September 2013, these Expatriate Employees paid IIT in the PRC in respect of one-third of the income which was paid to them in the PRC but not in respect of the remaining two-thirds of the income, because such income was paid to them in Hong Kong. Such tax payment structure was put in place under our previous finance team led by Mr. Yu Yeon Woong and Mr. Yu Chan Il, both of whom resigned and left our Group in 2012. The number of the Expatriate Employees grew from 42 individuals as of December 31, 2011 to 114 individuals as of December 31, 2012, 126 individuals as of December 31, 2013 and 136 individuals as of October 31, 2014.

Each of the Expatriate Employees was required to declare and pay applicable income tax in the PRC in respect of the income they received for services rendered by them in the PRC pursuant to the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) (the “IIT Law”), the Individual Income Tax Law Implementation Regulation (中華人民共和國個人所得稅法實施條例) (the “IIT Regulation”), the Provisions relating to Certain Issues Concerning Individual Income Tax Collection (徵收個人所得稅若干問題的規定), the Notice on Questions concerning Tax Payment Obligations for Salary Income Gained by Individuals not Domiciled in the PRC (關於在中國境內無住所的個人取得工資薪金所得納稅義務問題的通知) and the Law of the PRC on the Administration of Tax Collection (中華人民共和國稅收徵收管理法). However, as the Expatriate Employees were not familiar with the reporting requirements under the applicable PRC tax laws and regulations (including the IIT Law and the IIT Regulation), they did not declare to the relevant PRC tax authorities the full amount of income they received with respect to services rendered by them in the PRC, resulting in underpayment of PRC tax. They had no prior legal training and were not familiar with the application of PRC laws and regulations. To a large degree they relied on the procedures implemented by our previous finance team.

We are subject to the IIT Law and the Notice on Withholding of Individual Income Tax by Foreign Invested Enterprises and Foreign Enterprises for the Salaries paid to their Employees by Offshore Enterprises (關於外商投資企業和外國企業對境外企業支付其雇員的工資薪金代扣代繳個人所得稅問題的通知), which require our PRC subsidiary, Cowell China, to compile relevant information for tax declaration and to withhold a percentage of the salaries paid to the Expatriate Employees by Cowell China and Cowell Hong Kong for services rendered by them in the PRC for IIT payment.

Cowell China is not required by such laws to undertake any action (other than compiling relevant information for tax declaration and the withholding referred to above) with respect to the tax payable by such Expatriate Employees. Cowell China did not withhold such amounts or compile relevant information for tax declaration with respect to these Expatriate Employees because Mr. Yu Yeon Woong and Mr. Yu Chan Il had an inaccurate understanding of the applicable PRC tax laws and regulations at the relevant time. According to the Law of the PRC on the Administration of Tax Collection, where a withholding agent provides false materials, makes untruthful reports or refuses to provide relevant materials for tax payment, it may be ordered by the tax authorities to rectify such non-compliances and may be fined not more than RMB10,000. If the circumstances are serious, it may be fined not less than RMB10,000 but not more than RMB50,000. In addition, if a withholding agent fails to withhold an amount of tax which should have been withheld, it may be ordered by the tax authorities to rectify such non-

## BUSINESS

compliances within a prescribed time limit and may be imposed an overdue fine at a daily rate of 0.05% of the overdue tax payment, as well as an additional fine of not less than 50% of, and not more than three times, the amount of tax which should have been withheld but has not been withheld.

We subsequently appointed a tax advisor (the “Tax Advisor”) in July 2013 to, upon request, advise us on ongoing Hong Kong tax and PRC tax matters, including but not limited to matters relating to PRC corporate and income tax, foreign exchange issues, withholding tax obligations and IIT back-filing assistance. The Tax Advisor had been engaged to review the IIT issues and became aware of this tax non-compliance incident and assisted us and the relevant Expatriate Employees in coordinating with the relevant PRC tax authorities on the settlement of the applicable outstanding tax and penalty amounts, as well as advising us on the appropriate internal measures to prevent the recurrence of similar incidents in the future.

With the assistance of the Tax Advisor, Cowell China voluntarily approached the Liaobu Branch of the Dongguan Municipal Local Taxation Bureau (東莞市地方稅務局寮步稅務分局) (the “Local Tax Bureau”) on August 23, 2013 to discuss the issues relating to such underpayments and disclosed the full background relating to its non-compliance with PRC tax regulations. Upon discussion with the Local Tax Bureau, Cowell China paid the amount of RMB4,205,014 to settle the taxes and the amount of RMB207,484 as a late payment surcharge in respect of the first eight months of 2013 (after which the non-compliant practice ceased). The Local Tax Bureau accepted the disclosure and payment without imposing any penalty or further taxes for the prior years. Other than the foregoing, as of the Latest Practicable Date, we have not been subject to any fine or penalty arising from such non-compliance incident imposed by the PRC government authorities. In addition, as the Local Tax Bureau was aware of the IIT non-compliance incident and we have settled the issue with the Local Tax Bureau through our disclosure and payment, the Dongguan Municipal Local Taxation Bureau (東莞市地方稅務局) issued a tax payment certificate to Cowell China on December 4, 2014, which confirmed that there were, at the time of issuance of such certificate, no known non-compliance incidents concerning tax payments by Cowell China for the period from January 1, 2011 to November 30, 2014. Based on the foregoing, the verbal confirmation we received from the officials of the Taxation Service Division (納稅服務處) and the Tax Policy Division II (稅政二處) of Guangdong Provincial Local Taxation Bureau that the tax authority of the region where an enterprise is registered (which is the Local Tax Bureau in the case of our PRC subsidiary) is the competent government tax authority to handle the IIT issues of such enterprise and the Liaobu National Tax Certificates we received from the Liaobu National Tax Bureau, Jingtian & Gongcheng, our PRC legal advisor, is of the view that the risk of retrospective or future liability or penalty being imposed on us in respect of IIT is low.

Notwithstanding the above, having taken into consideration the Tax Advisor’s view that if the Dongguan tax officials initiate an IIT investigation, any retrospective adjustment will, in practice, normally extend back to 2 years from the year in which such investigation takes place, we have made a provision of US\$754,820 and US\$1,336,282 for the under-withholding of IIT in 2011 and 2012, respectively, relating to the two-thirds of the income paid in Hong Kong to the Expatriate Employees. These provisions were determined by our finance team based on the amounts of under-withholding due from the Expatriate Employees in the PRC in 2011 and 2012, which were RMB4.9 million and RMB8.4 million, respectively. Such under-withheld amounts represented 90.6% and 91.6% of the IIT required to be withheld in 2011 and 2012, respectively. While the Directors consider that it is each individual Expatriate Employee’s responsibility to bear any additional IIT, they concluded that we will not seek reimbursement from them in view of the time lapsed and employee turnover, which makes the potential reimbursement process administratively burdensome. To the best of our knowledge, there are no issues relating to tax underpayment by any other employees.

## BUSINESS

To address such tax non-compliance incident and prevent the recurrence of similar incidents in the future, we have implemented the following internal control measures:

- we engaged the Tax Advisor in July 2013 to, upon request, advise us on PRC tax laws and regulations and to inform the Directors and members of our senior management of the relevant PRC tax laws and regulations and their application;
- since this incident, we have formulated guidelines in accordance with which we assess and withhold the relevant PRC tax amounts we consider necessary under applicable PRC tax laws and regulations in respect of salaries paid to the Expatriate Employees. In addition, since September 2013, we have also engaged Dongguan Zhengheng Tax Agency Co. Ltd (東莞市正衡稅務師事務所有限公司) (the "Tax Agency"), a specialist PRC tax agency, to assist us in keeping track of and reporting the relevant income tax payable by the Expatriate Employees, including the calculation of the relevant PRC tax amounts, and the preparation of monthly reports on the amount of such taxes accrued. Our finance team reviews the work carried out by the Tax Agency to ensure accuracy. We then withhold such amounts from the monthly salaries payable to the Expatriate Employees and file a monthly individual tax withholding return with and pay the tax withheld to the relevant PRC tax authorities directly. This process is handled by our new finance team and overseen by our chief financial officer to ensure that we are in compliance with the relevant guidelines. Since the adoption of such guidelines and the engagement of the Tax Agency, we have duly computed, declared, withheld and paid the relevant PRC tax amounts and no PRC tax non-compliance issue has arisen;
- we also hired Mr. Qin Zhijun in December 2013, a tax planning expert with close to 15 years' experience in tax reporting and compliance matters, to coordinate the continuation of review over individual income withholding tax returns of the Expatriate Employees on an ongoing basis. Mr. Qin left our Company in July 2014, and we are currently in the process of finding a suitable replacement with similar qualifications. Prior to his departure, Mr. Qin checked such returns against the employment contracts and payroll details in order to verify the completeness and correctness of the PRC income declared with respect to the Expatriate Employees for services rendered in the PRC and the final amount of PRC IIT paid as confirmed by the tax payment certificates issued by the relevant local tax bureau. Mr. Qin also coordinated and provided training to staff in our finance team to ensure that they were kept aware of the latest regulatory requirements. We expect that his replacement, once found, will continue to perform similar duties. Until we find a suitable replacement, Mr. Nam Hoil, our senior finance manager and certified accountant under the American Institute of Certified Public Accountants and the Korean Institute of Certified Public Accountants, whom Mr. Qin reported to prior to his departure, will be assuming Mr. Qin's responsibilities. Mr. Nam joined us in March 2012, after the commencement of the non-compliant practices and was not involved in the establishment of such practices. Prior to joining us in 2012, Mr. Nam acquired extensive experience working at a large international accounting firm reviewing compliance and internal control measures of publicly traded companies. Mr. Nam was also actively involved in Mr. Qin's review and training activities; and
- we require the Expatriate Employees to provide an annual declaration that they have declared to the relevant PRC tax authorities the full amount of salaries paid to them by us. In addition, our human resources department is required to remind employees who render services in the PRC of their general tax reporting and payment obligations in the PRC and offer them the services of the Tax Advisor to answer any questions or concerns they may have regarding their PRC tax obligations.

## BUSINESS

These internal control measures are intended to (i) educate our management and employees on the application of and reporting requirements under the applicable PRC tax laws and regulations (including the IIT Law and the IIT Regulation), (ii) strengthen the co-ordination and supervision of our tax reporting process and (iii) assist our finance team in monitoring the compliance with such laws and regulations. We believe that these measures have been effective in ensuring the continuous compliance with our tax reporting obligations.

Having considered the remedial actions and the nature of the non-compliance incidents as well as the indemnity provided by each of our Controlling Shareholders against such non-compliance incidents, our Directors believe that the above non-compliance incidents individually or collectively would not have a material adverse effect on our business and results of operations.

### ***Internal Control Measures to Prevent Occurrence of Non-Compliance Incidents After the Listing***

In order to improve our corporate governance and to prevent recurrence of non-compliance incidents in the future, we have adopted, or expect to adopt before the Listing, a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- *Training:* Our Directors and senior management attended training sessions on March 26, 2014 and April 2, 2014, in respect of the relevant legal and regulatory requirements of Hong Kong and the ongoing obligations, duties and responsibilities of directors and senior management of publicly listed companies. We will provide our Directors, senior management and employees with training, development program and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group on a semi-annual basis, which will be provided by an external legal counsel. As of the date of this prospectus, we are in the process of discussing the terms of engagement with various legal counsels and such engagement is expected to be finalized before the publication of our annual report.
- *Internal Audit:* Our internal audit function will regularly monitor key controls and procedures in order to assure our management and Board of Directors that the internal control system is functioning as intended. Our internal audit team is headed by Mr. Kim Hoon Jung, who is a certified public accountant under the Korean Institute of Certified Public Accountants. Mr. Kim joined our Company in December 2013, and was employed at Deloitte Anjin LLC in Korea from September 2009 prior to joining us, where he worked on audit, tax and other consulting matters.
- *Audit Committee:* We have established an audit committee on February 4, 2015, with effect from the Listing, with written terms of reference in accordance with Appendix 14 to the Listing Rules to review our internal control and risk management systems and monitor the effectiveness of our internal audit function.
- *Compliance with the Listing Rules:* We have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions and securities transactions by our Directors. In addition, we will appoint an external Hong Kong legal advisor to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations.

## BUSINESS

- *Compliance with PRC Laws and Regulations:* We have adopted the PRC Internal Control Measures, including engaging Jingtian & Gongcheng to assist in monitoring our compliance with applicable PRC laws and regulations. We have also appointed the Tax Advisor in July 2013 as discussed above. The scope of work of the Tax Advisor is to advise us, at our request, on ongoing PRC and Hong Kong tax matters, including but not limited to matters relating to PRC corporate and income tax, foreign exchange issues, withholding tax obligations and IIT back-filing assistance. Since our appointment of the Tax Advisor in July 2013, our management has liaised with the Tax Advisor at least once every fiscal quarter to discuss various PRC and Hong Kong tax issues arising in the course of our business. We believe that such arrangements will be sufficient to assist our management (including our senior finance manager, Mr. Nam Hoil) in overseeing our compliance with applicable PRC and Hong Kong tax laws in the future.

Furthermore, we engaged an internal control consultant to perform certain agreed upon procedures in December 2013 in respect of our internal controls, in preparation for the Listing. Upon completion of such procedures, the internal control consultant provided us with a number of recommendations regarding internal control improvement opportunities. To address the internal control improvement measures recommended by the internal control consultant, we agreed to fully implement such recommended measures prior to the completion of the Global Offering and intend to continually monitor, test and enhance our internal control system. The internal control consultant also performed follow-up procedures in April, August and December 2014 including an inquiry of our management regarding the implementation status of its recommendations. Below is a summary of the key internal control improvement recommendations and their implementation status:

- *Management of compliance with the Listing Rules:* The internal control consultant initially noted that certain policies and procedures applicable to our Board of Directors, board committees and other areas relating to compliance with the Listing Rules were still in draft form and had yet to be reviewed and approved by our management. We have since finalized such policies and procedures with the assistance of our legal advisors. Such policies and procedures were approved by our Board of Directors prior to the Listing and are subject to periodic review.
- *Policies and procedures relating to our Board of Directors and board committees:* The internal control consultant initially noted that our Board of Directors had not established and delegated its functions to any board committees and that we had not established specific requirements regarding the composition, mix or qualification of the members of our Board of Directors and board committees. We have since finalized the applicable term of reference for our Board of Directors and board committees with the assistance of our legal advisors. Such terms of reference were approved by our Board of Directors, and the board committees were established, prior to the Listing and such terms of reference are subject to periodic review. See “Directors and Senior Management — Board Committees.”
- *Internal audit function:* The internal control consultant initially noted that we had not established an independent internal audit function, and that internal audit reviews were performed by personnel from our planning department. In response, we have established an internal audit team as discussed above, and also prepared an internal audit charter which sets out the role and objectives of the internal audit team, scope of internal audit, authority and responsibility, accountability, independence, reporting, liaison with external auditor, professional standards and methodology and confidentiality and impartiality of the internal audit function.

## BUSINESS

- Inventory management and safeguarding:* The internal control consultant initially noted that our Hong Kong subsidiary does not perform a surprise physical count of inventory at its warehouse or a physical count of 100% of all inventories on a periodic basis. We have since adopted policies requiring our Hong Kong subsidiary to perform a surprise inventory count at its warehouse at least once a year (starting in the second half of 2014) and annual physical count of 100% of all inventories.

Our Directors are of the view that we have taken all reasonable steps to establish a proper internal control system as recommended by our internal control consultant to prevent future recurrence of non-compliance incidents. As such, our Directors and the Sole Sponsor are of the view that our enhanced internal control measures are adequate and effective.

In addition, having considered the non-compliance matters described in “— Non-Compliance Matters” and our enhanced internal control measures, the Sole Sponsor is not aware of any matter that would render our Directors not suitable as directors of a listed company under Rules 3.08 and 3.09 of the Listing Rules, or would render us not suitable for listing under Rule 8.04 of the Listing Rules.

### **Approvals and Permits**

Set out below are the key PRC approvals, permits, licenses and certificates required for our key operations:

| <b>Document</b>  | <b>Date Issued</b> | <b>Date of Expiration</b> | <b>Description</b>   |
|--|--------------------|---------------------------|--|
| Registration Certificate of Customs Declaration Entities                                   | October 8, 2014    | Not applicable            | Registration certificate for customs declaration                       |
| Certificate on Operation Situation and Production Capacity of Processing Trade Enterprises | March 9, 2015      | March 8, 2016             | Certificate for proving the legal capacity to conduct processing trade |
| Pollutant Discharge Permit of Guangdong Province   | September 19, 2012 | September 18, 2017        | Permit for discharging waste water                                     |
| Radiation Safety Permit  | March 9, 2015      | March 8, 2020             | Permit for the use of radiation device type-III                        |

## BUSINESS

### Employees

We had a total of 6,892 employees as of October 31, 2014. The following table sets forth the number of our full-time employees categorized by our areas of operations and as a percentage of our full-time workforce as of October 31, 2014:

|  | <u>Number of employees</u> | <u>Percentage</u> |
|--|----------------------------|-------------------|
| Flip-chip Operations Division . . . . .          | 4,334                      | 62.9%             |
| COB Operations Division . . . . .                | 951                        | 13.8%             |
| Quality Assurance Division . . . . .             | 574                        | 8.3%              |
| Human Resources Division . . . . .               | 119                        | 1.7%              |
| Technology Division . . . . .                    | 503                        | 7.3%              |
| Optical Components Operations Division . . . . . | 221                        | 3.2%              |
| Management Division . . . . .                    | 190                        | 2.8%              |
| Total . . . . .                                  | <u>6,892</u>               | <u>100.0%</u>     |

We work with professional employment agencies located in Dongguan for the hiring of most of our factory workers. Our remuneration package for employees include salary, bonuses and allowances (which include housing, ground and air transportation, education and mobile phone allowances). We also participate in social insurance contribution plans organized by the relevant government bodies in Dongguan, PRC. In accordance with relevant PRC laws, we pay, in respect of each employee, a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, personal injury insurance and maternity insurance, as applicable. We also provide living, entertainment, dining and training facilities for our employees. Our training scope includes management skills and technology training, as well as other courses.

We experienced minor operational disruptions in July 2014 when a small number of our factory employees in the PRC went on a strike due to workload issues. The dispute was resolved within a day after we met with representatives of the striking employees to address their demands, and the Liaobu Town government supported us during the settlement process. Our internal review showed that we were fully compliant with all applicable labor laws and regulations. See “Risk Factors — Work stoppages and other labor-related issues may adversely affect our operations.” Other than the foregoing incident, we consider our relations with our work force to be good. We provide a competitive remuneration package and have maintained a cooperative relationship with our employees, and we have not experienced any other significant labor-related or union disputes or overly high turnover compared to our peers during the Track Record Period.

### Properties

We occupy certain properties in Korea, the PRC and Hong Kong for our business operations. As of the Latest Practicable Date, we owned or leased 24 buildings with a total floor area of approximately 118,129 square meters and one parcel of land with a ground area of approximately 5,924 square meters, which we have leased to third parties. As of the Latest Practicable Date, we did not have any buildings under construction on our leased land. Except for the land which we leased to third parties, we use the properties that we occupy for non-property activities as defined under Rule 5.01(2) of the Listing Rules, and they primarily include the premises of our factories, warehouses, dormitories and offices.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempt from compliance with the

## BUSINESS

requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all of our interests in land or buildings. Pursuant to Chapter 5 of the Listing Rules, this prospectus is not required to include valuations of our properties. This is because as of October 31, 2014, each of our properties had a carrying amount that was less than 15% of our combined total assets.

### ***Owned Properties***

As of the Latest Practicable Date, we owned one parcel of land in Korea with a total ground area of approximately 5,924 square meters and one building in Korea with a total floor area of approximately 5,169 square meters. These properties, which constitute our principal owned properties, are located in Daejeon, Korea and are currently being leased to various local small businesses to use as office space for a term of one year, subject to automatic renewal unless terminated.

### ***Leased Properties***

As of the Latest Practicable Date, we leased 20 buildings in the PRC with a total gross floor area of approximately 112,033 square meters. Our principal leased properties consist of our manufacturing facilities in Hengkeng and our manufacturing facilities in Huanan. These properties are used by us for factory space, office space, dormitories and for other ancillary uses, including entertainment facilities, power rooms, pump rooms and storage facilities.

As of the Latest Practicable Date, we also leased one building in Korea with a total gross floor area of approximately 380 square meters.

As of the Latest Practicable Date, we also leased warehouses in Hong Kong with a total gross floor area of approximately 250 square meters and office space in Hong Kong with a total gross floor area of approximately 297 square meters.

During the Track Record Period, we did not experience any difficulty or failures in renewing any material lease agreements.

As of the Latest Practicable Date, our leased buildings in the PRC were subject to the following title defects:

1. the lessor failed to provide valid building ownership certificates for four of our leased buildings (including three factory buildings and one office building) with a gross floor area of approximately 17,535 square meters, all of which are located at our production facilities in Hengkeng, in Hengkeng Cowell Industrial Park, Dongguan, Guangdong province (the "Leased Factories and Office"). The lessor was unable to obtain such building ownership certificates mainly due to its failure to apply for and obtain the relevant construction work planning permits prior to the construction of the Leased Factories and Office; and
2. the lessor failed to provide valid building ownership certificates for 13 of our leased buildings (all of which are dormitories and ancillary buildings) with a gross floor area of 52,994 square meters, 3 of which are located at our production facilities in Hengkeng, in Hengkeng Cowell Industrial Park, Dongguan, Guangdong province, and 10 of which are located at or close to our production facilities in Huanan, in Huanan Industrial Park and Jinfuhuang Business Street of Liaobu Town, in Dongguan, Guangdong province (the "Leased Ancillary Buildings"). The lessor was unable to obtain such building ownership certificates mainly due to the failure by the



## BUSINESS

owner of the buildings (from whom the lessor obtained the authorization to lease the buildings) to apply for and obtain the relevant construction work planning permits prior to the construction of the Leased Ancillary Buildings.

As advised by Jingtian & Gongcheng, our PRC legal advisor, (i) industrial buildings (such as the Leased Factories and Office and the Leased Ancillary Buildings) for which the relevant construction work planning permits and building ownership certificates were not obtained may be deemed to be subject to title defects pursuant to the relevant PRC laws and regulations; (ii) therefore, if the relevant PRC government authorities were to decide to issue a demolition notice with respect to the Leased Factories and Office or the Leased Ancillary Buildings, the owner of the relevant buildings would be required to demolish such buildings within a prescribed time set forth in such notice and, in the event that the owner fails to demolish such buildings within the prescribed time, the relevant PRC government authorities may demolish such buildings at the expense of the owner; and (iii) if a demolition notice is issued with respect to the Leased Factories and Office or the Leased Ancillary Buildings, or if any third party challenges our use of any such buildings, we may no longer be able to occupy such buildings.

However, as of the Latest Practicable Date, to the best of our knowledge, the owners of the Leased Factories and Office and the Leased Ancillary Buildings have not received any demolition notice with respect to any such buildings from the relevant PRC government authorities. Moreover, the owner of the buildings located at our Hengkeng production facilities, which include the Leased Factories and Office and three of the Leased Ancillary Buildings, has obtained a confirmation letter issued by the Liaobu Branch of the Dongguan Bureau of City Administration (東莞市城市綜合管理局寮步分局) on December 4, 2014, confirming that such buildings currently do not fall into the scope of buildings that need to be demolished by the bureau. Furthermore, as of the Latest Practicable Date, our use of the Leased Factories and Office and the Leased Ancillary Buildings has not been challenged by any third party. In addition, two appraisal agencies were engaged by the owners of the buildings and issued safety appraisal reports in September 2013 and April 2014, respectively, with respect to all of the Leased Factories and Office (which are individually and collectively crucial to our operations for the reasons stated below) and approximately 57% of the Leased Ancillary Buildings. Based on our understanding, both of the agencies hold Engineering Design Qualification Certificates (Class A) (工程設計資質證書 (建築行業建築工程甲級)) and are registered at the Dongguan Housing and Urban Construction Bureau, and are therefore qualified to conduct building safety appraisals in Dongguan. Based on the safety appraisal reports issued by the two agencies, we are of the view that the appraised buildings are in compliance with all relevant safety requirements and can be used safely in accordance with PRC laws. For the remainder of the Leased Ancillary Buildings (which comprise buildings located in our Huanan production facilities with a gross floor area of approximately 4,901 square meters, and all the buildings located in Jinfuhuang Business Street of Liaobu Town with a gross floor area of approximately 18,089 square meters) for which the owners did not conduct any independent safety appraisal, such owners have not been required by relevant governmental authorities to conduct any such independent safety appraisal, to the best of our knowledge. However, our general affairs team and environmental, health and safety team, which oversaw the construction of our Huanan production facilities and have the relevant experience to make general assessments regarding building safety, conducted safety review procedures for the remainder of the Leased Ancillary Buildings and we are of the view that such buildings can be used safely. Accordingly, we believe that we will not be required to carry out any immediate remedial action in respect of the Leased Factories and Office and the Leased Ancillary Buildings.

*Leased Factories and Office:* Our Directors are of the view that the Leased Factories and Office are individually and collectively crucial to our operations as certain of our manufacturing and office facilities are located in such buildings. The turnover attributable to the Leased Factories and Office (all of which are located at our Hengkeng production facilities) accounted for approximately 100%, 57%, 28% and 31% of

## BUSINESS

our total turnover for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014, respectively. The production capacity attributable to the Leased Factories and Office accounted for approximately 100%, 50%, 50% and 49% of our total monthly camera modules production capacity, and all of our total monthly optical components production capacity, as of December 31, 2011, 2012 and 2013 and October 31, 2014, respectively. As advised by Jingtian & Gongcheng, our PRC legal advisor, since the lessor holds the corresponding land use right certificate and the House Planning and Construction Bureau of People's Government of Liaobu Town of Dongguan City issued a certificate dated March 12, 2014 confirming that the lessor holds the legal title to the Leased Factories and Office, and as the Liaobu Branch of the Dongguan Bureau of City Administration issued the above-mentioned confirmation letter, the risk of our rights to use the Leased Factories and Office being challenged or the Leased Factories and Offices being demolished is low. Accordingly, we intend to continue to lease from the relevant lessor the Leased Factories and Office until the current lease term expires on September 30, 2016 (the "Lease Expiry Date"). However, in light of the possibility that our right to the Leased Factories and Office may be challenged in the future, we have developed a contingency plan to relocate our operations at the Leased Factories and Office to an alternative site if necessary, as described below. Based on such contingency plan, if we are unable to use the Leased Factories and Office, we believe we will have prompt access to an alternative site and we do not expect our business to be materially affected.

*Leased Ancillary Buildings:* Our Directors are of the view that the Leased Ancillary Buildings are not individually or collectively crucial to our operations and do not contribute to our turnover as we do not operate any manufacturing facilities in such buildings, and they are either dormitories or buildings that are ancillary to our operations. As such, in the event that we are required to vacate the Leased Ancillary Buildings located in our Huanan production facilities, it will not directly result in a breach of our sales agreement with Apple nor trigger any related remedies. Based on currently available information, our Directors have estimated that the total relocation cost of the Leased Ancillary Buildings will not exceed RMB1.0 million and the corresponding relocation process should be able to be completed within one week. We do not expect to incur any significant loss of turnover as a result of such relocation of our Leased Ancillary Buildings.

Our Directors believe that if the Leased Factories and Office and the Leased Ancillary Buildings had no title defect, the rental payment for such properties would have been similar to our current rental payment. Based on the legal advice of our PRC legal advisor, the alternative premises readily available in similar terms and location in the nearby area and the indemnity provided by each of our Controlling Shareholders, our Directors believe that the probability of such title defects causing a material adverse impact on our business operations is low.

Each of our Controlling Shareholders has agreed to indemnify us against any costs, expenses and losses which we may suffer as a result of any dispute as to our rights to lease and use any of the leased buildings with defective titles for our business operations. See the section headed "Statutory and General information — E. Other Information — 2. Indemnities" in Appendix VI to this prospectus for more information.

To prevent the recurrence of non-compliance incidents, we have entered into a retainer-based arrangement with Jingtian & Gongcheng on our ongoing PRC compliance matters, and have adopted the following enhanced internal control measures:

- we have compiled a list of our leased properties with title defects, and will assess the risks arising from the title defects and disclose the progress of rectifying such title defects in our annual/interim reports after the Listing;
- we will review more prudently our future properties, particularly the nature, designated usage and title certificates of the relevant properties;

## BUSINESS

- we will strengthen the implementation of our internal control procedures to prevent recurrence of non-compliance incidents, establish mechanisms of accountability for non-compliance incidents, and seek advice from outside property experts and counsel (such as Jingtian & Gongcheng) as appropriate for new projects, especially at the planning stage; and
- we may also submit material projects for approval by our Board of Directors or Shareholders, if deemed necessary.

*Contingency Plan for Leased Factories and Office.* In light of the possibility that our right to the Leased Factories and Office may be challenged, we have developed a contingency plan (the “Contingency Plan”) to relocate our operations at the Leased Factories and Office to an alternative site (the “Contingency Site”), if necessary. The Contingency Site (which, to the best of our knowledge, is not subject to any title defects) is located in close proximity to our existing production facilities in Huanan and comprises buildings with a total gross floor area of approximately 17,800 square meters. We had previously identified the Contingency Site as a possible location for building additional camera module manufacturing lines in accordance with our expansion plans, but the site is sufficiently large to accommodate the operations currently conducted at the Leased Factories and Office if it becomes necessary to relocate such operations to the site. We have entered into a non-binding memorandum of understanding with the owner of the land use rights with respect to the Contingency Site on February 26, 2015 in relation to our lease of the Contingency Site. The memorandum of understanding, among other things, (i) specifies the details of the Contingency Site, (ii) specifies that the monthly rent for our lease of the Contingency Site shall be in line with the monthly rent for similar properties in a similar location, (iii) specifies that the lease term for our lease of the Contingency Site shall be for a period of sixteen years, and (iv) provides that the parties shall negotiate and enter into a formal lease agreement regarding the Contingency Site within one month from the date that we give notice to the owner regarding our intention to move our operations to the Contingency Site.

The Contingency Plan envisions the relocation of our operations conducted at the Leased Factories and Office to the Contingency Site, in the event that the lessor of the Leased Factories and Office notifies us that we will be required to vacate such buildings pursuant to a demolition notice received by the lessor from the relevant PRC government authorities (a “Vacate Notice”). The following is a summary of the principle elements of the Contingency Plan:

| Time   | Key Steps   |
|--|---|
| Latest Practicable Date to Listing Date:           | <ul style="list-style-type: none"> <li>● Execute a memorandum of understanding with the Landlord regarding the lease of the Contingency Site</li> <li>● Prepare a layout plan for the Contingency Site</li> <li>● Prepare detailed plans for renovation and clean-up of the Contingency Site and relocation and installation of manufacturing equipment from the Leased Factories and Office to the Contingency Site</li> </ul> |
| Within one month after receipt of a Vacate Notice: | <ul style="list-style-type: none"> <li>● Negotiate and execute a formal lease agreement for the Contingency Site</li> </ul>   |

## BUSINESS

| Time  | Key Steps   |
|---|---|
| Within three months after receipt of a Vacate Notice: | <ul style="list-style-type: none"><li data-bbox="821 272 1422 446">• Renovation of the Contingency Site for construction and installation of clean-room facilities and necessary equipment in anticipation of the relocation of the Leased Factories and Office to the Contingency Site</li><li data-bbox="821 478 1422 606">• Clean-up and preparation of the Contingency Site for relocation of manufacturing equipment and office equipment from the Leased Factories and Office</li><li data-bbox="821 638 1422 776">• Relocation and installation of COB camera module and optical component manufacturing equipment from the Leased Factories and Office to the Contingency Site (Note)</li><li data-bbox="821 808 1422 925">• Set-up and testing of COB camera module and optical component manufacturing lines at the Contingency Site</li><li data-bbox="821 957 1422 1064">• Relocation and installation of office equipment from the Leased Factories and Office to the Contingency Site</li></ul> |

*Note:*

*In order to minimize interruption of our operations, we plan to relocate such manufacturing equipment to the Contingency Site in separate batches in order to ensure that at least 70% of our production capacity attributable to the Leased Factories and Office will be maintained during the relocation period.*

Assuming that we relocate our operations at the Leased Factories and Office to the Contingency Site in accordance with the Contingency Plan, based on currently available information, our Directors have estimated that (i) the relocation costs of the Leased Factories and Office (including the necessary renovations) will not exceed RMB31.8 million; (ii) the relocation process should be able to be completed within three months after we receive a Vacate Notice; (iii) the estimated loss of turnover during such relocation process would amount to approximately US\$60 million.

## FINANCIAL INFORMATION

*You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, as of and for the years ended December 31, 2011, 2012 and 2013 and as of October 31, 2014 and for the ten months ended October 31, 2013 and 2014 included in the Accountants' Report set out in Appendix I to this prospectus. The financial information included in the Accountants' Report has been prepared in accordance with IFRS. The following discussion and analysis and other parts of this prospectus contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.*

### Overview

We are a major supplier of camera modules for mobile devices. We primarily engage in the design, development, manufacture and sale of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Major customers for our camera modules include some of the leading mobile device manufacturers in the world, such as Apple, LG Electronics and Samsung Electronics. We also design, develop, manufacture and sell optical components used in a number of consumer electronics products. Major customers for our optical components include Optis (which is a supplier of electronic components to Samsung Electronics and Toshiba) and subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi.

We believe that our state-of-the-art manufacturing facilities, engineering capabilities, technical expertise and accumulated know-how in manufacturing camera modules and optical components, as well as our strong relationships with our customers, will continue to differentiate us as a provider of high-performance and cost-effective camera modules and optical components, and position us to take advantage of attractive growth opportunities. We operate two production facilities at Hengkeng and Huanan in Dongguan, PRC, where we are able to take advantage of a high-quality labor force, extensive infrastructure for our operations, and a strategic location to facilitate the transportation of products to our customers. Our turnover amounted to US\$323.1 million in 2011, US\$527.5 million in 2012, US\$813.9 million in 2013, US\$616.1 million in the first ten months of 2013 and US\$638.4 million in the first ten months of 2014. We recorded a profit for the period of US\$18.2 million in 2011, US\$13.2 million in 2012, US\$50.2 million in 2013, US\$32.1 million in the first ten months of 2013 and US\$30.6 million in the first ten months of 2014. We had total assets of US\$442.7 million and total equity of US\$169.2 million as of October 31, 2014, compared to total assets of US\$400.2 million and total equity of US\$139.9 million as of December 31, 2013.

### Major Factors Affecting Our Results of Operations

Our results of operations and financial condition have been and will continue to be materially affected by a number of factors and developments, many of which are outside our control, including the following.

### Our Relationship with Our Major Customers

We believe that our turnover and our future growth depend on our ability to continue to be selected by global leading mobile device and consumer electronics manufacturers as a designated camera module or optical component supplier for their end-user products, as well as the strength of our relationship with these manufacturers.

## FINANCIAL INFORMATION

The majority of our revenue is derived from a relatively concentrated customer base. For the years ended December 31, 2011, 2012 and 2013 and for the ten months ended October 31, 2014, sales directly or indirectly to our top five customers accounted for 99.0%, 99.7%, 99.7% and 99.6% of our total turnover, respectively. In particular, sales to our top three customers for 2011, 2012 and 2013 (Samsung Electronics became our third largest customer for the ten months ended October 31, 2014, accounting for 2.1% of our turnover for such period) were as follows:

- Apple directly or indirectly accounted for 86.9%, 87.9%, 85.8% and 74.4% of our total turnover for such periods, respectively;
- LG Electronics accounted for 8.7%, 9.9%, 12.6% and 22.1% of our total turnover for such periods, respectively; and
- Optis (which is a supplier of electronic components to Samsung Electronics and Toshiba) accounted for 1.7%, 0.9%, 0.7% and 0.7% of our total turnover for such periods, respectively.

We have been Apple's approved supplier of camera modules since 2009. See "Business — Customers, Sales and Marketing — Relationship with Apple." As a result of increasing sales of camera modules to LG Electronics and, commencing in October 2013, to Samsung Electronics, the share of our turnover accounted for directly or indirectly by Apple was approximately 77.7% (compared to approximately 19.4% for LG Electronics and approximately 1.5% for Samsung Electronics) for the full-year 2014, based on our unaudited management accounts. We expect that a large portion of our turnover will continue to come from a limited number of customers for the foreseeable future and that our ability to grow our business will depend in significant part on our relationship with them. Our ability to maintain existing customer relationships, including increasing the volume and diversifying the types of products supplied to such existing customers to generate additional turnover from them, will materially affect our results of operations and financial condition. Such ability depends on a number of factors, such as our production capacity and flexibility (including our ability to adjust our production volume to meet increased demand in the event that particular mobile device products incorporating our camera modules are successful) our manufacturing reliability and the expertise and the effectiveness of our sales and technical personnel in working with our major customers to develop designs for new products and improve existing products.

### **Product Mix**

Changes in the mix of products that we sell affect our turnover and profit margins. With respect to camera modules, our products comprise COB and flip-chip camera modules with resolutions currently ranging from 0.3 to 8.0 megapixels. In particular, flip-chip camera modules, which generally are technologically more complex and therefore offer more attractive margins than COB camera modules, have become the largest source of our revenue in recent years, accounting for 42.6% of our turnover in 2012, 72.3% of our turnover in 2013 and 68.1% of our turnover in the first ten months of 2014. We are also seeking to expand sales of higher resolution camera modules, which generally offer higher average selling prices than lower resolution or fixed-focus camera modules.

We believe that such changes in our product mix have contributed, and may continue to contribute, to higher turnover and improved profitability. However, changes in product mix may lead to a short-term drop in profitability due to the lead-time and investments required to achieve desired production yields and for additional personnel training and other adjustments necessary for the successful production of new products. With respect to optical components, as our optical component operations are our highest margin business, we plan to make additional capital investments in a disciplined and flexible manner to

## FINANCIAL INFORMATION

optimize our revenue mix. However, in part due to the recent global trend of utilizing digital data storage methods other than CD/DVD/Blu-Ray (such as flash drives), as well as diversification in the means of delivering multimedia contents, we expect that growth of the total market size for optical components will be limited in the near future, and also expect our revenues from sales of optical components to remain small compared to revenues from sales of camera modules.

Our results of operations may vary significantly from period to period as a result of changes in the mix of products we sell in the future.

### ***Volatile Market Conditions and Seasonality***

We primarily design, manufacture and sell a variety of camera modules, which are critical components for a broad range of mobile devices designed to include a camera, including smartphones and multimedia tablets. Therefore, our camera module business is affected by changing market demand for our customers' mobile devices. Sales of our camera modules accounted for 94.9% of our total turnover in 2011, 97.5% in 2012, 98.6% in 2013 and 98.5% in the first ten months of 2014. While the mobile device industry has generally enjoyed significant growth in recent years, it has experienced slowdowns in the past, which often occur in connection with declines in global or local economic conditions. The mobile device industry's volatility results primarily from fluctuations in market demand for mobile devices, as well as fluctuations in the industry's available production capacity and rapid changes in consumer preferences. Demand growth expectations for mobile devices, combined with intense competition among mobile device manufacturers, have typically been accompanied by increased capital investment to expand production capacity. The lead times for new manufacturing lines to become operational may result in increases in the industry's production capacity coinciding with weakening demand, resulting in excess capacity, oversupply of products and declining prices.

In recent years, the slowdown of economic growth in the PRC and other major emerging markets, as well as the weakness of the economic recovery in the U.S. and Europe, have resulted in continued uncertainty regarding global economic prospects. An actual or anticipated further deterioration of global economic conditions may depress consumer confidence and spending, particularly discretionary spending on consumer electronics products, resulting in a decline in demand for high-end mobile devices that would have a negative impact on the demand and pricing for our camera modules. If the mobile devices industry experiences a downturn in the future, or if demand for mobile devices incorporating our products decreases as a result of changes in consumer preferences, technological changes or otherwise, we will face pressure to reduce prices and we may need to rationalize our production capacity and reduce fixed costs. At the same time, our ability to reduce expenditures for research and development and infrastructure during an industry downturn may be limited because of the need to maintain our competitive position.

The mobile devices and consumer electronics markets are also characterized by seasonal increases in production and sales volume in the latter part of the year primarily driven by increased consumer spending during the year-end holiday season. We normally experience the highest sales volume for our camera modules in the fourth quarter of each year when our customers increase their inventories of mobile devices in light of increased seasonal demand. Correspondingly, our production and sales levels also tend to be the lowest in the first and second quarters of each year. Seasonal fluctuations in our sales are often exacerbated by the product development and launch cycles of our major customers, who tend to introduce new or enhanced mobile devices to the market during the latter part of the year. In line with such product launch cycles of our major customers, we have historically launched new or enhanced camera module products during the second half of the year, which has generally led to higher average selling prices, production and sales volumes and turnover in the third and fourth quarters of the year. As a

## FINANCIAL INFORMATION

result of the inherent seasonality of our business, our results of operations may fluctuate from period to period. For example, in 2013, our turnover for the first half and second half of the year represented 37.1% and 62.9%, respectively, of our total turnover for the year. An analysis of our interim financial performance may not be meaningful due to the seasonality of our sales and period to period comparisons of our operating results may not be reliable indicators of overall trends in our business.

### ***Our Capital Expenditures and Production Capacity Expansion***

The camera module and optical components businesses require capital expenditures in order to maintain competitiveness. As such, we make substantial capital expenditures annually to support our business goals and objectives. We plan to continue to strategically invest in enhancing and expanding our manufacturing lines to add production capacity selectively and achieve additional economies of scale that will enable us to generate further production cost savings. Our capital expenditures (equivalent to the cash we spent for payment for purchases of property, plant and equipment) amounted to US\$8.7 million in 2011, US\$50.7 million in 2012, US\$15.8 million in 2013, US\$11.4 million in the first ten months of 2013 and US\$20.4 million in the first ten months of 2014. The increase in our capital expenditures in 2012 mainly reflected investments in facilities and equipment in connection with the establishment of new production facilities in Huanan. We have spent approximately US\$21.5 million in capital expenditures for the full-year 2014, primarily to purchase equipment to produce more advanced flip-chip camera modules. Production capacity expansion would increase depreciation and amortization expenses as well as financing costs related to capital expenditures. Furthermore, expansion of production capacity often leads to a short-term drop in profitability due to the lead-time required to achieve desired production yields and for additional personnel training and other adjustments necessary for the successful operation of the new manufacturing lines. In addition, our investments typically will be made well in advance of any sales that will be generated from making such expenditures. The level of our capital expenditures, as well as the returns we are able to achieve on our capital expenditure investments, have affected and will continue to affect our financial condition and results of operation.

### ***Manufacturing Costs***

Our cost of sales is affected by price fluctuations related to components and materials used in our manufacturing processes. The cost of components and materials represents the single largest component of our cost of sales, accounting for 88.7%, 89.1% and 86.0% of our cost of sales for the years ended December 31, 2011, 2012 and 2013, respectively, and 89.4% and 88.3% of our cost of sales for the ten months ended October 31, 2013 and 2014, respectively. The main components used in our manufacturing process for camera modules are CMOS image sensors, PCBs, lenses (including lens holders) and HTCC boards, which collectively accounted for approximately 91.6%, 87.9% and 86.1% of our costs of components and materials for the years ended December 31, 2011, 2012 and 2013, respectively, and 86.4% and 87.3% of our costs of components and materials for the ten months ended October 31, 2013 and 2014, respectively. Our major customers typically enter into short-term supply agreements with suppliers for our main components, pursuant to which we are designated as an authorized purchaser, and most of which contain pricing terms that may be adjusted from time to time between the customer and the supplier. Accordingly, we may be exposed to increases in the prices of such components and materials. While we seek to reflect increases in component and material prices in our product pricing terms with our customers, we may not be able to do so completely or in a timely fashion. Therefore, significant fluctuations in our components costs from current levels could have a material effect on our margins and profits.



## FINANCIAL INFORMATION

The following table sets forth a sensitivity analysis of the impact that changes in our cost of components and materials would have had on our profit, with all other variables held constant, for the periods indicated. We believe the percentage change figures used in the sensitivity analysis below to be commensurate with the historical changes in our cost of components and materials.

| Components<br>and<br>materials<br>cost<br>changes | Year ended December 31, |                     |            |                     |            |                     | Ten months ended October 31, |                     |            |                     |
|---|-------------------------|---------------------|------------|---------------------|------------|---------------------|------------------------------|---------------------|------------|---------------------|
|   | 2011                    |                     | 2012       |                     | 2013       |                     | 2013                         |                     | 2014       |                     |
|   | Profit                  | Change<br>in profit | Profit     | Change<br>in profit | Profit     | Change<br>in profit | Profit                       | Change<br>in profit | Profit     | Change<br>in profit |
| (US\$ in thousands, except percentages)           |                         |                     |            |                     |            |                     |                              |                     |            |                     |
| 10% . . . . .                                     | \$ -7,333               | -140.4%             | \$ -30,039 | -327.9%             | \$ -10,853 | -121.6%             | \$ -16,593                   | -151.6%             | \$ -19,449 | -163.6%             |
| 5% . . . . .                                      | \$ 5,409                | -70.2%              | \$ -8,428  | -163.9%             | \$ 19,695  | -60.8%              | \$ 7,770                     | -75.8%              | \$ 5,570   | -81.8%              |
| 0% . . . . .                                      | \$18,151                | —                   | \$ 13,183  | —                   | \$ 50,242  | —                   | \$ 32,133                    | —                   | \$ 30,590  | —                   |
| -5% . . . . .                                     | \$30,893                | 70.2%               | \$ 34,794  | 163.9%              | \$ 80,789  | 60.8%               | \$ 56,496                    | 75.8%               | \$ 55,610  | 81.8%               |
| -10% . . . . .                                    | \$43,636                | 140.4%              | \$ 56,406  | 327.9%              | \$111,336  | 121.6%              | \$ 80,859                    | 151.6%              | \$ 80,630  | 163.6%              |

Labor costs also represent a meaningful portion of our cost of sales and administrative expenses. We have increased the number of our PRC employees in recent years to support our production and sales growth and have also raised wages for many of our PRC employees in recent years to keep pace with increases in salary levels in the local labor market. For the years ended December 31, 2011, 2012 and 2013 and for the ten months ended October 31, 2013 and 2014, labor costs accounted for 4.9%, 6.2%, 7.3%, 7.7% and 6.5% of our cost of sales and 54.1%, 60.5%, 72.6%, 72.1% and 65.1% of our administrative expenses, respectively. Our labor costs, which include salaries, bonuses, social insurance and welfare benefits, have increased in part due to the expansion of our business and also as a result of increases in minimum wages and the market price for labor in Dongguan, where we operate. Average wages in Dongguan are expected to continue to increase, which we anticipate will put upward pressure on our labor costs. The Employment Promotion Plan promulgated by the State Council in January 2012 stipulates a target of increasing the minimum wage at a rate no lower than 13% year over year from 2011 to 2015. Significant increases in our employee compensation and benefits may negatively affect our margins and reduce our profitability.

The following table sets forth a sensitivity analysis of the impact that changes in labor costs included in our cost of sales would have had on our profit, with all other variables held constant, for the periods indicated. We believe the percentage change figures used in the sensitivity analysis below to be commensurate with the historical changes in labor costs included in our cost of sales.

| Manufacturing<br>labor cost<br>changes  | Year ended December 31, |                     |          |                     |          |                     | Ten months ended October 31, |                     |          |                     |
|---|-------------------------|---------------------|----------|---------------------|----------|---------------------|------------------------------|---------------------|----------|---------------------|
|   | 2011                    |                     | 2012     |                     | 2013     |                     | 2013                         |                     | 2014     |                     |
|   | Profit                  | Change<br>in profit | Profit   | Change<br>in profit | Profit   | Change<br>in profit | Profit                       | Change<br>in profit | Profit   | Change<br>in profit |
| (US\$ in thousands, except percentages) |                         |                     |          |                     |          |                     |                              |                     |          |                     |
| 10% . . . . .                           | \$16,751                | -7.7%               | \$10,156 | -23.0%              | \$45,054 | -10.3%              | \$27,939                     | -13.1%              | \$26,881 | -12.1%              |
| 5% . . . . .                            | \$17,451                | -3.9%               | \$11,669 | -11.5%              | \$47,648 | -5.2%               | \$30,036                     | -6.5%               | \$28,736 | -6.1%               |
| 0% . . . . .                            | \$18,151                | —                   | \$13,183 | —                   | \$50,242 | —                   | \$32,133                     | —                   | \$30,590 | —                   |
| -5% . . . . .                           | \$18,852                | 3.9%                | \$14,697 | 11.5%               | \$52,836 | 5.2%                | \$34,230                     | 6.5%                | \$32,445 | 6.1%                |
| -10% . . . . .                          | \$19,552                | 7.7%                | \$16,211 | 23.0%               | \$55,430 | 10.3%               | \$36,328                     | 13.1%               | \$34,299 | 12.1%               |

## FINANCIAL INFORMATION

### ***Our Ability to Increase Operational Efficiency***

The markets for our products are highly competitive and we face intense global competition. Many of our competitors have used aggressive pricing and marketing strategies in order to maintain or gain market share. In addition, the average selling prices of camera modules and optical components have declined in general and are expected to continue to decline with time irrespective of industry-wide fluctuations in supply and demand as a result of, among other factors, technological advancements and price competition. Accordingly, the success of our business depends, in part, on our ability to increase our operational efficiency by reducing our manufacturing costs and operating expenses and by maintaining or improving our production yields. We continually engage in various cost-cutting, re-engineering and other initiatives intended to reduce costs and enhance productivity, including refinement of our manufacturing processes to increase our production yields and reduce production cycle time. Our results of operations and profitability have been and will continue to be affected by our ability to improve the efficiency of our operations.

### **Critical Accounting Policies, Estimates and Judgments**

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our financial position and operating results. Some of the accounting policies require us to apply estimates and judgments on matters that are inherently uncertain. Set forth below are discussions of certain accounting policies applied in preparing our financial statements that we believe are most dependent on the application of these estimates and judgments and material to an understanding of our financial information.

In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. Our management has formulated and implemented control measures with respect to our management's estimates in accordance with our internal management policies. We have not experienced any material deviation between our management's estimates and actual results and have not made material changes to these estimates during the Track Record Period. Our management does not expect any material changes in these estimates in the foreseeable future.

### ***Property, Plant and Equipment and Construction in Progress***

We state property, plant and equipment at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of an asset. The cost of self-constructed items of property, plant and equipment includes the costs of materials and direct labor and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, as well as an appropriate proportion of production overheads and borrowing costs.

We calculate the depreciation of property, plant and equipment using the straight-line method to allocate their costs, less their estimated residual value, if any, over their estimated useful lives, as follows:

|   |                                      |
|---|--------------------------------------|
| Leasehold improvements:                                 | Shorter of term of lease or 20 years |
| Plant and machinery:                                    | 10 years                             |
| Office equipment, fixtures, furnitures, motor vehicles: | 3 to 5 years                         |

## FINANCIAL INFORMATION

We determine gains or losses arising from the retirement or disposal of an item of property, plant and equipment as the difference between the net disposal proceeds and the carrying amount of the item, and recognize such gains or losses on a net basis within other net income in profit or loss on the date of retirement or disposal.

We state construction in progress at cost less impairment losses. Cost comprises direct costs of construction incurred, including any attributable financing costs, during the periods of construction and installation. We transfer construction in progress to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with our depreciation policy.

### ***Impairment of Fixed and Intangible Assets***

We conduct an impairment review of our fixed and intangible assets when events or changes in circumstances indicate that their carrying amounts may not be fully recoverable. We use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount. Determining whether an asset is impaired requires an estimation of the recoverable amount, which requires us to estimate the future cash flows and a suitable discount rate in order to derive a present value. If the recoverable amount of an asset is less than its carrying value, we will record an impairment loss in our statement of profit or loss. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

### ***Impairment of Receivables***

We consider a receivable to be impaired if and when there is objective evidence that the carrying amount may not be recoverable. We recognize impairment losses in accordance with the accounting policies set out in Note 1(i) to the Accountants' Report included in Appendix I to this prospectus. We periodically review the carrying amounts of our receivables to assess whether the recoverable amounts have declined below the carrying amounts. For this purpose, we consider the recoverable amount of a receivable to be the estimated future cash flows from such receivable discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset). We use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount. Any event or development which results in a deterioration in the financial condition of our customers may cause our actual write-offs to be higher than estimated.

### ***Inventories***

We state inventories at the lower of cost and net realizable value. We determine cost using the weighted average cost formula, taking into account all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, we recognize their carrying amount as an expense in the period in which the related revenue is recognized. We recognize the amount of any write-down of inventories to net realizable value and all losses of inventories as an expense in the period the write-down or loss occurs. We recognize the amount of any reversal of any write-down of inventories as a reduction in the amount of inventories recognized as an expense, in the period in which the reversal occurs.

## FINANCIAL INFORMATION

We perform a regular review of the carrying amounts of our inventories with reference to aged inventories' analyses and our management's expectations regarding our ability to sell our products and other inventories. Inventories are written down when and to the extent the carrying amounts of inventories decline below their estimated net realizable value.

### **Description of Certain Line Items of the Consolidated Statements of Profit or Loss**

#### ***Turnover***

We generate turnover primarily from sales of camera modules and optical components, which are our reported segments. Our turnover is recorded net of applicable sales tax and any product returns. In line with the industry norm for mobile device component suppliers, we generally enter into sales arrangements with our major customers, pursuant to which the parties agree on the basic terms of development and supply of particular products for a specified period, typically for a term of one year (including in the case of LG Electronics and Samsung Electronics, as well as Apple) but which may vary depending on the customer's needs as well as the type of product and its expected commercial longevity. Our sales arrangements usually establish parameters for determining the price of the relevant products being supplied, which is typically subject to adjustment on a regular basis based on a variety of factors such as decreases in our operating costs, changes in the prices of components and materials and improvements in our production yield for the products. In evaluating potential pricing parameters prior to entering into a sales arrangement, we generally use a pricing model that takes into account factors such as our production costs (including the cost of components and materials and labor costs), production cycle, production yield and transportation costs plus a targeted manufacturing margin for the relevant products. Our sales arrangements do not establish fixed purchase volume commitments, and purchase volumes are generally determined on an ongoing basis based on purchase orders provided by the customer. Our major customers usually provide us with a non-binding rolling forecast of their supply needs on a regular basis.

Turnover, cost of sales and related profit from sales of certain COB camera modules to Apple and LG Electronics are recognized on a vendor-managed inventory basis, whereby finished products are first delivered to the customer's warehouse and related turnover, cost and profits are recognized when the customer takes the products from the warehouse for use. With respect to such vendor-managed inventory, we receive daily inventory reports automatically sent by the customer's inventory management service provider whenever products are taken out of the customer's warehouse, as well as stationing an employee at important sites to monitor inventory management. Furthermore, for LG Electronics, we are connected to and use a real-time inventory monitoring system managed and shared with LG Electronics. We also engage in monthly stock checks to discover any discrepancies and to ensure that turnover is recognized properly. Turnover, cost of sales and related profit from sales of all flip-chip camera modules and certain COB camera modules to Apple are recognized upon delivery of the products to the customer's warehouse, while those from sales of COB camera modules to Samsung Electronics and optical components are recognized upon our shipment of the products to the customer. We believe our recognition policies comply with the relevant accounting standard (International Accounting Standard 18, *Revenue*) due to the historically minimal rate of returned goods that are ultimately proven to be defective and destroyed (thereby requiring a reversal of related turnover). See "Business — Quality Assurance."

## FINANCIAL INFORMATION

The following table shows our average selling prices (defined as the applicable turnover divided by the applicable number of units sold for each product group) and our number of units sold by product group for the periods indicated:

| Product Group            | Year ended December 31,                    |               |  |               |  |               | Ten months ended October 31,               |               |  |               |
|--------------------------|--|---------------|--|---------------|--|---------------|--|---------------|--|---------------|
|                          | 2011                                       |               | 2012                                       |               | 2013                                       |               | 2013                                       |               | 2014                                       |               |
|                          | Average<br>Selling<br>Price <sup>(1)</sup> | Units<br>Sold | Average<br>Selling<br>Price <sup>(1)</sup> | Units<br>Sold | Average<br>Selling<br>Price <sup>(1)</sup> | Units<br>Sold | Average<br>Selling<br>Price <sup>(1)</sup> | Units<br>Sold | Average<br>Selling<br>Price <sup>(1)</sup> | Units<br>Sold |
|                          | (In US\$ and thousands of units)           |               |  |               |  |               |  |               |  |               |
| Camera modules . . . . . | \$ 2.91                                    | 105,315       | \$ 3.51                                    | 146,757       | \$ 4.06                                    | 197,554       | \$ 3.94                                    | 153,880       | \$ 4.21                                    | 149,209       |
| Optical components . . . | \$0.052                                    | 314,528       | \$0.050                                    | 256,786       | \$0.047                                    | 238,975       | \$0.047                                    | 200,702       | \$0.045                                    | 217,177       |

(1) Turnover divided by number of units sold.

Our average selling prices for camera modules increased from 2011 to 2013, as well as from the first ten months of 2013 to the first ten months of 2014, primarily as a result of the increasing proportion of our turnover accounted for by flip-chip camera modules, which generally have higher average selling prices than our COB camera modules. Our average selling prices for optical components decreased from 2011 to 2013, as well as from the first ten months of 2013 to the first ten months of 2014, mainly reflecting increased competition and a global decline in demand for end-products utilizing our optical components. Our units sold for camera modules decreased by 3.0% from the first ten months of 2013 to the first ten months of 2014 primarily as a result of a decrease in orders for older models of flip-chip camera modules, which was substantially offset by orders for new models of flip-chip camera modules with higher average selling prices commencing in the second half of 2014, in line with the launch of a new mobile product by a major a customer.

We market our products primarily through our sales force. Sales outside of the PRC are supported by our two sales subsidiaries located in Hong Kong and Korea. Such subsidiaries support our operations by locating suitable local suppliers and potential new customers (especially for our optical components business), identifying possible business opportunities and providing information regarding local market conditions, as well as maintaining relationships with our existing customers. We typically grant our customers credit terms ranging from 30 to 90 days from the date of billing. We assess the credit terms on a case-by-case basis, taking into account the customer's creditworthiness, prior dealing history and additional information specific to the customer as well as economic environment in which the customer operates. As discussed above, our turnover and profit margins are affected by our relationship with customers, product mix, seasonality of our products, our expansion plans, as well as changes in our production costs and efficiency. See "Business — Customers, Sales and Marketing."

Pursuant to our quality assurance and warranty policies, we may be required to refund, repair or replace any defective products returned by our customers. When goods are returned to us, they are promptly re-tested individually without any sampling and goods which prove to be non-defective are re-shipped to the customer. Goods which prove to be defective after individual testing are first stored, then physically destroyed on site after receiving approvals from our customers and the relevant regulatory authorities. The full amount of the turnover and accounts receivables previously recorded in respect of such destroyed goods are cancelled, with no reversal of the applicable reduction in inventories previously charged against the cost of sales. We do not accrue any provisions for estimated costs of warranties, as the historical amount of claims under our warranties have been minimal.

### **Cost of Sales**

Our cost of sales primarily consists of the cost of components and materials used in our camera modules and optical components, manufacturing costs (which includes labor costs, supplies, depreciation

## FINANCIAL INFORMATION

and amortization expenses for our production facilities and equipment and utilities expenses) and valuation losses on our inventory.

The main components and materials used in our manufacturing process for camera modules are CMOS image sensors, PCBs, lenses (including lens holders) and HTCC boards. Other key components and materials utilized in our manufacturing process include connectors, IR cut filters, carriers, capacitors, stiffeners, raw optical glass and coating chemicals. In accordance with their general practice, our major customers typically enter into short-term supply agreements with suppliers for our main components, pursuant to which we are designated as an authorized purchaser, and most of which contain pricing terms that may be adjusted from time to time between the customer and the supplier. As we generally have minimal control over the prices of our main components, the prices which are agreed between our major customers and the suppliers are typically reflected in the price of our products supplied to such customers. In the event that we or our customers cannot reach agreement on pricing terms with our suppliers in the future or our suppliers fail to deliver on their volume commitment, we will need to seek alternative supply sources after consultation with our customers. In particular, in the case of camera modules that we produce for some of our major customers, we are required to source certain components only from a select group of suppliers approved by the customer, which further limits our ability to find alternative suppliers in the event of a supply disruption. See “Business — Components and Materials.”

Our labor costs principally consist of employees’ compensation and benefits, including social security, pension and fringe benefits, of our production staff. Other manufacturing costs include depreciation and amortization of our plant, machinery, equipment and intangible assets, utility expenses and operating lease charges relating to our manufacturing facilities.

### **Gross Profit**

Our gross profit consists of our turnover less cost of sales and reflects the direct profit made from the sale of our products.

### **Other Revenue**

Other revenue primarily comprises compensation income, interest income, rental income from our investment properties located in Korea and government subsidies. From time to time, we may receive compensation income from our customers to compensate us for certain operating losses resulting from having to install new production equipment for the customer, as agreed between us and the customer.

### **Other Net Income**

Our other net income mainly comprises net foreign exchange gain or loss, valuation gain or loss on investment property and net gain or loss on disposal of plant and equipment.

### **Selling and Distribution Expenses**

Our selling and distribution expenses mainly include transportation fees, which include fees paid to third-party logistics companies for delivery and storage of our products, labor costs for our sales and marketing staff and distribution personnel, customs declaration expenses, research and development expenses and storage fees. In general, our selling and distribution expenses increase when our sales and distribution activities increase as a result of higher turnover.

### **Administrative Expenses**

Our administrative expenses mainly include labor costs for our administrative and management staff, local government taxes and other miscellaneous administrative expenses. In general, our administrative expenses also increase with higher turnover and the overall expansion of our operations.

## FINANCIAL INFORMATION

The following table presents a breakdown of our administrative expenses for the periods indicated:

|   | Year ended December 31, |             |             | Ten months ended October 31, |             |
|---|-------------------------|-------------|-------------|------------------------------|-------------|
|   | 2011                    | 2012        | 2013        | 2013                         | 2014        |
|   | (unaudited)             |             |             |                              |             |
|   | (US\$ in millions)      |             |             |                              |             |
| Salaries, allowance, social insurance and welfare . . . | 6.0                     | 12.9        | 20.7        | 15.5                         | 17.8        |
| Handling charges . . . . .                              | 0.5                     | 1.9         | 2.0         | 1.2                          | 3.7         |
| Supplies . . . . .                                      | 0.2                     | 1.3         | 1.1         | 1.0                          | 0.7         |
| Travel . . . . .  | 0.6                     | 1.1         | 1.2         | 1.1                          | 1.3         |
| Local government tax <sup>(1)</sup> . . . . .           | 2.3                     | 1.9         | 0.6         | 0.3                          | 1.5         |
| Rental . . . . .  | 0.4                     | 0.6         | 0.6         | 0.5                          | 0.3         |
| Entertainment . . . . .                                 | 0.6                     | 0.4         | 0.3         | 0.3                          | 0.3         |
| Finance charges . . . . .                               | 0.2                     | 0.2         | 0.1         | 0.1                          | 0.1         |
| Communications . . . . .                                | 0.2                     | 0.3         | 0.3         | 0.2                          | 0.3         |
| Water and electricity . . . . .                         | 0.1                     | 0.2         | 0.4         | 0.3                          | 0.3         |
| Depreciation . . . . .                                  | 0.1                     | 0.1         | 0.2         | 0.2                          | 0.3         |
| Amortization . . . . .                                  | 0.1                     | 0.1         | 0.1         | 0.1                          | 0.2         |
| Repairs and maintenance . . . . .                       | 0.0                     | 0.1         | 0.4         | 0.3                          | 0.3         |
| Insurance . . . . .                                     | 0.0                     | 0.1         | 0.1         | 0.0                          | 0.0         |
| Others . . . . .  | 0.5                     | 0.3         | 0.4         | 0.4                          | 0.3         |
| <b>Total</b> . . . . .                                  | <b>11.8</b>             | <b>21.5</b> | <b>28.5</b> | <b>21.5</b>                  | <b>27.4</b> |

(1) Mainly includes provisions for IIT, miscellaneous PRC local taxes (such as city construction tax and education tax), stamp duty and government rent and rates.

Our administrative expenses increased from 2011 to 2012 principally due to an increase in labor costs (comprising salaries, allowance, social insurance and welfare expenses) for our administrative and management staff, handling charges (which primarily include legal, audit and security personnel fees) and supply expenses (comprised of expenses for general office supplies, equipment and furniture), mainly reflecting an increase in our turnover and the overall expansion of our operations, including the addition of our Huanan office space in 2012. Our administrative costs increased further in 2013, and from the first ten months of 2013 to the first ten months of 2014, principally as a result of increases in legal, accounting and other professional service fees in preparation of the Global Offering, as well as an increase in labor costs for our administrative and management staff due to growth of our engineering staff and the continued overall expansion of our operations in 2013 and the first ten months of 2014.

### **Profit from Operations**

Our profit from operations consists of our gross profit plus other revenue and other net income, less selling and distribution expenses and administrative expenses. We view profit from operations and profit from operations as a percentage of total turnover (or operating margin) as key measures of our performance.

### **Finance Costs**

Our finance costs mainly include interest expense on our bank and other borrowings and other borrowing costs.

### **Income Tax**

Income tax comprises expected current taxes payable by us (including our subsidiaries) on our taxable income, plus movements in deferred tax assets and liabilities. See Note 6 to the Accountants'

## FINANCIAL INFORMATION

Report included in Appendix I to this prospectus. The corporate income tax rate applicable to our subsidiary in the PRC during the Track Record Period was 25%. The provision for Hong Kong profits tax during the Track Record Period was calculated at 16.5% of the estimated assessable profits of our subsidiary in Hong Kong for each of the years in the Track Record Period. Under the tax laws of Korea, the statutory corporate tax rate applicable to our subsidiary in Korea was 10.0% for assessable income up to KRW200 million, and between 20.0% and 22.0% for income above KRW200 million for each of the years during the Track Record Period. We were not subject to any income tax in the Cayman Islands pursuant to the tax rules and regulations of the Cayman Islands during the Track Record Period.

Our effective tax rates were 18.1%, 35.1% and 21.3% for the years ended December 31, 2011, 2012 and 2013, respectively, and 21.6% and 22.1% for the ten months ended October 31, 2013 and 2014, respectively. Our effective tax rate increased in 2012 mainly as a result of additional PRC income tax paid by our PRC subsidiary due to transfer pricing adjustments made to its 2012 year-end accounts pursuant to our prior transfer pricing practice (which was aimed at achieving a consistent targeted profit level in the PRC across different periods), which resulted in a decrease in its cost of sales and an increase in its taxable income for 2012. See “Business — Transfer Pricing Arrangements.”

The tax expense effect of non-deductible expenses increased by 279.2% from US\$0.6 million in 2011 to US\$2.4 million in 2012, while the tax deduction effect of non-taxable income decreased by 76.8% from US\$1.1 million to US\$0.3 million in 2012. The increase in the tax expense effect of non-deductible expenses was primarily due to transfer pricing adjustments which decreased our PRC subsidiary's cost of sales relating to inventory and increased its taxable profit, while the decrease in the tax deduction effect of non-taxable income was primarily due to the absence of transfer pricing adjustments (such as those made in 2011) that increased its cost of sales relating to inventory and decreased its taxable profit in 2011, the net effect of which was to increase the taxable profit of our PRC subsidiary in 2012 as described above. The tax expense effect of non-deductible expenses decreased by 54.2% from US\$2.4 million in 2012 to US\$1.1 million in 2013, while the tax deduction effect of non-taxable income increased by 372.8% from US\$0.3 million in 2012 to US\$1.2 million in 2013. The decrease in the tax expense effect of non-deductible expenses from 2012 to 2013 was primarily due to the absence of transfer pricing adjustments that increased the taxable profit of our PRC subsidiary in 2013, as well as a decrease in provisions for IIT not withheld by our PRC subsidiary, which were partially offset by an increase in our PRC subsidiary's staff cost exceeding allowable limits. The increase in the tax deduction effect of non-taxable income from 2012 to 2013 was primarily due to transfer pricing adjustments which decreased the taxable profit of our PRC subsidiary in 2013, as well as a reversal of 2011 provisions for PRC income tax arising from transfer pricing adjustments. As of December 31, 2013, the remaining cumulative amount of transfer pricing adjustments fell to approximately RMB814,000, and we discontinued our practice of making adjustments to our cost of sales to achieve the targeted profit level in the PRC since the end of 2013. Therefore, in 2013, we reversed the 2011 additional PRC income tax provision relating to transfer pricing adjustments in the amount of US\$1.0 million, due to the small amount of the remaining transfer pricing adjustment effect as well as the low risk of challenge by the relevant PRC tax authorities regarding the aforementioned adjustments. See “— Prior Year Adjustments in Respect of Our Consolidated Financial Statements for 2011 — Note B: Provision for additional income tax relating to transfer pricing.” The tax expense effect of non-deductible expenses remained relatively constant at US\$0.6 million between the first ten months of 2013 and the first ten months of 2014, while the tax deduction effect of non-taxable income decreased by 56.2% from US\$1.0 million in the first ten months of 2013 to US\$0.4 million in the first ten months of 2014. The decrease in tax deduction effect of non-taxable income between the first ten months of 2013 to the first ten months of 2014 was primarily due to the absence of transfer pricing adjustments that decreased the taxable profit of our PRC subsidiary in the first ten months of 2014.



## FINANCIAL INFORMATION

### **Profit for the Period**

Our profit for the period consists of our profit from operations less finance costs and income tax. We view profit for the period and profit for the period as a percentage of total turnover (or net margin) as key measures of our performance.

### **Results of Operations — Ten Months Ended October 31, 2014 Compared to the Ten Months Ended October 31, 2013**

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations:

|   | Ten months ended October 31,           |         | Changes |         |
|---|--|---------|---------|---------|
|   | 2013                                   | 2014    | Amount  | %       |
|   | (unaudited)                            |         |         |         |
|   | (US\$ in millions, except percentages) |         |         |         |
| <b>Turnover</b> .....   | 616.1                                  | 638.4   | 22.3    | 3.6%    |
| Cost of sales .....   | (544.9)                                | (566.8) | 21.9    | 4.0%    |
| <b>Gross profit</b> .....   | 71.2                                   | 71.6    | 0.4     | 0.5%    |
| Other revenue .....   | 0.9                                    | 1.7     | 0.8     | 79.6%   |
| Other net (loss)/income .....   | (0.6)                                  | (0.2)   | (0.4)   | (75.3)% |
| Selling and distribution expenses .....   | (4.8)                                  | (4.1)   | (0.7)   | (13.1)% |
| Administrative expenses .....   | (21.5)                                 | (27.4)  | 5.9     | 27.1%   |
| <b>Profit from operations</b> .....   | 45.2                                   | 41.6    | (3.6)   | (8.1)%  |
| Finance costs .....   | (4.2)                                  | (2.3)   | (1.9)   | (45.8)% |
| <b>Profit before taxation</b> .....   | 41.0                                   | 39.3    | (1.7)   | (4.2)%  |
| Income tax .....  | (8.9)                                  | (8.7)   | (0.2)   | (1.9)%  |
| <b>Profit for the period</b> .....  | 32.1                                   | 30.6    | (1.5)   | (4.8)%  |
| <b>Other comprehensive income</b>   |  |         |         |         |
| Exchange differences on translation of financial statements<br>of overseas subsidiaries ..... | 2.1                                    | (1.1)   | (3.2)   | N.A.*   |
| Remeasurement of net defined benefit liability .....  | (0.0)                                  | (0.1)   | 0.1     | N.A.*   |
| <b>Total comprehensive income for the year</b> .....  | 34.2                                   | 29.4    | (4.8)   | (14.2)% |

\* N.A. means not applicable.

## FINANCIAL INFORMATION

### Turnover

The following table presents a breakdown of our turnover by product type and changes therein for the periods indicated:

|                          | Ten months ended October 31,           |       | Changes |      |
|--------------------------|--|-------|---------|------|
|                          | 2013                                   | 2014  | Amount  | %    |
|                          | (unaudited)                            |       |         |      |
|                          | (US\$ in millions, except percentages) |       |         |      |
| <b>Turnover:</b>         |  |       |         |      |
| Camera modules           |  |       |         |      |
| Flip-chip .....          | 422.7                                  | 435.0 | 12.3    | 2.9% |
| COB .....                | 183.9                                  | 193.5 | 9.6     | 5.2% |
|                          | 606.6                                  | 628.5 | 21.9    | 3.6% |
| Optical components ..... | 9.5                                    | 9.9   | 0.4     | 3.8% |
| <b>Total</b> .....       | 616.1                                  | 638.4 | 22.3    | 3.6% |

Our turnover increased by 3.6% from US\$616.1 million in the first ten months of 2013 to US\$638.4 million in the first ten months of 2014. This increase was primarily due to an increase in turnover of US\$21.9 million from sales of camera modules.

*Camera Modules.* Turnover from sales of camera modules increased by 3.6% from US\$606.6 million in the first ten months of 2013 to US\$628.5 million in the first ten months of 2014, primarily as a result of a 2.9% increase in turnover from sales of flip-chip camera modules from US\$422.7 million in the first ten months of 2013 to US\$435.0 million in the first ten months of 2014, due mainly to the commencement of production of new models of flip-chip camera modules with higher average selling prices in the second half of 2014, in line with the launch of a new mobile phone product by a major customer. Our camera modules sales are generally affected by seasonality as well as the product development and launch cycles of our major customers. See “Risk Factors — Our results of operations are subject to seasonality of our customers’ product development and launch cycles and may fluctuate.” Such increase was further enhanced by a 5.2% increase in turnover from sales of COB camera modules from US\$183.9 million in the first ten months of 2013 to US\$193.5 million in the first ten months of 2014, mainly due to increases in sales to LG Electronics and Samsung Electronics. The effect of such increases was offset in part by a 3.0% decrease in the volume of camera modules produced, primarily due to a decrease in orders for older models of flip-chip camera modules.

*Optical Components.* Turnover from sales of optical components increased by 3.8% from US\$9.5 million in the first ten months of 2013 to US\$9.9 million in the first ten months of 2014, primarily due to an 8.2% increase in the number of units sold from 200.7 million units in the first ten months of 2013 to 217.2 million units in the first ten months of 2014. Such increase was partially offset by a 4.3% decrease in the average selling price of our optical components from US\$0.047 in the first ten months of 2013 to US\$0.045 in the first ten months of 2014, due to increased competition and a global decline in demand in the end-products utilizing our optical components.

## FINANCIAL INFORMATION

### Cost of Sales

The following table presents a breakdown of our cost of sales and changes therein for the periods indicated:

|   | Ten months ended October 31,           |        | Changes |         |
|---|--|--------|---------|---------|
|   | 2013                                   | 2014   | Amount  | %       |
|   | (unaudited)                            |        |         |         |
|   | (US\$ in millions, except percentages) |        |         |         |
| <b>Cost of Sales:</b>                   |  |        |         |         |
| Costs of components and materials       |  |        |         |         |
| CMOS image sensors . . . . .            | 192.5                                  | 222.1  | 29.6    | 15.4%   |
| PCBs . . . . .                          | 98.7                                   | 82.1   | (16.6)  | (16.8)% |
| Lenses/lens holders . . . . .           | 99.3                                   | 116.6  | 17.3    | 17.4%   |
| HTCC boards . . . . .                   | 30.5                                   | 15.9   | (14.6)  | (47.9)% |
| Others . . . . .                        | 66.3                                   | 63.7   | (2.6)   | (3.9)%  |
|   | 487.3                                  | 500.4  | 13.1    | 2.7%    |
| Manufacturing costs                     |  |        |         |         |
| Labor costs . . . . .                   | 41.9                                   | 37.1   | (4.8)   | (11.6)% |
| Supplies . . . . .                      | 13.8                                   | 24.8   | 11.0    | 80.0%   |
| Depreciation and amortization . . . . . | 8.7                                    | 10.3   | 1.6     | 17.8%   |
| Utilities . . . . .                     | 5.9                                    | 6.3    | 0.4     | 7.5%    |
| Others . . . . .                        | 3.6                                    | 9.7    | 6.1     | 173.1%  |
|   | 73.9                                   | 88.2   | 14.3    | 19.4%   |
| Other <sup>(1)</sup> . . . . .          | (16.3)                                 | (21.8) | 5.5     | 33.7%   |
| <b>Total</b> . . . . .                  | 544.9                                  | 566.8  | 21.9    | 4.0%    |

(1) Includes changes in closing inventory and valuation losses.

Cost of sales increased by 4.0% from US\$544.9 million in the first ten months of 2013 to US\$566.8 million in the first ten months of 2014, primarily as a result of an increase in costs of components and materials. Costs of components and materials increased by 2.7% from US\$487.3 million in the first ten months of 2013 to US\$500.4 million in the first ten months of 2014, primarily as a result of a 15.4% increase in the cost of CMOS image sensors from US\$192.5 million in the first ten months of 2013 to US\$222.1 million in the first ten months of 2014, mainly due to a 20.4% increase in their average unit price, and an 17.4% increase in the cost of lenses and lens holders from US\$99.3 million in the first ten months of 2013 to US\$116.6 million in the first ten months of 2014, mainly due to a 22.4% increase in their average unit price. Such increases in the average unit price of CMOS sensors and lenses and lens holders used by us resulted mainly from the fact that the new flip-chip camera modules we began producing in the second half of 2014 have specifications for higher quality components. Such increases were partially offset by a 16.8% decrease in the cost of PCBs from US\$98.7 million in the first ten months of 2013 to US\$82.1 million in the first ten months of 2014, mainly due to a 13.2% decrease in their average unit price, and a 47.9% decrease in the cost of HTCC boards from US\$30.5 million in the first ten months of 2013 to US\$15.9 million in the first ten months of 2014, mainly due to a 45.6% decrease in their average unit price. Such decreases in the average unit price of PCBs and HTCC boards used by us mainly reflected improved price terms negotiated between our major customers and our suppliers for such components and materials. Cost of sales as a percentage of turnover increased from 88.4% in the first ten months of 2013 to 88.8% in the first ten months of 2014 primarily due to a higher rate of increase in manufacturing costs, compared to the 3.6% increase in turnover. The higher rate of increase in our manufacturing costs resulted mainly from the short-term decrease in production yields during the period

## FINANCIAL INFORMATION

of adjustment typically associated with the implementation of new technology and production processes, which was required for the new flip-chip camera modules we began producing in the second half of 2014.

### **Gross Profit and Gross Margin**

As a result of the cumulative effect of the factors described above, our gross profit increased by 0.5% from US\$71.2 million in the first ten months of 2013 to US\$71.6 million in the first ten months of 2014. Gross margin, which represents gross profit as a percentage of turnover, decreased from 11.6% in the first ten months of 2013 to 11.2% in the first ten months of 2014, as a 4.0% increase in cost of sales outpaced a 3.6% increase in turnover. Such decrease in our gross margin mainly reflected the short-term decrease in production yields during the period of adjustment typically associated with the implementation of new technology and production processes, which was required for the new flip-chip camera modules we began producing in the second half of 2014. We made significant progress in resolving such issues with the implementation of new technology and production processes for the new flip-chip camera modules, and achieved our target production yield for mass production in October 2014.

### **Other Revenue**

Other revenue increased by 79.6% from US\$0.9 million in the first ten months of 2013 to US\$1.7 million in the first ten months of 2014, primarily due to a US\$0.4 million, or a 120.6%, increase in government subsidies, which represents awards we receive occasionally from the local government in recognition of our contribution to the regional economy and are conditioned upon the amount of exports that our PRC subsidiary achieves during the period of award consideration, from US\$0.3 million in the first ten months of 2013 to US\$0.7 million in the first ten months of 2014. Such increase was further enhanced by a write-off of trade payables of US\$0.2 million in the first ten months of 2014, compared to no such write-offs in the first ten months of 2013, as we wrote off certain payables in the first ten months of 2014 whose payment terms had passed the statute of limitations under applicable law, due to reasons such as dissolution of the payee or the payee not requiring payment from us as the payables related to sample production materials for testing.

### **Other Net Income/(Loss)**

Other net loss decreased by 75.3% from US\$0.6 million in the first ten months of 2013 to US\$0.2 million in the first ten months of 2014, primarily due to a net foreign exchange gain of US\$0.3 million in the first ten months of 2014, compared to a net foreign exchange loss of US\$0.6 million in the first ten months of 2013. The net foreign exchange gain in the first ten months of 2014 resulted mainly from a general depreciation of the U.S. dollar against Korean Won during such period. During the Track Record Period, we did not use any forward exchange contracts or other derivative instruments to hedge against fluctuations in currency exchange rates applicable to us. Such gain was partially offset by a US\$0.3 million increase in net loss on disposal of plant and equipment from the first ten months of 2013 to the first ten months of 2014, mainly as a result of the sale of certain unnecessary equipment based on our annual review of assets.

### **Selling and Distribution Expenses**

Selling and distribution expenses decreased by 13.1% from US\$4.8 million in the first ten months of 2013 to US\$4.1 million in the first ten months of 2014. Such decrease was primarily due to a US\$0.5 million, or 24.4%, decrease in customs declaration fees from US\$1.9 million in the first ten months of 2013 to US\$1.4 million in the first ten months of 2014, and a US\$0.2 million, or 9.9%, decrease in transport expenses from US\$2.4 million in the first ten months of 2013 to US\$2.2 million in the first ten months of 2014. The foregoing decreases resulted mainly from a decrease in the volume of camera modules produced (which was more than offset by an increase in their average selling prices).

## FINANCIAL INFORMATION

### ***Administrative Expenses***

Administrative expenses increased by 27.1% from US\$21.5 million in the first ten months of 2013 to US\$27.4 million in the first ten months of 2014. The increase was primarily due to a US\$2.5 million, or 208.3%, increase in handling charges (which primarily include legal, audit and security personnel fees) from US\$1.2 million in the first ten months of 2013 to US\$3.7 million in the first ten months of 2014, which resulted mainly from increases in legal, accounting and other professional service fees in preparation of the Global Offering. Such increase was further enhanced by a US\$2.3 million, or 14.8%, increase in labor costs for our administrative staff from US\$15.5 million in the first ten months of 2013 to US\$17.8 million in the first ten months of 2014, which resulted mainly from an increase in our engineering staff and additional staff hired to accommodate our increase in turnover in the first ten months of 2014.

### ***Profit from Operations and Operating Margin***

As a result of the cumulative effect of the factors described above, our profit from operations decreased by 8.1% from US\$45.2 million in the first ten months of 2013 to US\$41.6 million in the first ten months of 2014. Our operating margin, which represents profit from operations as a percentage of turnover, decreased from 7.3% in the first ten months of 2013 to 6.5% in the first ten months of 2014, as a 4.5% increase in cost of sales, selling and distribution expenses and administrative expenses (net of other revenue and other net income or loss), on an aggregate basis, from US\$570.9 million in the first ten months of 2013 to US\$596.8 million in the first ten months of 2014 outpaced a 3.6% increase in turnover. Such decrease in our operating margin was primarily due to the decrease in our gross margin and the increase in our administrative expenses as discussed above.

### ***Finance Costs***

Finance costs decreased by 45.8% from US\$4.2 million in the first ten months of 2013 to US\$2.3 million in the first ten months of 2014, primarily as a result of a 44.3% decrease in interest expense on bank borrowings from US\$4.1 million in the first ten months of 2013 to US\$2.3 million in the first ten months of 2014, which mainly reflected repayment of bank loans with available cash in the first ten months of 2014.

### ***Income Tax***

Our income tax expense decreased by 1.9% from US\$8.9 million in the first ten months of 2013 to US\$8.7 million in the first ten months of 2014, primarily due to a substantial increase in over-provision in prior years from US\$0.1 million in the first ten months of 2013 to US\$0.9 million in the first ten months of 2014, which mainly reflected over-provisioned amounts of Hong Kong profits tax in prior years. Our effective tax rate increased from 21.6% in the first ten months of 2013 to 22.1% in the first ten months of 2014, as our profit before taxation decreased by 4.2% while our income tax expense decreased by 1.9%.

### ***Profit for the Period and Net Margin***

As a result of the cumulative effect of the factors described above, our profit for the period decreased by 4.8% from US\$32.1 million in the first ten months of 2013 to US\$30.6 million in the first ten months of 2014. Our net margin, which represents profit for the period as a percentage of turnover, decreased from 5.2% in the first ten months of 2013 to 4.8% in the first ten months of 2014, as a 4.1% increase in cost of sales, selling and distribution expenses, administrative expenses, finance costs and income tax (net of other revenue and other net income or loss), on an aggregate basis, from US\$584.0 million in the first ten months of 2013 to US\$607.8 million in the first ten months of 2014 outpaced a 3.6% increase in turnover. Such decrease in our net margin was primarily due to the decrease in our operating margin.

## FINANCIAL INFORMATION

### Results of Operations — Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations:

|  | Year ended December 31,                |         | Changes |         |
|--|--|---------|---------|---------|
|  | 2012                                   | 2013    | Amount  | %       |
|  | (US\$ in millions, except percentages) |         |         |         |
| <b>Turnover</b> .....  | 527.5                                  | 813.9   | 286.4   | 54.3%   |
| Cost of sales .....  | (485.0)                                | (710.7) | 225.7   | 46.5%   |
| <b>Gross profit</b> .....  | 42.5                                   | 103.2   | 60.7    | 142.9%  |
| Other revenue .....  | 7.0                                    | 1.3     | (5.7)   | (81.2)% |
| Other net income/(loss) .....  | 1.1                                    | (1.1)   | (2.2)   | N.A.*   |
| Selling and distribution expenses .....  | (4.4)                                  | (5.9)   | 1.5     | 35.2%   |
| Administrative expenses .....  | (21.5)                                 | (28.5)  | 7.0     | 32.5%   |
| <b>Profit from operations</b> .....  | 24.7                                   | 69.0    | 44.3    | 179.0%  |
| Finance costs .....  | (4.4)                                  | (5.2)   | 0.8     | 17.5%   |
| <b>Profit before taxation</b> .....  | 20.3                                   | 63.8    | 43.5    | 214.1%  |
| Income tax .....   | (7.1)                                  | (13.6)  | 6.5     | 90.3%   |
| <b>Profit for the year</b> .....   | 13.2                                   | 50.2    | 37.0    | 281.1%  |
| <b>Other comprehensive income</b>  |  |         |         |         |
| Exchange differences on translation of financial statements of overseas subsidiaries ..... | 1.3                                    | 3.3     | 2.0     | 154.8%  |
| Remeasurement of net defined benefit liability .....                                       | (0.1)                                  | (0.0)   | (0.1)   | (57.8)% |
| <b>Total comprehensive income for the year</b> .....                                       | 14.4                                   | 53.5    | 39.1    | 271.8%  |

\* N.A. means not applicable.

### Turnover

The following table presents a breakdown of our turnover by product type and changes therein for the periods indicated:

|                          | Year ended December 31,                |       | Changes |         |
|--------------------------|--|-------|---------|---------|
|                          | 2012                                   | 2013  | Amount  | %       |
|                          | (US\$ in millions, except percentages) |       |         |         |
| <b>Turnover:</b>         |  |       |         |         |
| Camera modules           |  |       |         |         |
| Flip-chip .....          | 225.0                                  | 588.5 | 363.5   | 161.6%  |
| COB .....                | 289.5                                  | 214.3 | (75.2)  | (26.0)% |
|                          | 514.5                                  | 802.8 | 288.3   | 56.0%   |
| Optical components ..... | 13.0                                   | 11.1  | (1.9)   | (14.1)% |
| <b>Total</b> .....       | 527.5                                  | 813.9 | 286.4   | 54.3%   |

## FINANCIAL INFORMATION

Our turnover increased by 54.3% from US\$527.5 million in 2012 to US\$813.9 million in 2013. This increase was primarily due to an increase in turnover of US\$288.3 million from sales of camera modules, which was partially offset by a decrease of US\$1.9 million in turnover from sales of optical components.

*Camera Modules.* Turnover from sales of camera modules increased by 56.0% from US\$514.5 million in 2012 to US\$802.8 million in 2013, principally as a result of a 161.6% increase in turnover from sales of flip-chip camera modules from US\$225.0 million in 2012 to US\$588.5 million in 2013. Such increase was offset in part by a decrease in turnover from sales of COB camera modules by 26.0% from US\$289.5 million in 2012 to US\$214.3 million in 2013, principally as a result of the continuing migration of Apple's orders for camera modules toward flip-chip camera modules from COB camera modules during 2013.

*Optical Components.* Turnover from sales of optical components decreased by 14.1% from US\$13.0 million in 2012 to US\$11.1 million in 2013, primarily due to a 7.7% decrease in the average selling price of our optical components and a 6.9% decrease in the number of units sold from 256.8 million units in 2012 to 239.0 million units in 2013. Such decreases were attributable mainly to increased competition and a global decline in demand in the end-products utilizing our optical components.

### Cost of Sales

The following table presents a breakdown of our cost of sales and changes therein for the periods indicated:

|   | Year ended December 31,                |       | Changes |         |
|---|--|-------|---------|---------|
|   | 2012                                   | 2013  | Amount  | %       |
|   | (US\$ in millions, except percentages) |       |         |         |
| <b>Cost of Sales:</b>                   |  |       |         |         |
| Costs of components and materials       |  |       |         |         |
| CMOS image sensors . . . . .            | 165.7                                  | 239.2 | 73.5    | 44.4%   |
| PCBs . . . . .                          | 98.2                                   | 124.1 | 25.9    | 26.4%   |
| Lenses/lens holders . . . . .           | 94.2                                   | 122.8 | 28.6    | 30.4%   |
| HTCC boards . . . . .                   | 21.8                                   | 40.0  | 18.2    | 83.5%   |
| Others . . . . .                        | 52.3                                   | 84.9  | 32.6    | 62.3%   |
|   | 432.2                                  | 611.0 | 178.8   | 41.4%   |
| Manufacturing costs                     |  |       |         |         |
| Labor costs . . . . .                   | 30.3                                   | 51.9  | 21.6    | 71.4%   |
| Supplies . . . . .                      | 19.7                                   | 16.8  | (2.9)   | (14.7)% |
| Depreciation and amortization . . . . . | 7.1                                    | 10.6  | 3.5     | 49.3%   |
| Utilities . . . . .                     | 5.5                                    | 7.1   | 1.6     | 29.7%   |
| Others . . . . .                        | 3.5                                    | 4.7   | 1.2     | 35.2%   |
|   | 66.1                                   | 91.1  | 25.0    | 37.9%   |
| Other <sup>(1)</sup> . . . . .          | (13.3)                                 | 8.6   | 21.9    | N.A.*   |
| <b>Total</b> . . . . .                  | 485.0                                  | 710.7 | 225.7   | 46.5%   |

(1) Includes changes in closing inventory and valuation losses.

\* N.A. means not applicable.

## FINANCIAL INFORMATION

Cost of sales increased by 46.5% from US\$485.0 million in 2012 to US\$710.7 million in 2013, primarily as a result of an increase in costs of components and materials. Costs of components and materials increased by 41.4% from US\$432.2 million in 2012 to US\$611.0 million in 2013, primarily as a result of a 44.4% increase in the cost of CMOS image sensors from US\$165.7 million in 2012 to US\$239.2 million in 2013, as well as a 26.4% increase in the cost of PCBs from US\$98.2 million in 2012 to US\$124.1 million in 2013 and a 30.4% increase in the cost of lenses and lens holders from US\$94.2 million in 2012 to US\$122.8 million in 2013. Such increases mainly reflected an increase in the volume of such components and materials used by us, in line with our higher turnover. Cost of sales as a percentage of turnover decreased from 91.9% in 2012 to 87.3% in 2013 primarily due to a lower rate of increase in manufacturing costs by 37.9% from US\$66.1 million in 2012 to US\$91.1 million in 2013, compared to the 54.3% increase in turnover. The increase in our manufacturing costs resulted mainly from a 71.4% increase in labor costs from US\$30.3 million in 2012 to US\$51.9 million in 2013, which principally reflected growth in the number of our manufacturing employees. The lower rate of increase in our manufacturing costs compared to the rate of increase in our turnover was attributable primarily to the fact that the initial manufacturing cost increases associated with the ramp-up of production of new flip-chip camera modules were mainly incurred in 2012, whereas the increase in turnover from new sales of such modules occurred principally in 2013.

### **Gross Profit and Gross Margin**

As a result of the cumulative effect of the factors described above, our gross profit increased by 142.9% from US\$42.5 million in 2012 to US\$103.2 million in 2013. Gross margin, which represents gross profit as a percentage of turnover, increased from 8.1% in 2012 to 12.7% in 2013, as a 54.3% increase in turnover outpaced a 46.5% increase in cost of sales. Such increase in our gross margin was primarily due to the delay in the increase in turnover from new sales of flip-chip camera modules to 2013, compared to the initial manufacturing cost increases associated with the implementation of new technology and production processes for such modules, which were mainly incurred in 2012. The implementation of new technology and production processes often leads to a short-term drop in profitability due to the increase in cost of goods resulting from lower production yield during the period of adjustment for the new technology, and for additional personnel training and other adjustments necessary for the successful operation of the manufacturing lines utilizing the new technology and production processes.

### **Other Revenue**

Other revenue decreased by 81.2% from US\$7.0 million in 2012 to US\$1.3 million in 2013, primarily due to US\$6.0 million of compensation income received in 2012, compared to no such income in 2013. In 2012, we received a compensation payment from a major camera module customer to compensate us for our production losses resulting from a temporary suspension in production and wasted raw materials while we installed new equipment and made adjustments to our production lines as requested by the customer.

### **Other Net Income/(Loss)**

We recorded other net income of US\$1.1 million in 2012, while we recorded other net loss of US\$1.1 million in 2013, primarily due to a net foreign exchange loss of US\$1.1 million in 2013, compared to a net foreign exchange gain of US\$1.2 million in 2012. The net foreign exchange loss in 2013 resulted mainly from a general depreciation of the U.S. dollar against the Renminbi during 2013.

### **Selling and Distribution Expenses**

Selling and distribution expenses increased by 35.2% from US\$4.4 million in 2012 to US\$5.9 million in 2013. Such increase was primarily due to a US\$1.0 million, or 82.5%, increase in customs declaration



## FINANCIAL INFORMATION

fees, from US\$1.3 million in 2012 to US\$2.3 million in 2013, resulting mainly from the increase in our turnover in 2013.

### ***Administrative Expenses***

Administrative expenses increased by 32.5% from US\$21.5 million in 2012 to US\$28.5 million in 2013. The increase was primarily due to increases in labor costs for our administrative and management staff by 59.1% from US\$13.0 million in 2012 to US\$20.7 million in 2013. Such increase resulted mainly from an increase in our engineering staff and the overall expansion of our operations in 2013.

### ***Profit from Operations and Operating Margin***

As a result of the cumulative effect of the factors described above, our profit from operations increased by 179.0% from US\$24.7 million in 2012 to US\$69.0 million in 2013. Our operating margin, which represents profit from operations as a percentage of turnover, increased from 4.7% in 2012 to 8.5% in 2013, as a 54.3% increase in turnover outpaced a 48.2% increase in cost of sales, selling and distribution expenses and administrative expenses (net of other revenue and other net income or loss), on an aggregate basis, from US\$502.8 million in 2012 to US\$744.9 million in 2013. Such increase in our operating margin was primarily due to the increase in our gross margin, as well as the overall stabilization of our manufacturing operations for new flip-chip camera modules.

### ***Finance Costs***

Finance costs increased by 17.5% from US\$4.4 million in 2012 to US\$5.2 million in 2013, primarily as a result of a 55.0% increase in interest expense on bank borrowings from US\$3.3 million in 2012 to US\$5.0 million in 2013, which mainly reflected a higher level of bank borrowings outstanding during 2013 compared to 2012 to finance our increased operating activities.

### ***Income Tax***

Our income tax expense increased by 90.3% from US\$7.1 million in 2012 to US\$13.6 million in 2013, primarily due to an increase in provision for Hong Kong current tax. Such increase mainly reflected the increase in our profit before taxation. Our effective tax rate decreased from 35.1% in 2012 to 21.3% in 2013, as our profit before taxation increased by 214.1% from US\$20.3 million in 2012 to US\$63.8 million in 2013, while our income tax expense increased by 90.3%.

### ***Profit for the Year and Net Margin***

As a result of the cumulative effect of the factors described above, our profit for the year increased by 281.1% from US\$13.2 million in 2012 to US\$50.2 million in 2013. Our net margin, which represents profit for the year as a percentage of turnover, increased from 2.5% in 2012 to 6.2% in 2013, as a 54.3% increase in turnover outpaced a 48.5% increase in cost of sales, selling and distribution expenses, administrative expenses, finance costs and income tax (net of other revenue and other net income or loss), on an aggregate basis, from US\$514.3 million in 2012 to US\$763.7 million in 2013. Such increase in our net margin was primarily due to the increase in our operating margin, as well as the lower rate of increase of our finance costs.

## FINANCIAL INFORMATION

### Results of Operations — Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations:

|  | Year ended December 31,                |         | Changes |         |
|--|--|---------|---------|---------|
|  | 2011                                   | 2012    | Amount  | %       |
|  | (US\$ in millions, except percentages) |         |         |         |
| <b>Turnover</b> .....  | 323.1                                  | 527.5   | 204.4   | 63.3%   |
| Cost of sales .....  | (287.3)                                | (485.0) | 197.7   | 68.8%   |
| <b>Gross profit</b> .....  | 35.8                                   | 42.5    | 6.7     | 18.8%   |
| Other revenue .....  | 1.0                                    | 7.0     | 6.0     | 573.6%  |
| Other net income .....   | 0.6                                    | 1.1     | 0.5     | 75.0%   |
| Selling and distribution expenses .....  | (2.5)                                  | (4.4)   | 1.9     | 69.6%   |
| Administrative expenses .....  | (11.8)                                 | (21.5)  | 9.7     | 82.9%   |
| <b>Profit from operations</b> .....  | 23.1                                   | 24.7    | 1.6     | 6.9%    |
| Finance costs .....  | (0.9)                                  | (4.4)   | 3.5     | 363.9%  |
| <b>Profit before taxation</b> .....  | 22.2                                   | 20.3    | (1.9)   | (8.4)%  |
| Income tax .....   | (4.0)                                  | (7.1)   | 3.1     | 77.3%   |
| <b>Profit for the year</b> .....   | 18.2                                   | 13.2    | (5.0)   | (27.4)% |
| <b>Other comprehensive income</b>  |  |         |         |         |
| Exchange differences on translation of financial statements of overseas subsidiaries ..... | 1.3                                    | 1.3     | (0.0)   | (1.1)%  |
| Remeasurement of net defined benefit liability .....                                       | (0.1)                                  | (0.1)   | 0.0     | 2.3%    |
| <b>Total comprehensive income for the year</b> .....                                       | 19.4                                   | 14.4    | (5.0)   | (25.7)% |

#### Turnover

The following table presents a breakdown of our turnover by product type and changes therein for the periods indicated:

|                          | Year ended December 31,                |       | Changes |         |
|--------------------------|--|-------|---------|---------|
|                          | 2011                                   | 2012  | Amount  | %       |
|                          | (US\$ in millions, except percentages) |       |         |         |
| <b>Turnover:</b>         |  |       |         |         |
| Camera modules           |  |       |         |         |
| Flip-chip .....          | —                                      | 225.0 | 225.0   | N.A.*   |
| COB .....                | 306.8                                  | 289.5 | (17.3)  | (5.6)%  |
|                          | 306.8                                  | 514.5 | 207.7   | 67.7%   |
| Optical components ..... | 16.3                                   | 13.0  | (3.3)   | (20.7)% |
| <b>Total</b> .....       | 323.1                                  | 527.5 | 204.4   | 63.3%   |

\* N.A. means not applicable.

Our turnover increased by 63.3% from US\$323.1 million in 2011 to US\$527.5 million in 2012. This increase was primarily due to an increase in turnover of US\$207.7 million from sales of camera modules, which was partially offset by a decrease of US\$3.3 million in turnover from sales of optical components.

## FINANCIAL INFORMATION

*Camera Modules.* Turnover from sales of camera modules increased by 67.7% from US\$306.8 million in 2011 to US\$514.5 million in 2012, principally as a result of US\$225.0 million of new sales of flip-chip camera modules in 2012. Starting in the second half of 2012, we began supplying fixed-focus flip-chip camera modules to Apple. Turnover from sales of our COB camera modules decreased by 5.6% from US\$306.8 million in 2011 to US\$289.5 million in 2012, as we reduced our production of COB camera modules for Apple. Such reduction was partially offset by an increase in COB camera module sales to LG Electronics.

*Optical Components.* Turnover from sales of optical components decreased by 20.7% from US\$16.3 million in 2011 to US\$13.0 million in 2012, primarily due to an 18.6% decrease in the number of units sold from 314.5 million units in 2011 to 256.8 million units in 2012. Such decrease was attributable mainly to a global decline in demand for end-products utilizing our optical components.

### Cost of Sales

The following table presents a breakdown of our cost of sales and changes therein for the periods indicated:

|                                     | Year ended December 31,                |              | Changes      |              |
|-------------------------------------|--|--------------|--------------|--------------|
|                                     | 2011                                   | 2012         | Amount       | %            |
|                                     | (US\$ in millions, except percentages) |              |              |              |
| <b>Cost of Sales:</b>               |  |              |              |              |
| Costs of components and materials   |  |              |              |              |
| CMOS image sensors .....            | 88.4                                   | 165.7        | 77.3         | 87.4%        |
| PCBs .....                          | 57.4                                   | 98.2         | 40.8         | 71.1%        |
| Lenses/lens holders .....           | 87.6                                   | 94.2         | 6.6          | 7.5%         |
| HTCC boards .....                   | —                                      | 21.8         | 21.8         | N.A.*        |
| Others .....                        | 21.4                                   | 52.3         | 30.9         | 144.4%       |
|                                     | 254.8                                  | 432.2        | 177.4        | 69.6%        |
| Manufacturing costs                 |  |              |              |              |
| Labor costs .....                   | 14.0                                   | 30.3         | 16.3         | 116.1%       |
| Supplies .....                      | 8.0                                    | 19.7         | 11.7         | 147.9%       |
| Depreciation and amortization ..... | 5.1                                    | 7.1          | 2.0          | 40.2%        |
| Utilities .....                     | 3.1                                    | 5.5          | 2.4          | 75.1%        |
| Others .....                        | 1.1                                    | 3.5          | 2.4          | 207.7%       |
|                                     | 31.3                                   | 66.1         | 34.8         | 111.2%       |
| Other <sup>(1)</sup> .....          | 1.2                                    | (13.3)       | (14.5)       | N.A.*        |
| <b>Total</b> .....                  | <b>287.3</b>                           | <b>485.0</b> | <b>197.7</b> | <b>68.8%</b> |

(1) Includes changes in closing inventory and valuation losses.

\* N.A. means not applicable.

Cost of sales increased by 68.8% from US\$287.3 million in 2011 to US\$485.0 million in 2012, primarily as a result of an increase in costs of components and materials. Costs of components and materials increased by 69.6% from US\$254.8 million in 2011 to US\$432.2 million in 2012, primarily as a result of an 87.4% increase in the cost of CMOS image sensors from US\$88.4 million in 2011 to US\$165.7 million in 2012 and a 71.1% increase in the cost of PCBs from US\$57.4 million in 2011 to US\$98.2 million in 2012. Such increases mainly reflected an increase in the volume of such components and materials used by us, in line with our higher turnover. Cost of sales as a percentage of turnover

## FINANCIAL INFORMATION

increased from 88.9% in 2011 to 91.9% in 2012 primarily due to a 111.2% increase in manufacturing costs from US\$31.3 million in 2011 to US\$66.1 million in 2012. Such increase resulted mainly from a 116.1% increase in labor costs from US\$14.0 million in 2011 to US\$30.3 million in 2012, as well as a 147.9% increase in supplies, which primarily comprise costs for non-core parts subject to wear and tear of our production equipment, from US\$8.0 million in 2011 to US\$19.7 million in 2012. The higher rate of increase in our manufacturing costs compared to the rate of increase in our turnover was attributable mainly to the lag in turnover compared to the initial manufacturing cost increases associated with the ramp-up of production of new fixed-focus flip-chip camera modules starting in the second half of 2012.

### ***Gross Profit and Gross Margin***

As a result of the cumulative effect of the factors described above, our gross profit increased by 18.8% from US\$35.8 million in 2011 to US\$42.5 million in 2012. Gross margin, which represents gross profit as a percentage of turnover, decreased from 11.1% in 2011 to 8.1% in 2012, as a 63.3% increase in turnover was outpaced by a 68.8% increase in cost of sales. Such decrease in our gross margin was primarily due to the lag in turnover compared to the initial manufacturing cost increases associated with the implementation of new technology and production processes for new fixed-focus flip-chip camera modules starting in the second half of 2012. The implementation of new technology and production processes often leads to a short-term drop in profitability due to the increase in cost of goods resulting from lower production yield during the period of adjustment for the new technology, and for additional personnel training and other adjustments necessary for the successful operation of the manufacturing lines utilizing the new technology and production processes.

### ***Other Revenue***

Other revenue increased by 573.6% from US\$1.0 million in 2011 to US\$7.0 million in 2012, primarily due to US\$6.0 million of compensation income in 2012, compared to no such income in 2011. In 2012, we received a compensation payment from a customer to compensate us for our production losses resulting from a temporary suspension in production while we installed new equipment as requested by the customer.

### ***Other Net Income***

Other net income increased by 75.0% from US\$0.6 million in 2011 to US\$1.1 million in 2012, primarily due to a 69.2%, or US\$0.5 million, increase in net foreign exchange gain from US\$0.7 million in 2011 to US\$1.2 million in 2012. Such increase resulted mainly from a general depreciation of the U.S. dollar against the Korean Won during 2012.

### ***Selling and Distribution Expenses***

Selling and distribution expenses increased by 69.6% from US\$2.5 million in 2011 to US\$4.4 million in 2012. Such increase was primarily due to a US\$1.8 million, or 214.1%, increase in transportation fees, which include fees paid to logistics companies for the delivery of our products, from US\$0.8 million in 2011 to US\$2.6 million in 2012, resulting mainly from our increased sales and distribution activities for camera modules, reflecting our higher turnover for such products.

### ***Administrative Expenses***

Administrative expenses increased by 82.9% from US\$11.8 million in 2011 to US\$21.5 million in 2012. The increase was primarily due to increases in labor costs for our administrative and management

## FINANCIAL INFORMATION

staff by 104.5% from US\$6.4 million in 2011 to US\$13.0 million in 2012, handling charges (which primarily include legal, audit and security personnel fees) by 286.9% from US\$0.5 million in 2011 to US\$2.0 million in 2012 and supply expenses (comprised of expenses for general office supplies, equipment and furniture) by 424.3% from US\$0.2 million in 2011 to US\$1.3 million in 2012. Such increases resulted mainly from higher turnover for camera modules and the overall expansion of our operations, including the addition of our Huanan office space in 2012.

### ***Profit from Operations and Operating Margin***

As a result of the cumulative effect of the factors described above, our profit from operations increased by 6.9% from US\$23.1 million in 2011 to US\$24.7 million in 2012. Our operating margin, which represents profit from operations as a percentage of turnover, decreased from 7.2% in 2011 to 4.7% in 2012, as a 63.3% increase in turnover was outpaced by a 67.6% increase in cost of sales, selling and distribution expenses and administrative expenses (net of other revenue and other net income), on an aggregate basis, from US\$300.0 million in 2011 to US\$502.8 million in 2012. Such decrease in our operating margin was primarily due to the decrease in our gross margin, as well as the overall expansion of our operations.

### ***Finance Costs***

Finance costs increased by 363.9% from US\$0.9 million in 2011 to US\$4.4 million in 2012, primarily as a result of a 242.2% increase in interest expense on bank borrowings from US\$1.0 million in 2011 to US\$3.3 million in 2012, which mainly reflected increased bank borrowings to finance our increased operating activities, including the construction of our production facilities in Huanan. Such increase was further enhanced by US\$1.0 million in other borrowing cost paid to a Director in 2012, resulting from a fee we paid to a Director for providing his personal assets as collateral to secure an aggregate of US\$15.0 million in bank loans which we borrowed between 2008 and 2011, and repaid in full in 2012.

### ***Income Tax***

Our income tax expense increased by 77.3% from US\$4.0 million in 2011 to US\$7.1 million in 2012, primarily due to a 279.2% increase in tax expense effect of non-deductible expenses from US\$0.6 million in 2011 to US\$2.4 million in 2012, which was enhanced by a 76.8% decrease in tax deduction effect of non-taxable income from US\$1.1 million to US\$0.3 million in 2012. The increase in tax expense effect of non-deductible tax expenses, as well as the decrease in tax deduction effect of non-taxable income, were primarily due to changes in transfer pricing adjustments, which decreased the taxable profit of our PRC subsidiary in 2011 but increased such taxable profit in 2012. See “— Description of Certain Line Items of the Consolidated Statements of Profit or Loss — Income Tax” and “Business — Transfer Pricing Arrangements.” Our effective tax rate increased from 18.1% in 2011 to 35.1% in 2012, as our profit before taxation decreased by 8.4% from US\$22.2 million in 2011 to US\$20.3 million in 2012, while our income tax expense increased.

### ***Profit for the Year and Net Margin***

As a result of the cumulative effect of the factors described above, our profit for the year decreased by 27.4% from US\$18.2 million in 2011 to US\$13.2 million in 2012. Our net margin, which represents profit for the year as a percentage of turnover, decreased from 5.6% in 2011 to 2.5% in 2012, as a 63.3% increase in turnover was outpaced by a 68.6% increase cost of sales, selling and distribution expenses, administrative expenses, finance costs and income tax (net of other revenue and other net income), on an aggregate basis, from US\$304.9 million in 2011 to US\$514.3 million in 2012. Such decrease in our net margin was primarily due to the decrease in our operating margin, as well as higher finance costs and income tax expense.

## FINANCIAL INFORMATION

### Key Financial Ratios

|   | Year ended December 31, |         |        | Ten months ended<br>October 31, |        |
|---|-------------------------|---------|--------|---------------------------------|--------|
|   | 2011                    | 2012    | 2013   | 2013                            | 2014   |
|   |                         |         |        |                                 |        |
| <b>Profitability ratios</b>                           |                         |         |        |                                 |        |
| Turnover growth <sup>(1)</sup> . . . . .              | N/A                     | 63.3%   | 54.3%  | N/A                             | 3.6%   |
| Net profit growth/(decrease) <sup>(2)</sup> . . . . . | N/A                     | (27.4)% | 281.1% | N/A                             | (4.8)% |
| Gross margin <sup>(3)</sup> . . . . .                 | 11.1%                   | 8.1%    | 12.7%  | 11.6%                           | 11.2%  |
| Operating margin <sup>(4)</sup> . . . . .             | 7.2%                    | 4.7%    | 8.5%   | 7.3%                            | 6.5%   |
| Net margin <sup>(5)</sup> . . . . .                   | 5.6%                    | 2.5%    | 6.2%   | 5.2%                            | 4.8%   |
| Return on equity <sup>(6)</sup> . . . . .             | 25.1%                   | 15.3%   | 35.9%  | 26.6%                           | 18.1%  |
| Return on total assets <sup>(7)</sup> . . . . .       | 8.5%                    | 3.5%    | 12.6%  | 8.5%                            | 6.9%   |
|   |                         |         |        |                                 |        |
|   | As of December 31,      |         |        | As of October 31,               |        |
|   | 2011                    | 2012    | 2013   | 2013                            | 2014   |
|   |                         |         |        |                                 |        |
| <b>Liquidity ratios</b>                               |                         |         |        |                                 |        |
| Current ratio <sup>(8)</sup> . . . . .                | 115.2%                  | 96.2%   | 113.3% | 106.3%                          | 119.8% |
| Quick ratio <sup>(9)</sup> . . . . .                  | 87.2%                   | 76.3%   | 92.0%  | 73.4%                           | 89.5%  |
| <b>Capital adequacy ratios</b>                        |                         |         |        |                                 |        |
| Gearing ratio <sup>(10)</sup> . . . . .               | 17.7%                   | 47.6%   | 27.2%  | 31.7%                           | 20.6%  |
| Debt to equity ratio <sup>(11)</sup> . . . . .        | 21.5%                   | 90.7%   | 37.4%  | 46.5%                           | 25.9%  |
| Interest coverage ratio <sup>(12)</sup> . . . . .     | 24.3                    | 5.6     | 13.3   | 10.6                            | 18.0   |

- (1) The calculation of turnover growth is based on turnover for the period divided by turnover for the previous period, minus one and multiplied by 100%.
- (2) The calculation of net profit growth is based on profit for the period divided by profit for the previous period, minus one and multiplied by 100%.
- (3) The calculation of gross margin is based on gross profit divided by turnover and multiplied by 100%.
- (4) The calculation of operating margin is based on profit from operations divided by turnover and multiplied by 100%.
- (5) The calculation of net margin is based on profit for the period divided by turnover and multiplied by 100%.
- (6) The calculation of return on equity is based on profit for the period divided by capital and reserves and multiplied by 100%.
- (7) The calculation of return on total assets is based on profit for the period divided by total assets and multiplied by 100%.
- (8) The calculation of current ratio is based on current assets divided by current liabilities and multiplied by 100%.
- (9) The calculation of quick ratio is based on current assets less inventories divided by current liabilities and multiplied by 100%.
- (10) The calculation of gearing ratio is based on net debt (defined as bank loans and overdrafts and loan from a director less cash and cash equivalents and pledged deposits) divided by the sum of net debt and total equity, and multiplied by 100%.
- (11) The calculation of debt to equity ratio is based on net debt divided by total equity and multiplied by 100%.
- (12) The calculation of interest coverage ratio is based on profit before interest and income tax expenses divided by finance costs.

See “— Results of Operations — Ten Months Ended October 31, 2014 Compared to Ten Months Ended October 31, 2013,” “— Results of Operations — Year Ended December 31, 2013 Compared to Year Ended December 31, 2012” and “— Results of Operations — Year Ended December 31, 2012 Compared to Year Ended December 31, 2011” for a discussion of the factors affecting our turnover growth, net profit growth, gross margin, operating margin and net margin during the respective periods.

## FINANCIAL INFORMATION

### ***Return on Equity***

Our return on equity decreased from 25.1% in 2011 to 15.3% in 2012, primarily due to our decreased profit as a result of our lower net margin, and increased to 35.9% in 2013, primarily due to our increased profit as a result of our increased net margin. Our return on equity decreased from 26.6% in the first ten months of 2013 to 18.1% in the first ten months of 2014, primarily due to our decreased profit as a result of our decreased net margin.

### ***Return on Total Assets***

Our return on total assets decreased from 8.5% in 2011 to 3.5% in 2012, primarily due to an increase in our total assets, as well as our decreased profit as a result of our lower net margin, and increased to 12.6% in 2013, primarily due to our increased profit as a result of our increased net margin. Our return on total assets decreased from 8.5% in the first ten months of 2013 to 6.9% in the first ten months of 2014, primarily due to our decreased profit as a result of our decreased net margin, as well as an increase in our total assets.

### ***Current Ratio***

Our current ratio decreased from 115.2% as of December 31, 2011 to 96.2% as of December 31, 2012, primarily due to an increase in our bank loans and overdrafts, and increased to 113.3% as of December 31, 2013, primarily due to an increase in our cash and cash equivalents and decreases in our trade and other payables and bank loans and overdrafts. Our current ratio further increased to 119.8% as of October 31, 2014, primarily due to increases in trade and other receivables and inventories and a decrease in bank loans and overdrafts, which were partially offset by a corresponding increase in trade and other payables and a decrease in cash and cash equivalents.

### ***Quick Ratio***

Consistent with the changes in our current ratio, our quick ratio decreased from 87.2% as of December 31, 2011 to 76.3% as of December 31, 2012, mainly due to an increase in our bank loans and overdrafts, and increased to 92.0% as of December 31, 2013, primarily due to an increase in our cash and cash equivalents and decreases in our trade and other payables and bank loans and overdrafts. Our quick ratio decreased to 89.5% as of October 31, 2014, primarily due to an increase in our inventories, in addition to a decrease in cash and cash equivalents. The increase in our inventories was due to additional production materials purchased in anticipation of increased production during the fourth quarter of 2014.

### ***Gearing Ratio***

Our gearing ratio increased from 17.7% as of December 31, 2011 to 47.6% as of December 31, 2012, primarily due to an increase in our bank loans and overdrafts from US\$50.4 million as of December 31, 2011 to US\$142.1 million as of December 31, 2012, and decreased to 27.2% as of December 31, 2013, primarily due to a decrease in our bank loans and overdrafts from US\$142.1 million as of December 31, 2012 to US\$121.8 million as of December 31, 2013. Our gearing ratio decreased further to 20.6% as of October 31, 2014, primarily due to a decrease in our bank loans and overdrafts to US\$83.3 million as of October 31, 2014 from US\$121.8 million as of December 31, 2013.

### ***Debt to Equity Ratio***

Consistent with our gearing ratio, our debt to equity ratio increased from 21.5% as of December 31, 2011 to 90.7% as of December 31, 2012, primarily due to an increase in our bank loans and overdrafts,

## FINANCIAL INFORMATION

while cash and cash equivalents remained relatively constant, and decreased to 37.4% as of December 31, 2013, primarily due to a decrease in our bank loans and overdrafts, while cash and cash equivalents increased. Our debt to equity ratio further decreased to 25.9% as of October 31, 2014, primarily due to a decrease in our bank loans and overdrafts.

### **Interest Coverage Ratio**

Our interest coverage ratio decreased from 24.3 in 2011 to 5.6 in 2012, primarily due to an increase in our finance costs reflecting an increase in our bank loans and overdrafts, and increased to 13.3 in 2013, primarily due to an increase in our profit before interest and income tax expense between 2012 and 2013. Our interest coverage ratio increased from 10.6 in the first ten months of 2013 to 18.0 in the first ten months of 2014, primarily due to a decrease in our finance costs between the first ten months of 2013 and the first ten months of 2014 due mainly to a decrease in our bank loans and overdrafts, which was partially offset by a decrease in our profit before interest and income taxes between the two periods.

### **Current Assets and Liabilities**

The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated:

|   | <b>As of December 31,</b> |               |              | <b>As of</b>       | <b>As of</b>       |
|---|---------------------------|---------------|--------------|--------------------|--------------------|
|   | <b>2011</b>               | <b>2012</b>   | <b>2013</b>  | <b>October 31,</b> | <b>January 31,</b> |
|   |                           |               |              | <b>2014</b>        | <b>2015</b>        |
|   |                           |               |              |                    | <b>(unaudited)</b> |
|   | <b>(US\$ in millions)</b> |               |              |                    |                    |
| <b>Current assets</b>                             |                           |               |              |                    |                    |
| Inventories . . . . .                             | 39.2                      | 58.2          | 55.0         | 82.4               | 49.7               |
| Trade and other receivables . . . . .             | 85.4                      | 157.6         | 167.4        | 201.9              | 174.4              |
| Current tax recoverable . . . . .                 | —                         | 0.5           | —            | 2.1                | 0.9                |
| Pledged deposits . . . . .                        | 23.0                      | 52.1          | 26.3         | 22.0               | 19.2               |
| Cash and cash equivalents . . . . .               | 13.9                      | 13.6          | 45.2         | 17.5               | 25.0               |
|   | <u>161.5</u>              | <u>282.0</u>  | <u>293.9</u> | <u>325.9</u>       | <u>269.2</u>       |
| <b>Current liabilities</b>                        |                           |               |              |                    |                    |
| Trade and other payables . . . . .                | 85.9                      | 144.5         | 123.1        | 180.5              | 141.0              |
| Bank loans and overdrafts . . . . .               | 50.4                      | 142.1         | 121.8        | 83.3               | 35.3               |
| Current tax payable . . . . .                     | 1.9                       | 4.7           | 12.6         | 8.2                | 6.6                |
| Loan from a director . . . . .                    | 2.0                       | 2.0           | 2.0          | —                  | —                  |
|   | <u>140.2</u>              | <u>293.3</u>  | <u>259.5</u> | <u>272.0</u>       | <u>182.9</u>       |
| <b>Net current assets/(liabilities)</b> . . . . . | <u>21.3</u>               | <u>(11.3)</u> | <u>34.4</u>  | <u>53.9</u>        | <u>86.3</u>        |

### **January 31, 2015 compared to October 31, 2014**

As of January 31, 2015, we had net current assets of US\$86.3 million, compared to net current assets of US\$53.9 million as of October 31, 2014, representing an increase of US\$32.4 million. This change was primarily due to a decrease in our bank loans and overdrafts, as we used available cash to pay off bank loans as part of our efforts to decrease our financing costs, as well as a lower rate of decrease in our trade receivables compared to the decrease in our trade payables, principally as a result of continued high turnover from November to January from sales of new models of flip-chip camera



## FINANCIAL INFORMATION

modules. The decreases in our trade receivables and payables mainly reflected the seasonal year-end settlement of accounts receivable and payable.

### ***October 31, 2014 compared to December 31, 2013***

As of October 31, 2014, we had net current assets of US\$53.9 million, compared to net current assets of US\$34.4 million as of December 31, 2013, representing an increase of US\$19.5 million. This change was primarily due to increases in our trade and other receivables of US\$34.5 million and inventories of US\$27.4 million, and a decrease in bank loans and overdrafts of US\$38.5 million, which were offset in part by an increase in trade and other payables of US\$57.4 million and a decrease in cash and cash equivalents of US\$27.7 million. Our trade and other receivables and trade and other payables increased as a result of an increase in our turnover, and our cash and cash equivalents and bank loans and overdrafts decreased as we used available existing cash to settle our trade and other payables and pay off bank loans to decrease our financing costs. Our balance of cash and cash equivalents as of December 31, 2013 was unusually large compared to other periods, as we had a large amount of cash on hand from factoring of our trade and other receivables at the end of 2013, before such cash was used to settle trade and other payables and pay off bank loans after the period end.

### ***December 31, 2013 compared to December 31, 2012***

As of December 31, 2013, we had net current assets of US\$34.4 million, compared to net current liabilities of US\$11.3 million as of December 31, 2012, representing an increase of US\$45.7 million. This change was primarily due to a decrease in our trade and other payables of US\$21.4 million and a decrease in our bank loans and overdrafts of US\$20.3 million, which were enhanced by an increase in our cash and cash equivalents of US\$31.6 million and an increase in our trade and other receivables of US\$9.8 million. These increases were partially offset by a decrease in our pledged deposits of US\$25.8 million. Our cash and cash equivalents increased as of December 31, 2013 due primarily to the large amount of cash on hand from factoring of our trade and other receivables at the end of 2013, while our bank loans and overdrafts and pledged deposits decreased as a result of termination of certain bank loans which required a certain amount of deposits for us to utilize the loan. Our trade and other payables decreased as a result of payment of our trade and other payables due to our improved cash flows from the additional cash which became available upon the release of pledged deposits.

### ***December 31, 2011 compared to December 31, 2012***

As of December 31, 2012, we had net current liabilities of US\$11.3 million, compared to net current assets of US\$21.3 million as of December 31, 2011, representing a decrease of US\$32.6 million. This change was primarily due to an increase in our bank loans and overdrafts of US\$91.7 million (mainly to finance the construction of our production facilities in Huanan) and an increase in trade and other payables of US\$58.6 million, which were partially offset by an increase in our trade and other receivables of US\$72.2 million and an increase of our pledged deposits of US\$29.1 million. Our trade and other receivables and payables increased due mainly to increased sales of camera modules, in particular new fixed-focus flip-chip camera modules starting in the second half of 2012.

## FINANCIAL INFORMATION

### **Inventories**

The following table sets forth a breakdown of our inventory balances as of the respective dates indicated:

|                        | <b>As of December 31,</b> |             |             | <b>As of October 31,</b> |
|------------------------|---------------------------|-------------|-------------|--------------------------|
|                        | <b>2011</b>               | <b>2012</b> | <b>2013</b> | <b>2014</b>              |
|                        | <b>(US\$ in millions)</b> |             |             |                          |
| Raw materials .....    | 16.5                      | 25.6        | 29.6        | 28.3                     |
| Work in progress ..... | 2.8                       | 6.2         | 7.5         | 15.8                     |
| Finished goods .....   | 19.9                      | 26.4        | 17.9        | 38.3                     |
| <b>Total</b> .....     | <b>39.2</b>               | <b>58.2</b> | <b>55.0</b> | <b>82.4</b>              |

Our inventory balance increased by 49.6%, or US\$27.4 million, from US\$55.0 million as of December 31, 2013 to US\$82.4 million as of October 31, 2014 due mainly to increases in finished goods and work in progress, which were partially offset by a decrease in raw materials. Finished goods increased by 113.5%, or US\$20.4 million, from US\$17.9 million as of December 31, 2013 to US\$38.3 million as of October 31, 2014, and work in progress increased by 111.2%, or US\$8.3 million, from US\$7.5 million as of December 31, 2013 to US\$15.8 million as of October 31, 2014. Such increases were primarily due to an increase in production of camera modules in anticipation of a seasonal increase in sales during the fourth quarter of 2014. Raw materials decreased by 4.5%, or US\$1.3 million, from US\$29.6 million as of December 31, 2013 to US\$28.3 million as of October 31, 2014, primarily due to a temporary decrease at the end of the period before raw materials ordered were delivered to us.

Our inventory balance decreased by 5.5%, or US\$3.2 million, from US\$58.2 million as of December 31, 2012 to US\$55.0 million as of December 31, 2013 due mainly to a decrease in finished goods, which was partially offset by an increase in raw materials. Finished goods decreased by 32.0%, or US\$8.5 million, from US\$26.4 million as of December 31, 2012 to US\$17.9 million as of December 31, 2013, primarily due to more disciplined inventory monitoring and more efficient manufacturing processes. Raw materials increased by 15.6%, or US\$4.0 million, from US\$25.6 million as of December 31, 2012 to US\$29.6 million as of December 31, 2013, primarily due to an anticipated increase in our sales volume for camera modules.

Our inventory balance increased by 48.4%, or US\$19.0 million, from US\$39.2 million as of December 31, 2011 to US\$58.2 million as of December 31, 2012 due mainly to increases in raw materials and finished goods. Raw materials increased by 54.7%, or US\$9.1 million, from US\$16.5 million as of December 31, 2011 to US\$25.6 million as of December 31, 2012. Finished goods increased by 32.6%, or US\$6.5 million, from US\$19.9 million as of December 31, 2011 to US\$26.4 million as of December 31, 2012. The increases in raw materials and finished goods were primarily due to an increase in our sales volume for camera modules.

The following table sets forth our average inventory turnover days for the periods indicated:

|  | <b>Year ended December 31,</b> |             |             | <b>Ten months ended</b> |
|--|--------------------------------|-------------|-------------|-------------------------|
|  | <b>2011</b>                    | <b>2012</b> | <b>2013</b> | <b>October 31,</b>      |
|  |                                |             |             | <b>2014</b>             |
| Inventory turnover days <sup>(1)</sup> ..... | 42.0                           | 36.7        | 29.1        | 36.8                    |

(1) Inventory turnover days were calculated based on the average of the opening and closing inventory balances divided by the cost of sales for the relevant period and multiplied by the number of days in the period.

## FINANCIAL INFORMATION

Our average inventory turnover days for the ten months ended October 31, 2014 were higher as compared to the year ended December 31, 2013 due primarily to an increase in inventories during the first ten months of 2014 in anticipation of a seasonal increase in sales during the fourth quarter of 2014.

Our average inventory turnover days for the year ended December 31, 2013 were lower as compared to the year ended December 31, 2012 due primarily to our continued disciplined inventory monitoring and more efficient manufacturing processes, which decreased the overall cycle time for production of finished goods and decreased our inventory.

Our average inventory turnover days for the year ended December 31, 2012 were lower as compared to the year ended December 31, 2011 due primarily to more disciplined inventory monitoring and more efficient manufacturing processes.

As of January 31, 2015, approximately US\$81.0 million, or 98.3%, of our inventories as of October 31, 2014 had been sold or used.

### **Trade and Other Receivables**

Trade receivables represent outstanding amounts due from our customers for the purchase of our products. Besides trade receivables, our other receivables and prepayments primarily comprise prepayments on our purchase of components and materials, value-added tax refunds due and guarantee deposits for our leases. The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

|  | As of December 31, |              |              | As of               |
|--|--------------------|--------------|--------------|---------------------|
|  | 2011               | 2012         | 2013         | October 31,<br>2014 |
|  | (US\$ in millions) |              |              |                     |
| <b>Trade and other receivables:</b>      |                    |              |              |                     |
| Trade receivables .....                  | 77.0               | 127.3        | 156.8        | 183.0               |
| Less: allowance for doubtful debts ..... | (0.1)              | (0.1)        | (0.0)        | (0.0)               |
|  | 76.9               | 127.2        | 156.8        | 183.0               |
| Other receivables and prepayments .....  | 8.5                | 30.4         | 10.6         | 18.9                |
| <b>Total</b> .....                       | <b>85.4</b>        | <b>157.6</b> | <b>167.4</b> | <b>201.9</b>        |

Our trade and other receivables increased by 20.6%, or US\$34.5 million, from US\$167.4 million as of December 31, 2013 to US\$201.9 million as of October 31, 2014, primarily due to an increase of 16.7%, or US\$26.2 million, in trade receivables, mainly reflecting the commencement of sales of new models of flip-chip camera modules with higher average selling prices in the second half of 2014, which resulted in an increase in turnover as well as trade receivables.

Our trade and other receivables increased by 6.2%, or US\$9.8 million, from US\$157.6 million as of December 31, 2012 to US\$167.4 million as of December 31, 2013, primarily due to an increase of 23.2%, or US\$29.5 million, in trade receivables, mainly reflecting an increase in our sales of camera modules, which was partially offset by a decrease of 65.1%, or US\$19.8 million, in other receivables and prepayments, primarily due to the settlement during 2013 of a compensation payment due from one of our major customers to compensate us for our production losses resulting from a temporary suspension in production while we installed new equipment as requested by the customer.

## FINANCIAL INFORMATION

Our trade and other receivables increased by 84.5%, or US\$72.2 million, from US\$85.4 million as of December 31, 2011 to US\$157.6 million as of December 31, 2012, primarily due to an increase of 65.4%, or US\$50.3 million, in trade receivables, mainly reflecting an increase in our sales of camera modules.

As of January 31, 2015, approximately US\$182.4 million, or 99.7%, of our trade receivables outstanding as of October 31, 2014 had been settled.

The table below sets forth an aging analysis of our trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, as of the dates indicated:

|   | As of December 31, |              |              | As of               |
|---|--------------------|--------------|--------------|---------------------|
|   | 2011               | 2012         | 2013         | October 31,<br>2014 |
| (US\$ in millions)                        |                    |              |              |                     |
| <b>Trade receivables</b>                  |                    |              |              |                     |
| Within 1 month . . . . .                  | 46.3               | 69.6         | 86.2         | 123.8               |
| Over 1 month to below 2 months . . . . .  | 28.2               | 56.8         | 69.6         | 56.8                |
| Over 2 months to below 3 months . . . . . | 1.7                | 0.7          | 0.6          | 1.9                 |
| Over 3 months . . . . .                   | 0.7                | 0.1          | 0.4          | 0.5                 |
| <b>Total</b> . . . . .                    | <u>76.9</u>        | <u>127.2</u> | <u>156.8</u> | <u>183.0</u>        |

We typically grant our customers credit terms ranging from 30 to 90 days from the date of billing. We assess the credit terms on a case-by-case basis, taking into account the customer's creditworthiness, prior dealing history and additional information specific to the customer as well as the economic environment in which the customer operates.

The following table sets forth the turnover days for our trade receivables for the periods indicated:

|  | Year ended<br>December 31, |      |      | Ten months ended<br>October 31, |
|--|----------------------------|------|------|---------------------------------|
|  | 2011                       | 2012 | 2013 | 2014                            |
| Trade receivables turnover days <sup>(1)</sup> . . . . . | 63.9                       | 70.6 | 63.7 | 80.9                            |

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by turnover for the relevant period multiplied by the number of days in the period.

Our average trade receivables turnover days for the ten months ended October 31, 2014 were higher as compared to the year ended December 31, 2013 due primarily to the significant increase in the balance of our trade receivables as of October 31, 2014, resulting from the seasonal increase in our trade receivables from September to November as well as the launch of a popular mobile phone product by a major customer. We believe our trade receivables turnover days for the year ended December 31, 2014 were more in line with trade receivables turnover days for prior years.

Our average trade receivables turnover days for the year ended December 31, 2013 were lower as compared to the year ended December 31, 2012 due primarily to an increase in sales to a customer subject to a relatively shorter payment period under its credit terms compared to other customers.

## FINANCIAL INFORMATION

Our average trade receivables turnover days for the year ended December 31, 2012 were higher as compared to the year ended December 31, 2011 due primarily to the launch of a popular mobile phone product by a major customer in the second half of 2012, which resulted in a significant increase in our trade receivables as of December 31, 2012.

### **Trade and Other Payables**

Trade payables represent outstanding amounts due on our purchases of components and materials and equipment from external suppliers. Besides trade payables, our accrued charges and other payables primarily comprise accrued salaries and other remuneration benefits and interest expenses payable. The following table sets forth our trade and other payables outstanding as of the dates indicated:

|                                    | As of December 31, |              |              | As of               |
|------------------------------------|--------------------|--------------|--------------|---------------------|
|                                    | 2011               | 2012         | 2013         | October 31,<br>2014 |
|                                    | (US\$ in millions) |              |              |                     |
| <b>Trade and Other Payables:</b>   |                    |              |              |                     |
| Trade payables                     | 79.2               | 125.2        | 106.7        | 163.0               |
| Accrued charges and other payables | 6.7                | 19.3         | 16.4         | 17.5                |
| <b>Total</b>                       | <b>85.9</b>        | <b>144.5</b> | <b>123.1</b> | <b>180.5</b>        |

Our trade and other payables increased by 46.6%, or US\$57.4 million, from US\$123.1 million as of December 31, 2013 to US\$180.5 million as of October 31, 2014, primarily due to an increase of 52.8%, or US\$56.3 million, in trade payables, mainly reflecting an increase in our purchased components and materials resulting primarily from the commencement of production of new models of flip-chip camera modules in the second half of 2014.

Our trade and other payables decreased by 14.8%, or US\$21.4 million, from US\$144.5 million as of December 31, 2012 to US\$123.1 million as of December 31, 2013, primarily due to payment of our trade and other payables from the additional cash which became available upon the release of pledged deposits in 2013.

Our trade and other payables increased by 68.3%, or US\$58.6 million, from US\$85.9 million as of December 31, 2011 to US\$144.5 million as of December 31, 2012, primarily due to an increase of 58.1%, or US\$46.0 million, in trade payables, mainly reflecting an increase in the volumes of our purchased components and materials resulting primarily from increased production and sales of camera modules.

As of January 31, 2015, approximately US\$162.3 million, or 99.6%, of our trade payables outstanding as of October 31, 2014 had been settled.

The following table sets forth an aging analysis of our trade payables (which are included in trade and other payables) as of the dates indicated:

|                                | Year ended December 31, |              |              | As of               |
|--------------------------------|-------------------------|--------------|--------------|---------------------|
|                                | 2011                    | 2012         | 2013         | October 31,<br>2014 |
|                                | (US\$ in millions)      |              |              |                     |
| <b>Trade payables</b>          |                         |              |              |                     |
| Within 1 month                 | 35.8                    | 44.3         | 40.0         | 94.6                |
| Over 1 month to below 3 months | 42.1                    | 68.7         | 66.2         | 68.3                |
| Over 3 months to 6 months      | 1.1                     | 12.0         | 0.3          | 0.1                 |
| Over 6 months                  | 0.2                     | 0.2          | 0.2          | —                   |
| <b>Total</b>                   | <b>79.2</b>             | <b>125.2</b> | <b>106.7</b> | <b>163.0</b>        |

## FINANCIAL INFORMATION

We are generally granted a credit period of 30 to 90 days from the date of billing by our suppliers. The following table sets out the turnover days for our trade payables for the periods indicated:

|   | Year ended December 31, |      |      | Ten months ended    |
|---|-------------------------|------|------|---------------------|
|   | 2011                    | 2012 | 2013 | October 31,<br>2014 |
| Trade payables turnover days <sup>(1)</sup> . . . . . | 66.3                    | 70.7 | 52.0 | 64.2                |

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by turnover for the relevant period multiplied by the number of days in the period.

Our average trade payables turnover days for the ten months ended October 31, 2014 were higher as compared to the year ended December 31, 2013 primarily as a result of the high balance of our trade payables for the first ten months of 2014, reflecting the increase in our purchases of components and materials for the production of camera modules in the second half of 2014.

Our average trade payables turnover days for the year ended December 31, 2013 were lower as compared to the year ended December 31, 2012 primarily as a result of an increase in the rate of payment of our trade payables due to our improved cash flows from the additional cash which became available upon the release of our pledged deposits.

Our average trade payables turnover days for the year ended December 31, 2012 were higher as compared to the year ended December 31, 2011 due primarily to an increase in payables to our suppliers of components and materials resulting mainly from increased production and sales of camera modules in 2012, and our need to maximize the number of allowed days in our payment terms in line with our lower cash flows.

### ***Pledged Deposits***

As part of our borrowing arrangements with banking institutions, we make certain deposits to secure our borrowings, which increases the maximum amount of the facilities available to us from such banking institutions. Our pledged deposits increased by 126.3% from US\$23.0 million as of December 31, 2011 to US\$52.1 million as of December 31, 2012, in line with our need to increase our secured loans to finance our expanding operations during 2012, but decreased by 49.7% to US\$26.3 million as of December 31, 2013, decreased by 16.4% to US\$22.0 million as of October 31, 2014, and further decreased by 13.2% to US\$19.1 million as of December 31, 2014, as we terminated the bank facilities which required us to secure our borrowing with deposits, and instead utilized other types of bank financing in 2013 and 2014.

### ***Short-term Loan from Our Director***

In December 2011, we received a loan in the principal amount of US\$2.0 million from Mr. Kwak, one of our Directors and a Controlling Shareholder, to finance our operating capital. The loan, which is unsecured, bore interest at the rate of nil, 8% and LIBOR+3.0% (the effective rate being 3.58%) per annum for the years ended December 31, 2011, 2012 and 2013, respectively, and was repayable on demand. We repaid the loan in full in January 2014.

### ***Related Party Transactions***

In addition to the short-term loan from one of our Directors discussed above, one of our Directors provided his personal assets as a collateral for certain of our bank loans and received a payment of

## FINANCIAL INFORMATION

US\$1.0 million from us in 2012, which was recognized as our part of finance costs for 2012. See “— Results of Operations — Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011 — Finance Costs.” Such collateral was fully released in November 2012 upon our repayment of the applicable bank loans. One of our Shareholders also pledged his shares in us to secure certain of our bank facilities in 2012. See Note 18 to the Accountants’ Report included in Appendix I to this prospectus. Such pledge of shares was fully released in November 2013 upon our repayment of the applicable bank facilities. No similar arrangements currently exist between us and our Directors or Shareholders. Our Directors believe that the foregoing related party transactions were conducted on an arm’s length basis, and that they did not distort our results of operations during the Track Record Period or make our historical results not reflective of our future performance.

### Liquidity and Capital Resources

Our business operations and expansion plans require a significant amount of capital. Historically, we have financed our capital expenditures and working capital requirements mainly through cash generated from operations and borrowings from banking institutions.

### Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

|   | Year ended December 31, |        |        | Ten months ended October 31, |        |
|---|-------------------------|--------|--------|------------------------------|--------|
|   | 2011                    | 2012   | 2013   | 2013                         | 2014   |
|   | (unaudited)             |        |        |                              |        |
|   | (US\$ in millions)      |        |        |                              |        |
| Net cash generated from/(used in)           |                         |        |        |                              |        |
| operating activities . . . . .              | 8.1                     | (8.1)  | 46.8   | 38.5                         | 32.0   |
| Net cash used in investing activities . . . | (8.3)                   | (50.1) | (15.8) | (12.0)                       | (21.2) |
| Net cash generated from/(used in)           |                         |        |        |                              |        |
| financing activities . . . . .              | 9.3                     | 68.8   | 0.5    | (12.6)                       | (38.5) |
| Cash and cash equivalents at beginning      |                         |        |        |                              |        |
| of the period . . . . .                     | (6.2)                   | 2.9    | 13.6   | 13.6                         | 45.2   |
| Effect of foreign exchange rate             |                         |        |        |                              |        |
| changes . . . . .                           | —                       | 0.1    | 0.1    | 0.0                          | 0.0    |
| Cash and cash equivalents at end of         |                         |        |        |                              |        |
| the period . . . . .                        | 2.9                     | 13.6   | 45.2   | 27.5                         | 17.5   |

### Operating Activities

We derive our cash inflow from operating activities primarily through customer payments derived from sales of our products. Cash outflows from operating activities primarily comprise payments for taxes, component and material purchases, employees’ compensation and benefits, selling and distribution expenses and administrative expenses. Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as depreciation of our property, plant and equipment, the effects of changes in certain items in the statement of financial position, such as inventories, trade and other receivables, and trade and other payables, as well as taxes paid.

For the ten months ended October 31, 2014, we had net cash generated from operating activities of US\$32.0 million, primarily attributable to (i) profit before taxation of US\$39.3 million, as adjusted to reflect

## FINANCIAL INFORMATION

non-cash items, which principally included depreciation of US\$10.6 million and finance costs of US\$2.3 million, and (ii) an increase in trade and other payables of US\$57.4 million mainly due to an increase in components and materials purchases, principally reflecting an increase in our camera modules production in the second half of 2014, which was partially offset by corresponding increases in trade and other receivables of US\$35.4 million and inventories of US\$27.3 million, and tax paid of US\$14.7 million.

For the ten months ended October 31, 2013, we had net cash generated from operating activities of US\$38.5 million, primarily attributable to (i) profit before taxation of US\$41.0 million, as adjusted to reflect non-cash items, which principally included depreciation of US\$8.9 million and finance costs of US\$4.3 million, and (ii) a decrease in trade and other receivables of US\$23.0 million mainly due to a seasonal decrease in sales, which was partially offset by an increase in inventories of US\$25.5 million principally due to the anticipated seasonal increase in sales during the fourth quarter of 2013, a decrease in trade and other payables of US\$7.7 million mainly due to payment of our trade and other payables from the additional cash which became available upon the release of pledged deposits, and tax paid of US\$4.7 million.

For the year ended December 31, 2013, we had net cash generated from operating activities of US\$46.8 million, primarily attributable to profit before taxation of US\$63.8 million, as adjusted to reflect non-cash items, which principally included depreciation of US\$10.8 million and finance costs of US\$5.2 million, which was partially offset by (i) a decrease in trade and other payables of US\$21.4 million mainly due to payment of our trade and other payables from the additional cash which became available upon the release of pledged deposits, (ii) an increase in trade and other receivables of US\$10.7 million, mainly due to an increase in sales, and (iii) tax paid of US\$5.1 million.

For the year ended December 31, 2012, we had net cash used in operating activities of US\$8.1 million, primarily attributable to (i) profit before taxation of US\$20.3 million, as adjusted to reflect non-cash items, which principally included depreciation of US\$7.2 million and finance costs of US\$4.4 million, and (ii) an increase in trade and other payables of US\$58.7 million mainly due to an increase in components and materials purchases, which were more than offset by an increase in trade and other receivables of US\$73.4 million and an increase in inventories of US\$19.0 million, mainly due to an increase in sales, and tax paid of US\$4.7 million.

For the year ended December 31, 2011, we had net cash generated from operating activities of US\$8.1 million, primarily attributable to (i) profit before taxation of US\$22.2 million, as adjusted to reflect non-cash items, which primarily included depreciation of US\$5.2 million and finance costs of US\$0.9 million, and (ii) an increase in trade and other payables of US\$42.9 million mainly due to an increase in components and material purchases, which were partially offset by an increase in trade and other receivables of US\$46.4 million and an increase in inventories of US\$12.3 million, mainly due to an increase in sales, and tax paid of US\$3.8 million.

### ***Investing Activities***

Our net cash used in investing activities reflects our cash used in payments for purchases of property, plant and equipment and intangible assets. Cash inflows from investing activities mainly comprise interest received and proceeds from disposal of property, plant and equipment.

For the ten months ended October 31, 2014, we had net cash used in investing activities of US\$21.2 million, primarily attributable to payments for purchases of property, plant and equipment, which mainly reflected equipment purchased to upgrade our production process for flip-chip camera modules.



## FINANCIAL INFORMATION

For the ten months ended October 31, 2013, we had net cash used in investing activities of US\$12.0 million, primarily attributable to payments for purchases of property, plant and equipment, which mainly reflected equipment purchased to upgrade our production process for flip-chip camera modules.

For the year ended December 31, 2013, we had net cash used in investing activities of US\$15.8 million, primarily attributable to payments for purchases of property, plant and equipment, which mainly reflected equipment purchased to upgrade our production process for flip-chip camera modules.

For the year ended December 31, 2012, we had net cash used in investing activities of US\$50.1 million, primarily attributable to payments for purchases of property, plant and equipment, which mainly reflected equipment purchased to add new production capacity for flip-chip camera modules.

For the year ended December 31, 2011, we had net cash used in investing activities of US\$8.3 million, primarily attributable to payments for purchases of property, plant and equipment, which mainly reflected repairs to our factory at Hengkeng, purchases of additional production equipment to increase our COB camera module production capacity and building of additional dormitories and recreational facilities for our employees.

### ***Financing Activities***

We use cash in financing activities primarily for repayment of bank loans, pledges of deposits to secure bank loans and payment of interest. Cash inflows from financing activities mainly comprise proceeds from bank loans.

For the ten months ended October 31, 2014, we had net cash used in financing activities of US\$38.5 million, primarily attributable to a net repayment of bank loans with available cash.

For the ten months ended October 31, 2013, we had net cash used in financing activities of US\$12.6 million, primarily attributable to a net repayment of bank loans, which was partially offset by a decrease in pledged deposits, primarily due to termination of bank facilities during the first ten months of 2013 which required pledged deposits.

For the year ended December 31, 2013, we had net cash generated from financing activities of US\$0.5 million, primarily attributable to a decrease in pledged deposits, which was mostly offset by a net repayment of bank loans, primarily due to termination of bank facilities during 2013 which required pledged deposits.

For the year ended December 31, 2012, we had net cash generated from financing activities of US\$68.8 million, primarily attributable to proceeds from bank loans borrowed for our working capital and to fund the expansion of our operations, in particular to finance capital expenditures to add new production capacity for flip-chip camera modules, which were partially offset by an increase in pledged deposits of US\$29.1 million to secure new bank loans.

For the year ended December 31, 2011, we had net cash generated from financing activities of US\$9.3 million, primarily attributable to proceeds from bank loans borrowed for working capital purposes and acquisition of property, plant and equipment.

### ***Expected Cash Flows From Operating Activities***

We generated net cash inflows from operating activities for 2013 and the first ten months of 2014, and we expect to continue to generate a stable stream of cash flows from our operating activities. We

## FINANCIAL INFORMATION

have continued to monitor our capital resources and our cash flows to timely fulfill our financial obligations and capital requirements, and we have generated stable cash flows from our operating activities for the full-year 2014, which we believe are not materially less than the respective amount generated for the year ended December 31, 2013.

### **Capital Resources**

Our Directors currently do not believe that our mix and relative cost of capital resources will change materially in the near future. There have been no relevant legal or regulatory requirements or restrictions that would have a material impact on our liquidity as of the date hereof. Furthermore, we currently do not have any plans for material additional external financing, and we currently do not have any debentures outstanding.

### **Capital Expenditures and Commitments**

Our ability to maintain and grow our revenues, profit and cash flows depends upon continued capital expenditures. Our historical capital expenditures included expenditures primarily for purchases of property, plant and equipment relating to our manufacturing operations, particularly in connection with expanding our camera module production capacity in recent years. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from operations and bank loans. Our capital expenditures (equivalent to the cash we spent for payment for purchases of property, plant and equipment) amounted to US\$8.7 million, US\$50.7 million, US\$15.8 million, US\$11.4 million and US\$20.4 million for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2013 and 2014, respectively. The increase in our capital expenditures in 2012 mainly reflected investments in facilities and equipment in connection with the establishment of new production facilities in Huanan.

We have spent approximately US\$21.5 million in capital expenditures for the full-year 2014, primarily to purchase additional equipment to produce more advanced flip-chip camera modules. We intend to fund our planned future capital expenditures through a combination of cash flow from operating activities, available banking facilities and the net proceeds from the issuance of new Shares in the Global Offering. See “Future Plans and Use of Proceeds” for further details.

The table below sets forth our capital commitments as of the dates indicated:

|   | As of December 31, |            |           | As of<br>October 31, | As of<br>January 31, |
|---|--------------------|------------|-----------|----------------------|----------------------|
|   | 2011               | 2012       | 2013      | 2014                 | 2015                 |
|   |                    |            |           |                      | (unaudited)          |
|   |                    |            | (in US\$) |                      |                      |
| Contracted but not provided . . . . .   | 8,217,503          | 22,271,358 | 7,828,262 | 10,956,476           | 67,467,456           |
| Authorized but not contracted . . . . . | 3,802              | —          | —         | —                    | —                    |

Capital commitments that were contracted but not provided mainly represent our unpaid capital injection into our subsidiary in China, as well as commitments arising out of a contractual relationship where the relevant property, plant and equipment were not provided as of the relevant dates.

We are lessees in respect of a number of properties held under operating leases. These leases are non-cancellable for the remaining period from two to 16 years, with an option to renew the lease upon expiration. None of the leases includes contingent rental. The table below sets forth our operating lease

## FINANCIAL INFORMATION

commitments under these non-cancellable operating leases for factory, office, equipment and vehicles, by lease term, as of the dates indicated:

|                                      | As of December 31, |      |      | As of               | As of               |
|--------------------------------------|--------------------|------|------|---------------------|---------------------|
|                                      | 2011               | 2012 | 2013 | October 31,<br>2014 | January 31,<br>2015 |
|                                      |                    |      |      |                     | (unaudited)         |
|                                      | (US\$ in millions) |      |      |                     |                     |
| Within one year . . . . .            | 1.1                | 3.4  | 2.4  | 2.3                 | 2.2                 |
| Between one and five years . . . . . | 3.1                | 11.5 | 6.6  | 6.4                 | 6.5                 |
| Over five years . . . . .            | —                  | 23.2 | 20.8 | 19.2                | 18.9                |
| Total . . . . .                      | 4.2                | 38.1 | 29.8 | 27.9                | 27.6                |

### Indebtedness

The table below sets forth our borrowings as of the dates indicated. As of January 31, 2015, save as disclosed below, we did not have any other outstanding debt securities, charges, mortgages, or other similar indebtedness, hire purchase and finance lease commitments, or guarantees or other material contingent liabilities. Since January 31, 2015, there has been no material adverse change in our indebtedness.

|   | As of December 31, |       |       | As of               | As of               |
|---|--------------------|-------|-------|---------------------|---------------------|
|   | 2011               | 2012  | 2013  | October 31,<br>2014 | January 31,<br>2015 |
|   |                    |       |       |                     | (unaudited)         |
|   | (US\$ in millions) |       |       |                     |                     |
| <b>Current liabilities:</b>                   |                    |       |       |                     |                     |
| Bank loans and overdrafts <sup>(1)</sup>      |                    |       |       |                     |                     |
| Secured bank overdrafts . . . . .             | 11.0               | 0.0   | —     | —                   | —                   |
| Secured bank loans . . . . .                  | 39.4               | 142.1 | 121.8 | 83.3                | 35.3                |
| Loan from a director <sup>(2)</sup> . . . . . | 2.0                | 2.0   | 2.0   | —                   | —                   |
| Total . . . . .                               | 52.4               | 144.1 | 123.8 | 83.3                | 35.3                |

(1) Bank loans and overdrafts are all due within one year or on demand.

(2) The loan from a director was unsecured and payable on demand. Such loan was repaid in full in January 2014.

As of the close of business on January 31, 2015, we had aggregate banking facilities of approximately US\$162.2 million, of which US\$35.3 million were utilized.

Our borrowing agreements contain standard terms, conditions and covenants that are customary for commercial bank loans in Hong Kong. The loan agreements contain material covenants that impose certain restrictions on us. For example, without the lenders' prior consent, we may not make any disposals of, or create an encumbrance over, our material assets, or grant a guarantee other than in the ordinary course of business and we are also required to meet certain statement of financial position ratios. Other than the foregoing, our Directors confirm that we are not subject to other material covenants under the loan agreements with respect to our bank and other borrowings. During the Track Record Period and up to the Latest Practicable Date, we have not been in default of these covenants in a manner that could cause a material adverse impact on our business operations. Our Directors confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Taking into consideration our financial position and the stability of our business, our Directors are of the opinion that we are able to

## FINANCIAL INFORMATION

meet those covenants amid current market conditions and that our capital raising abilities were not materially affected as at the close of the business on January 31, 2015.

For further information regarding our bank loans and overdrafts, see Note 18 to the Accountants' Report included in Appendix I to this prospectus.

Some of our cash and cash equivalents are placed at banks which have general security over our bank accounts with them for banking facilities granted to us. For further information, see Note 16 to the Accountants' Report included in Appendix I to this prospectus.

### **Contingent Liabilities**

We have issued guarantees to banks to secure our subsidiaries' banking facilities with such banks in the amounts of US\$53.0 million, US\$170.0 million, US\$191.0 million, US\$130.5 million and US\$160.4 million as of December 31, 2011, 2012, 2013 and 2014 and January 31, 2015, respectively. Our maximum liability under the guarantees issued is the amount drawn down by our subsidiaries under the banking facilities, which amounted to US\$32.1 million, US\$132.5 million, US\$119.7 million, US\$91.9 million and US\$35.3 million as of December 31, 2011, 2012, 2013 and 2014 and January 31, 2015, respectively.

### **Off-Balance Sheet Arrangements**

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We also have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

### **Quantitative and Qualitative Disclosures on Market Risk**

Our exposure to credit, liquidity, interest rate and currency risks arises in the normal course of our business. The market risks to which we are exposed to, as well as our practices to manage such risks, are as follows.

#### ***Credit Risk***

Our credit risk is primarily attributable to our trade and other receivables, financial assets and deposits with banks. In respect of trade and other receivables, we perform individual credit evaluations on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer and the economic environment in which the customer operates. Trade and other receivables are generally due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, we do not obtain collateral from customers. In respect of deposits with banks, we only place deposits with major financial institutions which our management believes are of high credit rating.

Our exposure to credit risk is influenced primarily by the individual characteristics of each customer, and to a lesser extent, by the default risk of the industry and country in which our customers operate. As

## FINANCIAL INFORMATION

of December 31, 2011, 2012 and 2013 and October 31, 2014, 76.0%, 80.7%, 90.6% and 86.3%, respectively, of our trade receivables were due from our largest customer, and 96.9%, 98.1%, 98.9% and 98.9%, respectively, of our trade receivables were due from our five largest customers in the aggregate.

### ***Liquidity Risk***

Our policy is to regularly monitor our liquidity risk to ensure that we maintain sufficient reserves of cash and adequate bank facilities to meet our liquidity requirements in the short and longer term. Our bank loans amounting to US\$50.7 million, US\$144.2 million, US\$121.8 million and US\$83.3 million were due, or expected to be due, during 2012, 2013 and 2014 and the period from November 1, 2014 to October 31, 2015, respectively. The short-term liquidity risk inherent in this contractual loan maturity schedule was reviewed at the time the loans were drawn and was accounted for in our cash flow forecasts.

### ***Interest Rate Risk***

Our interest rate risk arises primarily from our interest-bearing borrowings subject to variable rates, which expose us to cash flow interest rate risk, and those subject to fixed rates, which expose us to fair value interest rate risk. As of December 31, 2013, our variable rate and fixed rate borrowings amounted to US\$121.7 million and US\$2.1 million, respectively. As of October 31, 2014, our variable rate and fixed rate borrowings amounted to US\$83.3 million and nil, respectively.

As of December 31, 2011, 2012 and 2013 and October 31, 2014, it is estimated that if interest rates increased generally by 100 basis points, with all the other variables held constant, our profit after tax and retained profits would have decreased by approximately US\$0.4 million, US\$1.2 million, US\$1.0 million and US\$0.7 million, respectively. Other components of our equity would not have been affected by a general increase in interest rates.

### ***Foreign Exchange Risk***

Our exposure to currency risk arises primarily through sales and purchases giving rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars (which is pegged to the U.S. dollar), Renminbi and Korean Won.

The functional currency of our holding company and our subsidiaries operating in Hong Kong, the PRC and Korea are U.S. dollars, Hong Kong dollars, Renminbi and Korean Won, respectively. While both our sales of products and our purchases of components, materials and equipment are denominated mainly in U.S. dollars, a portion of our purchases, as well as our labor and other operating costs, are denominated in other currencies, including Japanese Yen, Renminbi and Korean Won.

During each of the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014, we did not use any forward exchange contracts to mitigate our currency risk.

As of December 31, 2011, 2012 and 2013 and October 31, 2014, it is estimated that if the exchange rate of the Japanese Yen and Korean Won against the U.S. dollar had appreciated by 5%, with all the other variables held constant, our profit after tax and retained profits would have decreased by approximately US\$1.0 million, US\$1.0 million, US\$1.0 million and US\$0.7 million, respectively.

## FINANCIAL INFORMATION

### **Listing Expenses**

Pursuant to the Hong Kong Underwriting Agreement, all listing expenses for the Global Offering will be borne by us except for the underwriting fees and commissions payable to the Underwriters and the professional fees payable to the legal advisers to the Sole Sponsor in connection with the Global Offering, which will be borne and paid by us and Hahn & Co. Eye in equal shares. Our estimated total listing expenses (including underwriting commissions of approximately US\$1.3 million, assuming an Offer Price of HK\$4.88 per Offer Share, being the mid-point of the indicative range of the Offer Price of HK\$4.00 to HK\$5.75 per Offer Share) for the Global Offering are approximately US\$8.4 million. We incurred listing expenses of US\$3.6 million as of October 31, 2014, and expect to incur an additional US\$4.8 million until the completion of the Global Offering. Our listing expenses mainly comprise underwriting commissions payable to the Underwriters and professional fees payable to legal advisers and the Reporting Accountants for their services rendered in relation to the Listing and the Global Offering.

### **Dividend Policy**

Pursuant to the Companies Law (2013 Revision), Cap.22 of the Cayman Islands and our Articles of Association, we, through a general meeting, may declare dividends in any currency, but no dividend may be declared in excess of the amount recommended by the Board. Based on our Articles of Association, the dividends may be paid out of our profit only. We did not declare any dividends with respect to the years ended December 31, 2011, 2012 and 2013 or the ten months ended October 31, 2014.

We are a holding company incorporated in the Cayman Islands. The payment and amount of our future dividends will depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from us and our subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements or other agreements that we or they may enter into in the future.

The amount of dividends actually distributed to our Shareholders will depend on our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has the absolute discretion to recommend any dividends.

## FINANCIAL INFORMATION

### Unaudited Pro Forma Statement of Adjusted Net Tangible Assets

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out to illustrate the effect of the Global Offering on our net tangible assets as of October 31, 2014, as if the Global Offering had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets had the Global Offering been completed as of October 31, 2014 or at any future date. The unaudited pro forma statement of adjusted net tangible assets is based on our unaudited consolidated net tangible assets as of October 31, 2014, as set out in Appendix I to this prospectus, and adjusted as follows:

|                                       | <b>Consolidated net tangible assets attributable to the equity shareholders of the Company as of October 31, 2014 <sup>(1)</sup></b> | <b>Estimated net proceeds from the Global Offering <sup>(2)</sup></b> | <b>Unaudited pro forma adjusted consolidated net tangible assets of the Company as of October 31, 2014</b> | <b>Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(3)(4)</sup></b> |                           |
|---------------------------------------|--|---|--|--|---------------------------|
|                                       | <b>US\$</b>  | <b>US\$</b>   | <b>US\$</b>  | <b>US\$</b>  | <b>Equivalent to HK\$</b> |
| Based on an Offer                     |  |   |  |  |                           |
| Price of HK\$4.00 per share . . . . . | 166,828,500  | 38,919,396  | 205,747,896  | 0.247  | 1.917                     |
| Based on an Offer                     |  |   |  |  |                           |
| Price of HK\$5.75 per share . . . . . | 166,828,500  | 57,213,210  | 224,041,710  | 0.269  | 2.087                     |

**Notes:**

- (1) The consolidated net tangible assets attributable to the equity shareholders of the Company as of October 31, 2014 is based on the consolidated net assets attributable to the equity shareholders of the Company of US\$169,219,086 with an adjustment for the intangible assets as at October 31, 2014 of US\$2,390,586 as set out in the Accountants' Report in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on Offer Prices of HK\$4.00 per share and HK\$5.75 per share, being the low-end and high-end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and other related expenses estimated to be payable of US\$3,967,202 and US\$4,436,275, respectively, by the Company (excluding listing expenses of US\$456,932 and US\$2,920,957 which have already been charged to profit or loss for the year ended December 31, 2013 and the ten months ended October 31, 2014, respectively, and US\$880,643, which the Selling Shareholder has agreed to bear).  
  
The estimated net proceeds from the Global Offering do not include any proceeds from the 124,800,000 Shares initially being offered for sale by the Selling Shareholder at the Offer Price under the Global Offering nor any underwriting fees and other related expenses payable by the Selling Shareholder.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at on the basis of 831,518,800 Shares which comprise 748,318,800 Shares in issue on October 31, 2014 and the 83,200,000 Shares to be issued in connection with the Global Offering.
- (4) For the purposes of the estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets per share, the amounts are converted into HK\$ and US\$ at an exchange rate of HK\$7.76 to US\$1.00, which is the rate as of the Latest Practicable Date. No representation is made that the US\$ amounts have been, could have been or may be converted to HK\$ or vice versa, at that rate.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to October 31, 2014.

### Disclosure Required Under the Listing Rules

The Directors confirm that, as of the Latest Practicable Date, there were no circumstances which would give rise to a disclosure required under Rules 13.13 to 13.19 of the Listing Rules upon the listing of the Shares on the Hong Kong Stock Exchange.

## FINANCIAL INFORMATION

### **Working Capital Confirmation**

Taking into account the financial resources available to us including cash flow from operating activities, available banking facilities and the estimated net proceeds from the issuance of new Shares in the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus. Based on the above financial resources available to us, the Sole Sponsor concurs with the view of our Directors.

### **Distributable Reserves**

The aggregate amount of our distributable reserves as of December 31, 2011, 2012 and 2013 and October 31, 2014 was US\$17.6 million, US\$16.8 million, US\$12.2 million and US\$9.3 million, respectively.

### **No Material Adverse Change**

The Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since October 31, 2014, being the end of the period reported on in the Accountants' Report included in Appendix I to this prospectus.

We have prepared unaudited preliminary financial information for our Group as of and for the year ended December 31, 2014, which is set forth in Appendix III to this prospectus.

### **Prior Year Adjustments in Respect of Our Consolidated Financial Statements for 2011**

As discussed in "Our History, Development and Corporate Structure," our Company was listed on the KOSDAQ from January 29, 2008 until November 26, 2011, during which we did not encounter any material non-compliance incidents. Since we were listed on the KOSDAQ during part of 2011, we were still required to file our consolidated financial statements for the year ended December 31, 2011 (the "2011 Dasan Financial Statements"), which were audited by Dasan Accounting Group ("Dasan"), certified public accountants in Korea, even though we were delisted during that year. The 2011 Dasan Financial Statements were prepared in accordance with IFRS and filed with the KOSDAQ on April 30, 2012, after our voluntary delisting, for the sole purpose of such compliance.

Following our privatization as discussed in "Our History, Development and Corporate Structure," the Board of Directors of our Company was reconstituted by appointing persons nominated by Hahn & Co. Eye as Directors. The reconstituted Board began undertaking a review of our corporate governance structure in 2012. In the process, Cowell China appointed a new chief financial officer, Mr. Seong Seokhoon, and a new senior finance manager, Mr. Nam Hoil, in 2012 to oversee its financial reporting and internal control process. We also appointed KPMG to perform a non-statutory audit for the financial years 2011 and 2012 in December 2012. Dasan ceased to be our auditor in 2012 after the appointment of KPMG.

In connection with the non-statutory audit, our new finance team, headed by Mr. Seong Seokhoon (a current executive Director) and Mr. Nam Hoil (certified accountant under the American Institute of Certified Public Accountants ("AICPA") and the Korean Institute of Certified Public Accountants ("KICPA")), and consisting of other new members, namely Mr. Park Jung Soon (certified accountant under AICPA and KICPA) and Mr. Kim Hoon Jung (certified accountant under KICPA), reviewed and discussed with KPMG certain accounting treatments previously adopted in the 2011 Dasan Financial Statements. Upon such discussions and further analysis, we considered it appropriate to incorporate in our restated 2011 financial statements, which form the basis of preparation of financial information included in the Accountants' Report set out in Appendix I to this prospectus, the prior period adjustments in respect of the 2011 Dasan Financial Statements set forth in the table and related notes appearing below.



## FINANCIAL INFORMATION

Investors are cautioned that none of the information relating to the 2011 Dasan Financial Statements shall form the basis of an investment or be relied upon in connection with the Global Offering.

|   | Prior period adjustments in respect of |   |   |  |                                   |                                      |                                      | As restated |
|---|--|---|---|--|-----------------------------------|--------------------------------------|--------------------------------------|-------------|
|   | As previously reported by Dasan        | PRC corporate income tax (see Note A below) | PRC corporate income tax (see Note B below) | PRC individual income tax (see Note C below) | Other revenues (see Note D below) | Other adjustments (see Note E below) | Intangible assets (see Note E below) |             |
| <b>Consolidated income statement for the year ended December 31, 2011</b> |  |   |   |  |                                   |                                      |                                      |             |
| Turnover  | 323,340                                | —   | —   | —  | —                                 | (221)                                | —                                    | 323,119     |
| Cost of sales   | (286,159)                              | —   | —   | —  | (784)                             | (392)                                | —                                    | (287,335)   |
| Gross profit  | 37,181                                 | —   | —   | —  | (784)                             | (613)                                | —                                    | 35,784      |
| Other revenue and net income  | 1,789                                  | —   | —   | —  | —                                 | (118)                                | —                                    | 1,671       |
| Selling and distribution expenses and administrative expenses             | (12,414)                               | —   | (999)                                       | (755)  | —                                 | (274)                                | 111                                  | (14,331)    |
| Profit from operations  | 26,556                                 | —   | (999)                                       | (755)  | (784)                             | (1,005)                              | 111                                  | 23,124      |
| Profit before taxation  | 25,502                                 | —   | (999)                                       | (755)  | (784)                             | (902)                                | 111                                  | 22,173      |
| Income tax  | (3,519)                                | (560)                                       | —   | —  | —                                 | 58                                   | —                                    | (4,021)     |
| Profit for the year   | 21,982                                 | (560)                                       | (999)                                       | (755)  | (784)                             | (843)                                | 111                                  | 18,152      |
| Profit for the year attributable to equity shareholders of our Company    | 21,971                                 | (560)                                       | (999)                                       | (755)  | (784)                             | (839)                                | 111                                  | 18,145      |
| Profit for the year attributable to non-controlling interests             | 11                                     | —   | —   | —  | —                                 | (4)                                  | —                                    | 7           |

*Note A: Provision for additional corporate income tax*

This potential income tax in the PRC arose from reimbursement income received from one of our major customers and its designated supplier which was recognized in 2011 but not received until 2012. As a result of this income recognition, the income tax in relation to this income should have been accrued in 2011 but was not so accrued.

We paid the applicable income tax in Hong Kong in 2012 when we received this reimbursement income and also made a retrospective adjustment in the form of a PRC tax provision in the aggregate amount of US\$559,921 in our restated 2011 financial statements as we did not pay applicable taxes in the PRC.

Dasan did not audit the financial statements of either Cowell China or Cowell Hong Kong and did not consider this amount to be material as our overall tax provisions on a consolidated basis appeared to be reasonable.

*Note B: Provision for additional income tax relating to transfer pricing*

Pursuant to our prior transfer pricing practice (which was aimed at achieving a consistent targeted profit level in the PRC across different periods), we made year-end adjustments to Cowell China's 2011 year-end accounts and filed them with the relevant PRC tax authorities. (We also made similar adjustments to Cowell China's 2012 year-end accounts, which actually resulted in an increase in its 2012

## FINANCIAL INFORMATION

taxable profits.) We made such adjustments to Cowell China's costs of sales in 2011 (and 2012) without relevant supporting documents to achieve the targeted profit level in the PRC, but discontinued this practice towards the end of 2013 after discussions with the Tax Advisor, newly appointed in July 2013. Notwithstanding the above, as advised by Jingtian & Gongcheng, our PRC legal advisor, the fact that such adjustments were made without relevant supporting documents did not in and of itself contravene applicable PRC laws and regulations, as we made all required tax filings (including the annual related party transactions reporting form) with the relevant PRC tax authorities during the relevant years. In addition, we have received a confirmation letter issued by the relevant PRC tax authority confirming that, during the period between the date of incorporation of Cowell China and October 20, 2014, Cowell China reported and paid taxes in accordance with the relevant PRC laws and regulations and that there were no records of any material tax administrative penalties imposed on Cowell China during such period. Accordingly, we believe that the risk of us being challenged by the relevant PRC tax authorities regarding the aforementioned adjustments is low. Also see "Risk Factors — Risks Relating to Conducting Business in the PRC — Sales between our PRC subsidiary and our Hong Kong subsidiary are related party transactions which may be subject to scrutiny by the PRC tax authorities, and additional PRC taxes or penalties imposed on us as a result of such scrutiny may adversely affect our business and performance." and "Business — Transfer Pricing Arrangements"

Consequently, we made adjustments in our restated 2011 financial statements to reflect a potential PRC income tax resulting from such costs of sales adjustments. As the relevant accounts of Cowell Hong Kong and Cowell China were separately audited by local auditors and the amounts involved were not material, Dasan did not raise an issue with respect to this matter during its 2011 audit.

### *Note C: Individual income tax*

This adjustment relates to an IIT non-compliance issue for which a 2011 tax provision was made, which is described in further detail in "Business — Legal Proceedings and Regulatory Compliance — Non-compliance regarding IIT."

### *Note D: Other revenues*

In 2011, we recognized other revenue representing compensation income which our previous finance team thought had been agreed with one of our major customers based on correspondence with such customer.

We obtained final confirmation from such customer in 2013 that we would not receive such compensation income that was recorded in 2011. As a result, the Directors and our new finance team reconsidered such income recognition and concluded that the supporting documents for such income recognition in 2011 were insufficient and that such income recognition should be reversed in our restated 2011 financial statements.

### *Note E: Other adjustments*

We also made a number of minor adjustments to the 2011 Dasan Financial Statements after discussions with KPMG. Some examples of such adjustments and reclassifications are:

- incurred expenditure on development activities, which were previously capitalized as intangible assets prior to 2011. Such expenditure and its related amortization for 2011 of US\$111,309 were reversed as the Directors and our new finance team believed that such development costs did not meet the recognition criteria at the time of initial recognition and should not have been recognized as intangible assets;

## FINANCIAL INFORMATION

- eliminations arising from intercompany transactions amounting to US\$562,898 which were recognized in exchange reserve and which the Directors and our new finance team believed would have been more appropriate to recognize in profit or loss;
- pledged deposits of US\$6,387,747, which the Directors and our new finance team believed should be reclassified from cash and cash equivalents to pledged deposits; and
- long term deposits of US\$3,146,358, which the Directors and our new finance team believed should be reclassified from current assets to non-current assets.

These adjustments and reclassifications have been applied retrospectively in our restated 2011 financial statements. Dasan has confirmed that it does not disagree with the above adjustments and reclassifications made in connection with KPMG's non-statutory audit, as differing accountants can have different judgments over such matters.

Having considered, among other things, that (i) the 2011 Dasan Financial Statements were filed with the KOSDAQ in April 2012 (the "Filing"), which was several months after we were delisted and became privately held in November 2011, (ii) our remaining minority shareholders at the time of the Filing held less than 1% of the outstanding Shares and subsequently sold their Shares to the Controlling Shareholders, and (iii) other than the Controlling Shareholders, no investors purchased any Shares after the Filing and thus can claim to have relied on the 2011 Dasan Financial Statements, and having discussed the issue with Korean counsel, our Directors and the Sole Sponsor are of the considered view that the possibility of a legal claim or regulatory action in Korea against us due to the restatement of the 2011 Dasan Financial Statements is low.

### **Remedial Measures**

Based on the review we undertook after our delisting from the KOSDAQ which led us to making the prior year adjustments discussed above, we have progressively implemented the following measures since early 2012 to strengthen our internal control and financial reporting systems:

- we strengthened our internal audit team by putting in place a specific internal audit charter that sets out the role and objective of the internal audit team, scope of internal report, responsibility, accountability, independence, reporting, liaison with external auditors, professional standards and methodologies, which were clearly explained to all tax planning and financial reporting personnel so that a clear reporting structure is put in place to discuss and cross-check potential reporting issues;
- we appointed the Tax Advisor in July 2013 to advise on our ongoing Hong Kong tax and PRC tax matters as and when issues arise requiring clarifications, including but not limited to matters relating to PRC corporate and income tax, foreign exchange issues, withholding tax obligations and IIT back-filing assistance;
- we hired an additional four accounting staff in our finance team to help cope with the increased work scope due to the expansion of our operations, including Mr. Qin Zhijun (certified accountant under the Chinese Institute of Certified Public Accountants ("CICPA")), a tax reporting expert with close to 15 years' experience who was hired in December 2013 to oversee our Group-wide tax reporting and compliance functions, and left our Company in July 2014. We are currently in the process of finding a suitable replacement with similar qualifications. Until we find a suitable replacement, Mr. Nam Hoil, our senior finance manager

## FINANCIAL INFORMATION

and certified accountant under the American Institute of Certified Public Accountants and the Korean Institute of Certified Public Accountants, whom Mr. Qin reported to prior to his departure, will be assuming Mr. Qin's responsibilities. Mr. Nam joined us in March 2012, after the preparation of the 2011 Dasan Financial Statements and was not involved in such preparation. Prior to joining us in 2012, Mr. Nam acquired extensive experience working at a large international accounting firm reviewing compliance and internal control measures of publicly traded companies. Mr. Nam was also actively involved in Mr. Qin's review and training activities;

- we implemented periodic staff training occurring no less than every quarter or half yearly to keep tax planning and financial reporting staff updated on the latest developments and changes in policies; and
- we replaced Mr. Yu Yeon Woong and Mr. Yu Chan Il as the chief financial officer and senior finance manager respectively who oversaw our audit in 2011, and appointed Mr. Seong Seokhoon and Mr. Nam Hoil in 2012 as the new chief financial officer and senior finance manager respectively, who have demonstrated the requisite experience and know-how in managing our financial reporting in the subsequent financial years.

For further information about our internal control findings and recommendations, see "Business — Internal Control Measures to Prevent Occurrence of Non-Compliance Incidents After the Listing."

## DIRECTORS AND SENIOR MANAGEMENT

### GENERAL

The following table sets forth certain information concerning our Directors and members of our senior management:

| Name                           | Age | Position/Title   | Role and Responsibility  | Date of Appointment as Director  | Date of Joining our Group                                   |
|--------------------------------|-----|--|--|--|---|
| <b>Executive Directors</b>     |     |  |  |  |   |
| Mr. Kwak Joung Hwan            | 51  | chairman, executive Director and chief executive officer | <ul style="list-style-type: none"> <li>responsible for the overall business operations and strategic planning of our Group</li> </ul>                          | <ul style="list-style-type: none"> <li>October 2011 (re-designated as an executive Director in April 2014)</li> <li>March 2014 (chairman and chief executive officer)</li> </ul> | March 2002  |
| Mr. Kim Kab Cheol              | 54  | executive Director                                       | <ul style="list-style-type: none"> <li>assisting the chairman in the business operations and responsible for the day-to-day management of our Group</li> </ul> | March 2009 (re-designated as an executive Director in April 2014)  | May 2004  |
| Mr. Seong Seokhoon             | 51  | executive Director and chief financial officer           | <ul style="list-style-type: none"> <li>supervising the financial operation of our Group</li> </ul>   | December 2012 (re-designated as an executive Director in April 2014)   | May 2003 (left in September 2008 and re-joined in May 2012) |
| <b>Non-Executive Directors</b> |     |  |  |  |   |
| Mr. Yoon Yeo Eul               | 58  | non-executive Director                                   | <ul style="list-style-type: none"> <li>overseeing the corporate development and strategic planning of our Group</li> </ul>                                     | October 2011 (re-designated as a non-executive Director in April 2014)   | September 2011  |
| Mr. Lee Dong-Chun              | 50  | non-executive Director                                   | <ul style="list-style-type: none"> <li>overseeing the corporate development and strategic planning of our Group</li> </ul>                                     | January 2013 (re-designated as a non-executive Director in April 2014)   | January 2013  |

## DIRECTORS AND SENIOR MANAGEMENT

| Name            | Age | Position/Title         | Role and Responsibility  | Date of Appointment as Director | Date of Joining our Group |
|-----------------|-----|------------------------|--|---------------------------------|---------------------------|
| Mr. Kim Jae Min | 40  | non-executive Director | <ul style="list-style-type: none"> <li>overseeing the corporate development and strategic planning of our Group</li> </ul> | April 2014                      | April 2014                |

### ***Independent Non-Executive Directors***

|                      |    |                                    |   |            |            |
|----------------------|----|------------------------------------|---|------------|------------|
| Mr. Okayama Masanori | 62 | independent non-executive Director | <ul style="list-style-type: none"> <li>supervising and providing independent judgment to our Board</li> </ul> | April 2014 | April 2014 |
| Mr. Kim Chan Su      | 47 | independent non-executive Director | <ul style="list-style-type: none"> <li>supervising and providing independent judgment to our Board</li> </ul> | March 2015 | March 2015 |
| Dr. Song Si Young    | 57 | independent non-executive Director | <ul style="list-style-type: none"> <li>supervising and providing independent judgment to our Board</li> </ul> | March 2015 | March 2015 |

### ***Senior Management***

| Name             | Age | Position/Title   | Role and Responsibility   | Date of Appointment   | Date of Joining our Group |
|------------------|-----|--|---|---|---------------------------|
| Mr. Ryu Ho Yong  | 52  | director and the director of research and development department of Cowell China | <ul style="list-style-type: none"> <li>supervising the research and development activities of Cowell China</li> </ul> | March 2010  | January 2008              |
| Mr. Cho Kyu Beom | 51  | director and chief executive officer of Cowell Korea                             | <ul style="list-style-type: none"> <li>supervising the daily operations of Cowell Korea</li> </ul>                    | March 2009 (director of Cowell Korea)<br>April 2012 (chief executive officer of Cowell Korea) | July 2002                 |

## DIRECTORS AND SENIOR MANAGEMENT

| Name                    | Age | Position/Title   | Role and Responsibility   | Date of Appointment   | Date of Joining our Group |
|-------------------------|-----|--|---|---|---------------------------|
| Mr. Lee Chung Yun       | 47  | director and the chief financial officer of Cowell Korea                                   | <ul style="list-style-type: none"> <li>• supervising the financial operations of Cowell Korea</li> </ul>              | May 2011 (director of Cowell Korea)<br><br>May 2008 (chief financial officer of Cowell Korea) | August 2003               |
| Mr. Park Bumcheol       | 53  | director of the production department of Cowell China                                      | <ul style="list-style-type: none"> <li>• supervising the daily operations of the factories of Cowell China</li> </ul> | August 2013   | August 2013               |
| Mr. Yoo Hee Yeoul       | 56  | chief technical officer of Cowell China  | <ul style="list-style-type: none"> <li>• supervising the engineering department of Cowell China</li> </ul>            | September 2013  | September 2013            |
| Mr. Lee David Hyung Tek | 42  | managing director, finance director and head of the corporate strategy team of our Company | <ul style="list-style-type: none"> <li>• formulating the corporate and business strategies of our Company</li> </ul>  | January 2014  | January 2014              |

### DIRECTORS

The Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. The functions and duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed on these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

#### Executive Directors

**Mr. Kwak Jung Hwan**, aged 51, is the chairman, executive Director and chief executive officer of our Company. Mr. Kwak is responsible for managing the overall business operations and strategic planning of our Group. Mr. Kwak has over 13 years of experience in the industry of manufacturing and sale of optical components for cameras and is the founder of our Group. Prior to starting his business venture into the toy manufacturing business in 1992, Mr. Kwak worked at the former Daewoo International Corporation, a company listed on the Korea Exchange (stock code: 047050) and engaged in trade and commerce, as an assistant manager from January 1988 to July 1992. In June 2001, Mr. Kwak decided to diversify his business portfolio by investing in Cowell Korea. He has been appointed as a director and the chief executive officer of Cowell Hong Kong since March 2002. On October 24, 2011, Mr. Kwak was appointed as a Director and subsequently re-designated as an executive Director on April 14, 2014. He was appointed as the chairman and chief executive officer of our Company on March 24, 2014.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Kwak received a bachelor's degree in economics from Yonsei University in Korea in February 1988. Mr. Kwak is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Mr. Kim Kab Cheol**, aged 54, is an executive Director of our Company. Mr. Kim is responsible for assisting the chairman in the business operations and responsible for the day-to-day management of our Group. Prior to joining our Group in May 2004 as a plant manager at the Cowell Korea factory located in Dae-Jeon, Korea, he worked at the production, research and development and quality management department at LG Chem Ltd. ("LG Chem"), an integrated chemical company listed on the Korea Exchange (stock code: 051910), as an assistant manager between November 1987 and December 1998. Between January 1999 and April 2004, Mr. Kim worked as a senior manager at the quality management department of Orion Engineered Carbon Co., Ltd., a private company based in Korea which supplies carbon black. Mr. Kim has been a director and chief executive officer of Cowell China since June 2005 and June 2011 respectively. He served as a chief executive officer and a director of Cowell Korea between October 2008 and May 2011. Mr. Kim was appointed as a Director on March 27, 2009 and subsequently re-designated as an executive Director on April 14, 2014. Mr. Kim has also been a director of Cowell Hong Kong since September 2011. Mr. Kim received a bachelor's degree in chemical engineering from Inha University in Korea in February 1988. Mr. Kim is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Mr. Seong Seokhoon**, aged 51, is an executive Director and the chief financial officer of our Company. Mr. Seong is responsible for supervising the financial operation of our Group. Prior to joining our Group in May 2003 as the chief executive officer of Cowell Korea, Mr. Seong worked at the planning department at LG Chem as an assistant manager between January 1989 and December 1994 and the financial affairs and planning department at Woobang Construction Co., Ltd., a Korean company engaged in the construction business, as a senior manager between January 1995 and February 2001. In the periods between November 2001 and May 2003 and between October 2008 and May 2012, Mr. Seong served as the chief executive officer of DSD Marketing, a marketing agency based in Korea, and from August 2007 to September 2008, he served as a director of Cowell Korea. From May 2003 to September 2008, Mr. Seong served as the chief executive officer of Cowell Korea. He was appointed as the chief financial officer of Cowell China in May 2012 and in December 2012, he was appointed as a director of Cowell Hong Kong. Mr. Seong was appointed as a Director on December 17, 2012. He was re-designated as an executive Director on April 14, 2014 and was appointed the chief financial officer of our Company in October 2014. Mr. Seong received a bachelor's degree in accounting from Kyungpook National University in Korea in February 1989. Mr. Seong is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

### Non-executive Directors

**Mr. Yoon Yeo Eul**, aged 58, is a non-executive Director. Mr. Yoon is currently the representative director of Hahn & Co. Eye and the chairman of Hahn & Co. LLC, the general partner of Hahn & Co. PEF, which is one of Korea's largest private equity funds and is based in Seoul and holds 100% interests in Hahn & Co. Eye. At Hahn & Co. LLC, Mr. Yoon oversees the day-to-day operations of portfolio companies owned by Hahn & Co. PEF. Prior to joining Hahn & Co. LLC in August 2010, Mr. Yoon spent 21 years, from December 1989 to June 2010, at Sony Korea Corporation, which is a Korean based private company with businesses in the country across semiconductors, LCD panel displays, handset components, consumer electronics and broadcasting equipment. He held the positions of president and chief executive officer of Sony Korea Corporation, president of Sony Computer Entertainment Korea Inc. and chief executive officer of Sony Music Entertainment Korea Inc. during his tenure. Mr. Yoon is also the chairman of the boards of the following Korean based private companies: H-Line Shipping Co., Ltd.,



## DIRECTORS AND SENIOR MANAGEMENT

COAVIS Inc., N Search Marketing Corporation, Daehan Cement Co., Ltd., Hannam Cement Co., Ltd. and Woongjin Foods Co., Ltd. Mr. Yoon has also been a director of Cowell Hong Kong and Cowell China since September 2011 and November 2011, respectively. He is primarily responsible for overseeing the corporate development and strategic planning of our Group as a director without carrying out any day-to-day managerial functions. Mr. Yoon obtained a bachelor's degree in science from Sophia University in Japan in March 1983 and a master's degree in business administration from Harvard Business School in June 1989. Mr. Yoon is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Mr. Lee Dong-Chun**, aged 50, is a non-executive Director. Mr. Lee is currently a director of Hahn & Co. Eye and a managing director of Hahn & Co. LLC, where he is responsible for the management and operations of companies acquired by Hahn & Co. PEF, with a focus on devising and implementing strategic change and operational improvements. Prior to joining Hahn & Co. LLC in March 2011, Mr. Lee spent over 16 years, from October 1994 to February 2011, at Sony Korea Corporation, where he was a vice president in the applications and devices marketing group in Korea. Mr. Lee also serves as a non-executive director on the boards of the following Korean based private companies: H-Line Shipping Co., Ltd., COAVIS Inc., N Search Marketing Corporation, Daehan Cement Co., Ltd. and Hannam Cement Co., Ltd. Mr. Lee has also been a director of Cowell Hong Kong since January 2013. He is primarily responsible for overseeing the corporate development and strategic planning of our Group as a director without carrying out any day-to-day managerial functions. Mr. Lee obtained a bachelor's degree in engineering from Myongji University in Korea in February 1991. Mr. Lee is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Mr. Kim Jae Min**, aged 40, is a non-executive Director. Mr. Kim is currently a director of Hahn & Co. Eye and a managing director of Hahn & Co. LLC where he is responsible for acquisitions and investments. Prior to joining Hahn & Co. LLC in January 2011, Mr. Kim was a business analyst at the Seoul office of McKinsey & Company, a global management consulting firm, from January 2000 to May 2003 and was also a principal at the Seoul office of H&Q Asia Pacific, a leading Asian private equity firm, from June 2003 to January 2011. Mr. Kim also serves as a non-executive director on the boards of the following Korean based private companies: H-Line Shipping Co., Ltd., COAVIS Inc. and N Search Marketing Corporation. Mr. Kim has also been a director of Cowell Hong Kong and Cowell China since April 2014. He is primarily responsible for overseeing the corporate development and strategic planning of our Group as a director without carrying out any day-to-day managerial functions. Mr. Kim obtained a bachelor's degree in science majoring in chemical engineering from Yonsei University in Korea in February 2000. Mr. Kim is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

### Independent non-executive Directors

**Mr. Okayama Masanori**, aged 62, is an independent non-executive Director. He has over 30 years' experience in the consumer electronics industry. Mr. Okayama has held various positions at different entities under Sony Corporation, a company listed on the Tokyo Stock Exchange (stock code: 6758), between April 1971 and October 2012, including the deputy plant manager of Sony Computer Entertainment Inc. Fab1, the representative of the Nagasaki Technology Centre, and the president and representative director of Sony Semiconductor Kyushu Corporation. Mr. Okayama has also been an independent non-executive director of Cowell Hong Kong since April 2014. He is primarily responsible for supervising and providing independent judgment to the board of directors of our Company and Cowell Hong Kong. Mr. Okayama graduated from the department of electronics (evening division) of Shohoku College in Japan with an associate degree in March 1977. Mr. Okayama is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Kim Chan Su**, aged 47, is an independent non-executive Director. Mr. Kim is responsible for supervising and providing independent judgment to our Board. Mr. Kim has over 20 years' experience in professional accounting and consulting services. Since November 2004, Mr. Kim has been the chief executive officer and representative partner of IL SHIN Corporate Consulting Limited and IL Shin CPA Limited, private companies based in Hong Kong which provide professional tax and accounting advisory services to clients in Hong Kong, China and overseas. From August 2002 to October 2004, Mr. Kim worked at PricewaterhouseCoopers Hong Kong as a representative of the Korean desk in charge of Korean companies' investment in Hong Kong and China. From October 1993 to July 2002, Mr. Kim served as a senior manager at Samil Accounting Corporation in Seoul. From September 2004 to January 2013, Mr. Kim also acted as an independent non-executive director of Forebase International Holdings Limited (formerly known as Kwang Sung Electronics H.K. Co. Limited), which is listed on the Hong Kong Stock Exchange (stock code: 2310). Mr. Kim obtained a bachelor's degree in economics from Yonsei University in Korea in February 1992. Mr. Kim is a certified public accountant in Korea, Hong Kong and the States of Washington of the United States. He is also a member of AICPA and the HKCPA respectively. Save as disclosed above, Mr. Kim is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Dr. Song Si Young**, aged 57, is an independent non-executive Director. Dr. Song is responsible for supervising and providing independent judgment to our Board. Dr. Song has over 20 years' experience in medicine and the healthcare industry. Since March 1993, Dr. Song has been a faculty member of Yonsei University College of Medicine in Korea and he currently serves as a professor in the Department of Internal Medicine. Dr. Song served as an exchange assistant professor at Vanderbilt University College of Medicine in the United States from September 1996 to November 1998. He has also served as the director of the Division of Medical Science Research Affairs and the president of the Industry-Academy Cooperation Foundation of Yonsei University Health System since September 2010 where he was in charge of the management and administration of Yonsei University Health System's research, development and participation in the healthcare industry. Dr. Song has also served as a director of Yonsei Technology Holdings, Inc., a company engaged in the commercialization of Yonsei University's technologies through forming subsidiaries since June 2011, where he is responsible for the operational management of technological holding companies affiliated with the Industry-Academy Cooperation Foundation of Yonsei University.

Dr. Song has provided professional advice to the following companies in connection with the healthcare and medical device manufacturing industries:

| Company                   | Nature of Company                                 | Principal Business  | Duration of Tenure            |
|---------------------------|---|---|-------------------------------|
| LG Chem Ltd.              | listed on the Korea Exchange (stock code: 051910) | manufacture of chemicals  | February 2001 to January 2003 |
| LG Life Science Co., Ltd. | listed on the Korea Exchange (stock code: 068870) | research and development of pharmaceuticals                         | August 2003 to March 2006     |
| IntroMedic Co., Ltd.,     | listed on the Korea Exchange (stock code: 150840) | development and manufacture of optical medical device and equipment | January 2007 to present       |

## DIRECTORS AND SENIOR MANAGEMENT

| Company                          | Nature of Company  | Principal Business  | Duration of Tenure          |
|----------------------------------|--|---|-----------------------------|
| Hanwha Chemical Corporation      | listed on the Korea Exchange (stock code: 009830)  | production and sale of organic and inorganic chemicals                            | from June 2006 to May 2007  |
| CJ Co., Ltd.                     | a private company based in Korea   | development of research, business and marketing strategies of healthcare industry | March 2004 to February 2005 |
| M.I.Tech Co., Ltd.               | a private company based in Korea   | manufacture of non-vascular stents and medical electronic devices                 | May 2009 to November 2012   |
| various subsidiaries of LG Corp. | listed on the Korea Exchange (stock code: 003550)  | healthcare business   | January 2011 to June 2011   |
| HooH Healthcare                  | a private joint venture company between Korean Telecommunication and Yonsei University Health System | healthcare IT service and business strategic development                          | August 2012 to present      |
| CrystalGenomics, Inc.            | listed on the Korea Exchange (stock code: 083790)  | structural chemoproteomics-based drug discovery and development                   | August 2013 to present      |

Dr. Song obtained a bachelor's degree in medicine in February 1983 from Yonsei University College of Medicine in Korea. In March 1987 and March 1989, Dr. Song obtained a master's degree and a doctorate degree respectively in medical sciences, both from the Graduate School of Yonsei University. Dr. Song is not and has not been a director of any listed companies in Hong Kong or overseas in the past three years.

### GENERAL

Save as disclosed above, each of our Directors has confirmed that:

- (i) there is no other information in respect of our Directors to be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and
- (ii) there is no other matter that needs to be brought to the attention of our Shareholders.

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, is as follows:

**Mr. Ryu Ho Yong**, aged 52, has been a director and the director of research and development department of Cowell China since March 2010. Mr. Ryu is responsible for supervising the research and development activities of Cowell China. Prior to joining our Group in January 2008 as the head of research and development department of Cowell Korea, Mr. Ryu worked at the product development team at Samsung Electronics, a company listed on the Korea Exchange (stock code: 005930), as a senior engineer between January 1985 and November 2003 and served as a general director of Three A Solution in Korea, which makes software solution for cameras, from January 2004 to December 2007. Mr. Ryu received a bachelor's degree in electronic engineering from Kyungpook National University in Korea in February 1985. Mr. Ryu is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Mr. Cho Kyu Beom**, aged 51, has been the chief executive officer of Cowell Korea since April 2012. Mr. Cho is responsible for supervising the daily operations of Cowell Korea. Prior to joining our Group in July 2002 as a department manager at Cowell China, Mr. Cho worked at LG Chem as an assistant manager from July 1989 to April 1996 and at LG Siltron Incorporated, a private company based in Korea engaged in the manufacture and sale of semiconductor materials such as wafer, as a senior manager from May 1996 to July 2002. In December 2008, Mr. Cho was promoted to be a chief executive officer of Cowell China and remained in that position until April 2011. Mr. Cho has been a director of Cowell Korea since March 2009. Between May 2011 and March 2012, he served as an executive vice president of Cowell Korea and since April 2012, he has been the chief executive officer of Cowell Korea. Mr. Cho received a bachelor's degree in mechanical engineering from Hanyang University in Korea in February 1987. Mr. Cho is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Mr. Lee Chung Yun**, aged 47, has been a director and the chief financial officer of Cowell Korea since May 2011 and May 2008 respectively. Mr. Lee is responsible for supervising the financial operations of Cowell Korea. Prior to joining our Group in August 2003 as a general manager at Cowell Korea, Mr. Lee worked at the accounting department of Jindo Co., Ltd., a company listed on the Korea Exchange (stock code: 088790) and engaged in the manufacture and sale of container boxes, fur and freight trucks, as an assistant manager from January 1995 to June 2002. Mr. Lee received a bachelor's degree in business administration from Ajou University in Korea in February 1995. Mr. Lee is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Mr. Park Bumcheol**, aged 53, has been the director of the production department of Cowell China since August 2013. Mr. Park is responsible for supervising the daily operations of the factories of Cowell China. Prior to joining our Group in August 2013, Mr. Park worked for Samsung Electronics between August 1983 and May 2008, where he served as the managing director of product development. He also worked for Samsung Techwin Co., Ltd., a company listed on the Korea Exchange (stock code: 012450) and engaged in the engine and energy equipment, security solutions, camera modules and semiconductor components and equipment, between June 2008 and March 2011, where he served as the managing director of operation. Between March 2011 and July 2013, Mr. Park served as the vice president and also the head of the research laboratory of HS Networks Co, Ltd., a company in Korea that develops and sells camera modules for CCTVs. Mr. Park received a bachelor's degree in electronic engineering from Sungkyunkwan University in Korea in February 1984. Mr. Park is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Yoo Hee Yeoul**, aged 56, has been the chief technical officer of Cowell China since September 2013. Mr. Yoo is responsible for supervising the engineering department of Cowell China. Prior to joining our Group in September 2013, Mr. Yoo worked for Amkor Technology Korea, Inc., a private company based in Korea which provides contract semiconductor assembly and test services, from December 1993 to September 2013, where he served as the managing director of technology. Mr. Yoo received bachelor's and master's degrees in chemical engineering from the University of Seoul in February 1981 and February 1983 respectively. Mr. Yoo also received a doctorate degree in organic material engineering from Tokyo Institute of Technology in Japan in March 1993. Mr. Yoo is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

**Mr. Lee David Hyung Tek**, aged 42, has been the managing director, finance director and head of the corporate strategy team of our Company since January 2014. Mr. Lee is responsible for formulating the corporate strategies of our Company. Prior to joining our Group in January 2014, Mr. Lee was an associate with Cleary Gottlieb Steen & Hamilton LLP, a global law firm, from September 1999 to February 2007. Between September 2007 and December 2009, he served as an associate director of Macquarie Securities Limited, a global investment banking and financial services firm, and he was the managing director and head of investment banking of KDB Daewoo Securities (Hong Kong) Co, Ltd., the investment banking arm of the KDB Financial Group, from July 2010 to November 2013. Mr. Lee received a bachelor's degree in arts majoring in political science from the University of California, Los Angeles in September 1995 and a Juris Doctor degree from Harvard Law School in June 1998. Mr. Lee is also a member of the New York Bar, the Chartered Alternative Investment Analyst Association and the Hong Kong Securities and Investment Institute. Mr. Lee is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

### COMPANY SECRETARY

**Ms. Lam Wing Yan (林詠欣)**, aged 38, is the finance manager of Cowell Hong Kong and was appointed as the company secretary of our Company on September 17, 2014. Ms. Lam joined our Group in August 2013 and has been primarily responsible for corporate financial management. She has over 13 years of experience in corporate financial management, accounting and the company secretarial area. Prior to joining our Group, Ms. Lam held various positions, including the senior manager of finance and operations at Iriver Hong Kong Limited, a private company based in Hong Kong and provides, among others, broadcasting equipment and semiconductors and the holding company of which is listed on the Korea Exchange, for approximately 10 years from March 2001 to June 30, 2011. Ms. Lam obtained a master's degree in business administration from the University of South Australia in March 2012. Ms. Lam is a certified public accountant, a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

### BOARD COMMITTEES

We have established an audit committee, a remuneration committee and a nomination committee in our Board of Directors. The committees operate in accordance with their respective terms of reference established by our Board of Directors.

#### Audit Committee

We established an audit committee on February 4, 2015, with effect from the Listing, with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The audit committee consists of three

## DIRECTORS AND SENIOR MANAGEMENT

members: Mr. Kim Chan Su (chairman), Dr. Song Si Young and Mr. Okayama Masanori. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Group.

### Remuneration Committee

We established a remuneration committee on February 4, 2015, with effect from the Listing, with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members: Dr. Song Si Young (chairman), Mr. Kim Chan Su and Mr. Seong Seokhoon. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board on the remuneration policies covering our Directors and senior management of our Group.

### Nomination Committee

We established a nomination committee on February 4, 2015, with effect from the Listing, with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members: Mr. Kwak Joung Hwan (chairman), Dr. Song Si Young and Mr. Kim Chan Su. The primary duties of the nomination committee are to review and make proposals with respect to the structure, size and composition of our Board, identify individuals suitably qualified to become Board members and recommend to our Board as to matters relating to appointment or re-appointment of Directors and succession planning of our Board.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of fees, salaries, bonuses, other allowances and benefits in kind, including our contribution to the pension scheme on their behalf. We determine the salaries of our Directors based on each Director's responsibilities, qualification, position and seniority.

The aggregate amount of remuneration which was paid to our Directors for the years ended December 31, 2011, 2012 and 2013 was approximately US\$528,299, US\$2,868,084 and US\$5,261,205, respectively, and for the ten months ended October 31, 2014 was approximately US\$1,149,559. It is estimated that remuneration and benefits in kind equivalent to approximately US\$2,700,000 in aggregate will be paid and granted to our Directors by us in respect of the full financial year ending December 31, 2015. For further details of our Directors' compensation, please refer to the section headed "Statutory and General Information — C. Further Information About our Directors and Substantial Shareholders — 2. Particulars of Service Contracts" in Appendix VI to this prospectus.

The aggregate amount of remuneration which was paid by us to our five highest paid individuals (including both employees and Directors) for the years ended December 31, 2011, 2012 and 2013 was approximately US\$717,045, US\$3,182,036 and US\$5,570,686, respectively, and for the ten months ended October 31, 2014 was approximately US\$1,482,447.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period. Save as disclosed above, the Directors are not entitled to receive any other special benefits from the Company. The compensation of the Directors is

## DIRECTORS AND SENIOR MANAGEMENT

determined by our Board which, following listing, will receive recommendation from the Remuneration Committee which will take into account applicable laws, rules and regulations.

### SHARE OPTION SCHEME

We have adopted the Share Option Scheme. Please see the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix VI to this prospectus for details of the Share Option Scheme.

### COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including Share issues and Share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

### CODE ON CORPORATE GOVERNANCE PRACTICES

We consider that having Mr. Kwak acting as both our chairman and our chief executive officer will provide a strong and consistent leadership to us and allow for more effective planning and management for our Group. Pursuant to A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, in view of Mr. Kwak’s extensive experience in the industry, personal profile and critical role in our Group and its historical development, we consider that it is beneficial to the business prospects of our Group that Mr. Kwak continues to act as both our chairman and our chief executive officer upon Listing.

Save as disclosed above, our Directors consider that, as of the Latest Practicable Date, our Company has fully complied with the applicable code provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 to the Listing Rules from the Listing Date.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. Kwak and Hahn & Co. Eye. For the backgrounds of Mr. Kwak and Hahn & Co. Eye, please refer to the sections headed “Directors and Senior Management” and “Our History, Development and Corporate Structure” in this prospectus respectively.

As of the Latest Practicable Date, each of our Controlling Shareholders owns 50% of our issued share capital. Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), (a) Mr. Kwak will be entitled to exercise voting rights of approximately 45.00% of our issued share capital and hence will continue to be our Controlling Shareholder; (b) Hahn & Co. Eye will be entitled to exercise voting rights of approximately 29.99% of our issued share capital and hence will cease to be our Controlling Shareholder.

Our Controlling Shareholders and Directors confirm that they do not have any interest in a business which competes with or is likely to compete with our business, whether directly or indirectly, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

We have entered into certain connected transactions with an associate of Mr. Kwak and a company controlled by an associate of Mr. Kwak, which are expected to continue following the Listing. For details of these transactions, please see the section headed “Connected Transactions” in this prospectus.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from our Controlling Shareholders and their respective associates after the Global Offering.

#### Management Independence

Since our Controlling Shareholders do not engage in businesses which are in competition or in potential competition with that of our Group (other than through their shareholding interest in our Group), our Directors do not consider that there is any issue which will arise in relation to our management independence. Our Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. Notwithstanding our non-executive Directors, Mr. Lee Dong-Chun and Mr. Kim Jae Min are directors of Hahn & Co. Eye and Mr. Yoon Yeo Eul is the representative director of Hahn & Co. Eye, our Board is capable of managing and has managed, our Group independently from Hahn & Co. Eye as none of Mr. Yoon Yeo Eul, Mr. Lee Dong-Chun and Mr. Kim Jae Min is involved in the daily management of our Group.

Our Board is supported by a team of senior management and the majority of the members of our senior management has been managing our business throughout the Track Record Period. Each of our senior management members possesses relevant management and/or industry-related experience to act as such. Please refer to the section headed “Directors and Senior Management” in this prospectus for details of their management experience. We consider that our Board and senior management will function independently from each of our Controlling Shareholders and that our Company is capable of managing our business independently from our Controlling Shareholders because:

- each of our Directors is aware of his fiduciary duties as a director which require, among others things, that he must act for the benefit of and in the best interests of our Company and our Shareholders as a whole and must not allow any conflict between his duties as a Director and his personal interests;



## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- each of our independent non-executive Directors has extensive experience in different areas and has been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions;
- each of our Directors will not vote in any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest and shall not be counted in the quorum present at the particular Board meeting; and
- we have established an internal control mechanism to identify related party transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions.

Based on the above, our Directors are satisfied that they are able to perform their roles as Directors independently and our business will be managed independently from our Controlling Shareholders after the Listing.

### **Operational Independence**

In addition to the “step-in” rights referred to in the section headed “Business — Customers, Sales and Marketing — Relationship with Apple” in this prospectus, as part of the commercial terms negotiated between us and Apple, we may not enter into or consummate a “change of control transaction” as a result of which Mr. Kwak loses “control” over us without Apple’s prior written consent. Under our agreements with Apple, a “change of control transaction” refers to any sale or exchange of our Shares by our Shareholders or any reorganization, consolidation or merger of our Company such that the Shareholder who currently holds “control” of our Company (i.e., Mr. Kwak) no longer retains “control” of our Company after the relevant transaction, and “control” refers to ownership and control of our Shares by a person such that the person can appoint the majority of our board of directors, appoint the management of our Company or otherwise direct the management and affairs of our Company. However, under such agreements, Apple has preemptively agreed to consent to any “change of control transaction” occurring on or prior to the third anniversary of the Global Offering, so long as Mr. Kwak retains at least 35% of the outstanding Shares and retains his title and authority as the chief executive officer and chairman of the board of our Company, and we give prior notice of the transaction to Apple. Furthermore, Apple has preemptively agreed to consent to any “change of control transaction” occurring any time after the third anniversary of the Global Offering, so long as we give prior notice of the transaction to Apple. In both cases, any acquiror would have to assume all existing contracts with Apple and agree to fulfill the obligations under such contracts.

Notwithstanding the above, our Company has full rights to make all decisions on, and to carry out, our own business operations independently, despite the controlling interest held by our Controlling Shareholders. We have sufficient independent premises, equipment, access to customers and suppliers and employees to operate our business independently from our Controlling Shareholders and their respective associates. Our organizational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

While our Group will remain party to the following connected transactions as further described in the section headed “Connected Transactions” in this prospectus, our Directors believe that our Group will be independent from our Controlling Shareholders from an operational perspective:

- **Trademarks:** Except for two trademarks registered in Korea for which we were granted a perpetual exclusive license by Cowell Asset, a company wholly-owned by Mr. Kwak, to allow us to continue using such trademarks on a royalty-free basis upon the Listing, we are the registered owner of all the other trademarks which we believe are material to our Group’s operations. Our Directors believe that this trademark licensing arrangement will enable us to enjoy substantially the same level of legal and economic benefits as if we were the registered owner of the two trademarks and save costs arising from an outright transfer of the trademarks. Furthermore, our Directors are of the view that our independence and operational capability should not be affected by such trademark licensing arrangement.
- **Procurement:** With respect to our connected transactions with Bai Shi, a company wholly owned by an associate of Mr. Kwak, we believe that our Group would be able to procure the relevant IR cut filters from sources other than Bai Shi if needed, since Bai Shi is only one of the five suppliers from which we source IR cut filters and the terms offered by Bai Shi are on normal commercial terms and on par with other independent suppliers. Accordingly, our Directors believe that our independence and operational capability should not be affected by our connected transactions with Bai Shi.

Based on the above, our Directors are satisfied that we are able to operate independently from our Controlling Shareholders and their respective associates.

### Financial Independence

We have an independent financial system and finance team responsible for our own treasury functions and we have made, and will continue to make, financial decisions based on our own business needs. In addition, we have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

### NON-COMPETITION UNDERTAKING

In order to ensure that direct competition does not develop between us and the Controlling Shareholders’ other activities, our Controlling Shareholders have entered into a deed of non-competition (the “Deed of Non-competition”) in favor of our Company. Under the Deed of Non-competition, each of our Controlling Shareholders has undertaken to our Company (for ourselves and for the benefit of our subsidiaries) that they will not, and they will use their best endeavors to procure that their close associates (except any members of our Group) will not, whether directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement and for projects or otherwise) or as principal or agent, and whether on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of our Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the business of any member of our Group (the “Restricted Business”).

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The above undertaking does not preclude the holding by the Controlling Shareholders of interests in any company engaging in any Restricted Business (the “Subject Company”) where:

- the total number of shares held by the Controlling Shareholders does not exceed 5% of the issued shares of the Subject Company which is or whose holding company is listed on a recognized stock exchange; or
- any Restricted Business conducted or engaged in by the Subject Company (and assets relating thereto) accounts for less than 5% of the Subject Company’s consolidated turnover or consolidated assets, as shown in its latest audited accounts;

provided that there is a holder (with its close associates where appropriate) with a larger shareholding in the Subject Company than the aggregate shareholding held by the Controlling Shareholders and/or their respective close associates and the total number of the Controlling Shareholders’ representatives on the board of directors of the Subject Company is not significantly disproportionate in relation to their shareholding in the Subject Company.

If any investment or other business opportunity relating to our business (the “Business Opportunity”) is identified by or made available to the Controlling Shareholders or their close associates, they are required to refer such Business Opportunity to us and may not pursue such Business Opportunity unless our Board of Directors or a board committee whose members do not have a material interest in the Business Opportunity declines the Business Opportunity.

Pursuant to the Deed of Non-competition, the above restrictions will only cease to have effect on a Controlling Shareholder on the earliest of the date on which such Controlling Shareholder ceases to hold directly or indirectly in aggregate 30% or more of the entire issued share capital, or otherwise ceases to be a controlling shareholder, of our Company or the Shares cease to be listed and traded on the Hong Kong Stock Exchange. Since Hahn & Co. Eye will cease to be our Controlling Shareholder immediately following the completion of the Global Offering, Hahn & Co. Eye will not be subject to the Deed of Non-competition upon the Listing.

Furthermore, the independent non-executive Directors will review, on an annual basis, the Controlling Shareholders’ compliance with the Deed of Non-competition (in particular, the right of first refusal relating to any Business Opportunity) and the Controlling Shareholders will provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors. We will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the Deed of Non-competition in our annual report or by way of announcement to the public.

## CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to avoid potential conflict of interests and safeguard the interests of our Shareholders:

- (a) compliance with the Listing Rules, in particular, strictly observe any proposed transactions between us and connected persons and comply with the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules where applicable;
- (b) appointment of Guotai Junan Capital Limited as our compliance adviser to advise us on the compliance matters in respect of the Listing Rules and applicable laws and regulations;

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (c) appointment of Jingtian & Gongcheng, our PRC legal advisor, to advise us on the ongoing compliance matters relating to PRC laws and regulations; and
- (d) appointment of three independent non-executive Directors in order to achieve a balanced composition of executive and non-executive Directors in our Board. The independent non-executive Directors have the qualification, integrity, independence and experience to fulfill their roles effectively. See “Directors and Senior Management” in this prospectus for further details of our independent non-executive Directors.

## CONNECTED TRANSACTIONS

### OVERVIEW

We have entered into certain agreements with parties that will be our connected persons (as defined under Chapter 14A of the Listing Rules). Following the Listing, the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules.

### CONNECTED PERSONS

Following the Listing, the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

**Mr. Kwak:** Mr. Kwak is our Controlling Shareholder and is therefore a connected person of our Group.

**Cowell Asset:** Cowell Asset is a company wholly owned by Mr. Kwak and is therefore an associate of Mr. Kwak. Accordingly, Cowell Asset is also a connected person of our Group.

**Bai Shi:** Bai Shi is a company incorporated under the laws of Hong Kong and wholly owned by Mr. Lee. Mr. Lee is the brother-in-law of Mr. Kwak and hence an associate of Mr. Kwak. Accordingly, Bai Shi is also a connected person of our Group. Bai Shi is principally engaged in the manufacture and sale of IR cut filters that serve as critical components for camera modules.

### CONTINUING CONNECTED TRANSACTIONS

#### Fully Exempt Continuing Connected Transactions

##### *Trademark License Agreement*

**Background:** During the Track Record Period, we had historically been using two trademarks registered in Korea by Cowell Asset, a company wholly-owned by Mr. Kwak. In anticipation of the Global Offering, we entered into a trademark license agreement with Cowell Asset on March 10, 2015 (the “Trademark License Agreement”) to ensure that our Group will continue to be able to use the relevant trademarks.

**Material Terms:** Pursuant to the Trademark License Agreement, Cowell Asset agreed to grant to our Group an exclusive license, on a royalty-free basis, to use the relevant trademarks for a perpetual term. The Sole Sponsor and our Directors are each of the view that entering into the Trademark License Agreement for a period longer than three years promotes stability in operations and is beneficial to our Shareholders as a whole. The grant of the license by Cowell Asset is irrevocable, and Cowell Asset is required to obtain our written consent prior to any sale of, or the creation of any encumbrance on, the relevant trademarks. For details of the licensed trademarks, please see the section headed “Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights of our Group” in Appendix VI to this prospectus.

**Implication under the Listing Rules:** Since the relevant trademarks will be licensed to us on a royalty-free basis and our Directors (including the independent non-executive Directors) are of the opinion that the Trademark License Agreement is on normal commercial terms or better, the transactions contemplated under the Trademark License Agreement will constitute *de minimis* connected transactions which will be fully exempt from annual reporting, annual review, announcement, circular and shareholders’ approval requirements under Rule 14A.76(1) of the Listing Rules.

## CONNECTED TRANSACTIONS

### Non-exempt Continuing Connected Transactions

#### **Framework Agreement on the Supply of Camera Module Parts**

**Background:** During the Track Record Period, Cowell Hong Kong purchased a variety of IR cut filters that serve as critical components for camera modules from Bai Shi. In anticipation of the Global Offering, Cowell Hong Kong entered into a framework agreement on the supply of camera module parts with Bai Shi on March 10, 2015 (the “Framework Agreement on the Supply of Camera Module Parts”) to govern relevant transactions after the Listing.

**Material Terms:** Pursuant to the Framework Agreement on the Supply of Camera Module Parts, Bai Shi has agreed to regularly supply, or procure its subsidiaries to supply, IR cut filters that serve as critical components for camera modules to us.

The Framework Agreement on the Supply of Camera Module Parts will be effective from the Listing Date until December 31, 2016 and will be automatically extended for a further period of three years, subject to compliance with the Listing Rules.

The consideration payable by us under the Framework Agreement on the Supply of Camera Module Parts will be paid for and settled in cash and payment and settlement will be made at the time and according to the method agreed in separate purchase orders or sale and purchase agreements.

**Pricing Policy:** The price for IR cut filters under the Framework Agreement on the Supply of Camera Module Parts will be determined by reference to Bai Shi’s cost plus a profit margin within the range of 5% to 10% agreed on an arm’s length basis. We believe that such agreed price will be generally comparable to the price paid by us to our other local PRC suppliers in similar transactions.

**Historical transaction amounts:** The approximate annual aggregate purchase price amounts relating to IR cut filters supplied by Bai Shi to us were as follows:

| For the year ended December 31, |           |           | For the ten months ended |
|---------------------------------|-----------|-----------|--------------------------|
| 2011                            | 2012      | 2013      | October 31, 2014         |
| (in US\$)                       |           |           |                          |
| 815,262                         | 2,504,781 | 4,446,651 | 2,134,584                |

Aggregate purchase price amounts relating to IR cut filters supplied by Bai Shi increased from 2011 to 2013, in line with annual increases in our camera module production and turnover during such periods. Such amount decreased for the ten months ended October 31, 2014 due to the fact that, commencing from January 1, 2014, we agreed with Bai Shi to no longer use its assembly services for IR cut filters, and began using another Independent Third Party for such services.

**Annual caps and basis of caps:** We expect that the annual aggregate purchase price amounts to be paid by us for the three-year period ending December 31, 2016 will be as follows:

| For the year ending December 31, |           |           |
|----------------------------------|-----------|-----------|
| 2014                             | 2015      | 2016      |
| (in US\$)                        |           |           |
| 2,600,000                        | 3,300,000 | 4,200,000 |

In arriving at the above annual caps, our Directors have considered the pricing policy under the Framework Agreement on the Supply of Camera Module Parts, our expected demand (including the demand from Samsung Electronics and LG Electronics, each of which entered into new sales

## CONNECTED TRANSACTIONS

arrangements with us for the supply of camera modules, as described in “Business — Overview”), market conditions and inflation rate for the relevant period.

**Implication under the Listing Rules:** As each of the percentage ratios (other than the profits ratio) (as defined in Rule 14.07 of the Listing Rules) calculated on the basis of projections for the years 2014 to 2016 is expected to be more than 0.1% but less than 5%, the transactions contemplated under the Framework Agreement on the Supply of Camera Module Parts will constitute continuing connected transactions which are subject to the annual reporting and announcement requirements but exempt from the circular (including independent financial advice) and shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### **DIRECTORS’ VIEW ON NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

Our Directors (including our independent non-executive Directors) are of the view that (1) the non-exempt continuing connected transactions disclosed above have been entered into, and will be carried out, in the ordinary and usual course of business and on normal commercial terms or better; (2) such non-exempt continuing connected transactions are fair and reasonable and are in the interest of our Company and our Shareholders as a whole; and (3) the proposed annual caps of such non-exempt continuing connected transactions are fair and reasonable, as far as our Company and our Shareholders, taken as a whole, are concerned.

### **APPLICATION FOR WAIVER**

We expect the non-exempt continuing connected transactions disclosed above will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company. Accordingly, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules once the Shares are listed on the Hong Kong Stock Exchange in respect of such non-exempt continuing connected transactions. We will, however, comply at all times with the other applicable provisions under Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transactions.

### **CONFIRMATION FROM THE SOLE SPONSOR**

The Sole Sponsor is of the view that the non-exempt continuing connected transactions disclosed above for which a waiver is sought have been entered into in the ordinary and usual course of our business, on normal commercial terms or better, are fair and reasonable and in the interests of our Shareholders as a whole, and that the proposed annual caps of such non-exempt continuing connected transactions are fair and reasonable, as far as our Shareholders, taken as a whole, are concerned.

## SHARE CAPITAL

### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of our authorized and issued share capital in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Global Offering:

|   | <u>Number of Shares</u> | <u>US\$</u>      |
|---|-------------------------|------------------|
| <i>Authorized share capital:</i>                                      |                         |                  |
| Shares .....  | 10,000,000,000          | 40,000,000.0     |
| <i>Issued and to be issued, fully paid or credited as fully paid:</i> |                         |                  |
| Shares in issue as of the date of this prospectus .....               | 748,318,800             | 2,993,275.2      |
| Shares to be issued pursuant to the Global Offering .....             | <u>83,200,000</u>       | <u>332,800.0</u> |
| Total .....   | 831,518,800             | 3,326,075.2      |

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares to be newly issued pursuant to the Global Offering are so issued. The above does not take into account any Shares which may be 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 mandates granted to our Directors to issue or repurchase Shares as described below.

### RANKING

The Shares are ordinary shares in our share capital and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (a) a rights issue;
- (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles of Association;
- (c) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

- (i) 20% of the total nominal value of our share capital in issue immediately following the completion of the Global Offering; and



## SHARE CAPITAL

- (ii) the total nominal value of our share capital repurchased by us (if any) under the general mandate to repurchase Shares referred to in the paragraph headed “General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire:

- (1) at the conclusion of our next annual general meeting; or
- (2) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (3) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information — A. Further Information About Our Group — 4. Resolutions in Writing of Our Shareholders Passed on February 4, 2015 and March 10, 2015” in Appendix VI to this prospectus.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus, our Directors have been granted a general unconditional mandate to exercise all of our powers to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the Global Offering.

This general mandate relates only to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information About Our Group — 5. Repurchases of Our Own Securities” in Appendix VI to this prospectus.

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information — A. Further Information About Our Group — 4. Resolutions in Writing of Our Shareholders Passed on February 4, 2015 and March 10, 2015” in Appendix VI to this prospectus.

### **SHARE OPTION SCHEME**

We have conditionally adopted the Share Option Scheme. Please see the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix VI to this prospectus for details of the Share Option Scheme.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme, the following persons will have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

| Name of shareholder   | Nature of interest                  | Shares held immediately following the completion of the Global Offering <sup>(4)</sup> |            |
|---|-------------------------------------|--|------------|
|   |                                     | Number   | Percentage |
| Mr. Kwak .....  | Beneficial interest                 | 374,159,400  | 45.00      |
| Ms. Yang Won Sun <sup>(1)</sup> .....   | Interest of spouse                  | 374,159,400  | 45.00      |
| Hahn & Co. Eye .....  | Beneficial interest                 | 249,359,400  | 29.99      |
| Hahn & Company 1 Private Equity Fund<br>("Hahn & Co. PEF") <sup>(2)</sup> ..... | Interests in controlled corporation | 249,359,400  | 29.99      |
| Hahn & Company LLC ("Hahn & Co.<br>LLC") <sup>(3)</sup> .....                   | Interests in controlled corporation | 249,359,400  | 29.99      |

*Notes:*

- (1) Ms. Yang Won Sun is the spouse of Mr. Kwak. Under Part XV of the SFO, Ms. Yang is deemed to be interested in the same number of Shares in which Mr. Kwak is interested.
- (2) Hahn & Co. Eye is wholly-owned by Hahn & Co. PEF. Therefore, Hahn & Co. PEF is deemed to be interested in all the Shares held by Hahn & Co. Eye under the provisions of Part XV of the SFO.
- (3) The general partner of Hahn & Co. PEF is Hahn & Co. LLC. Therefore, Hahn & Co. LLC is deemed to be interested in all the Shares held by Hahn Co. Eye under the provisions of Part XV of the SFO.
- (4) Assuming the Over-allotment Option is not exercised.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

See the section headed “Business — Strategies” in this prospectus for a detailed description of our future plans. We currently do not have any specific acquisition plans or targets and have not entered into any definitive agreements with any potential targets.

### USE OF PROCEEDS

The aggregate net proceeds to us from the Global Offering (after deduction of underwriting fees for the Offer Shares to be newly issued by us and the total estimated expenses paid and payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$4.88 per Offer Share, being the mid-point of the indicative range of the Offer Price of HK\$4.00 to HK\$5.75 per Offer Share) will be approximately HK\$340.4 million. We plan to use the net proceeds to us from the Global Offering in the following manner:

- as part of our overall business strategy, we intend to invest approximately 79% of the net proceeds to us (approximately HK\$269.0 million) for the enhancement and expansion of our production capacity as follows:
  - (i) approximately 66% of the net proceeds to us (approximately HK\$225.8 million) for enhancing the production capacity of the existing production lines for fixed-focus camera modules and to enable us to begin manufacturing high-end camera modules. As a result of such investments, which are expected to take place in 2016, and other capital expenditures (which we intend to fund through cash flow from operating activities and available banking facilities), our annual production capacity for camera modules is expected to increase by approximately 29% by the first half of 2016 (as compared to October 31, 2014);
  - (ii) approximately 13% of the net proceeds to us (approximately HK\$43.2 million) to enhance existing production lines to produce high-end COB camera modules by improving our end-of-line testing processes through installation of more advanced machinery used in quality control and testing procedures (without increasing our overall production capacity for COB camera modules), which is expected to be completed by the first half of 2015;
- Approximately 12% of the net proceeds to us (approximately HK\$40.8 million) for the repayment of a term bank loan for working capital from HSBC with a maturity of November 2016 and an interest rate of 3.2%; and
- Approximately 9% of the net proceeds to us (approximately HK\$30.6 million) for working capital and other general corporate purposes.

If the Offer Price is determined at the highest point of the stated range, the proceeds to us would be increased by approximately HK\$70.6 million. In such event, we have the present intention to apply such amount for additional investment on each of the aforementioned uses on a pro rata basis. If the Offer Price is determined at the lowest point of the stated range, the proceeds to us would be decreased by approximately HK\$71.4 million. In such event, we expect to first use HK\$269.0 million for the enhancement and expansion of our production capacity and reduce the amounts to be used for repayment of the term bank loan and working capital by HK\$71.4 million.

The net proceeds to us from the Global Offering will cover a major part of our current capital expenditure needs for our expansion of production capacity during 2015 and 2016 and we expect such

## **FUTURE PLANS AND USE OF PROCEEDS**

net proceeds to be utilized in these two years according to the actual timetable for these capital expenditure projects. To the extent that any part of the net proceeds to us from the Global Offering are not immediately used for the above purposes, the Directors may allocate such proceeds to short-term interest-bearing deposits and/or money-market instruments with authorized financial institutions and/or licensed banks in Hong Kong and/or the PRC.

In the event of any material change in our use of net proceeds of the Global Offering from the purposes described above or in our allocation of the net proceeds among the purposes described above, a formal announcement will be made.

We will not receive any of the proceeds from the sale of the Sales Shares by the Selling Shareholder in the Global Offering. The Selling Shareholder estimates that, after deduction of underwriting fees for the Sale Shares and the estimated expenses payable by it in the Global Offering and assuming an Offer Price of HK\$4.88 per Share (being the midpoint of the indicative Offer Price range), it will receive net proceeds from the Global Offering of approximately HK\$587.0 million (assuming the Over-allotment Option is not exercised) and approximately HK\$735.4 million (assuming the Over-allotment Option is exercised in full), respectively.

## UNDERWRITING

### HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited

BNP Paribas Securities (Asia) Limited

CIMB Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on Wednesday, March 18, 2015. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming and remaining unconditional and not having been terminated in accordance with its terms.

##### *Grounds for Termination*

If any of the events set out below shall occur at any time prior to 8:00 a.m. on the Listing Date, the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) may by giving a written notice to our Company signed by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) terminate the Hong Kong Underwriting Agreement (including the respective obligations of the Hong Kong Underwriter to subscribe or procure subscribers for the Hong Kong Offer Shares) without liability to any of the other parties with immediate effect:

- (i) any new law or any change or development involving a prospective change in any existing law or any change in the interpretation or application thereof by any court or other competent authority of the Cayman Islands, Hong Kong, the PRC, the United States, the United Kingdom, Korea, Japan, or any other relevant jurisdiction (collectively, the “Relevant Jurisdictions”);
- (ii) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any change or development in local, national or international financial, political, military, industrial, legal, fiscal, economic, regulatory, market or currency matters or conditions (including but not limited to a change in the system under which the value of the HK\$ is linked to the US\$ or revaluation of Renminbi against any foreign currencies or a change in any other currency exchange rates, conditions in the stock or bond markets, money and interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions;

## UNDERWRITING

- (iii) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange, the New York Stock Exchange or in the NASDAQ System or any disruption in commercial banking activities or securities settlement, payment or clearance services or procedures in any of the Relevant Jurisdictions;
- (iv) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in any of the Relevant Jurisdictions;
- (v) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions;
- (vi) the outbreak or escalation of hostilities involving any of the Relevant Jurisdictions or the declaration by any of the Relevant Jurisdictions of a national emergency or war or any other national or international calamity or crisis;
- (vii) any event or series of events of force majeure in or any event or circumstances likely to result in any change or development involving a perspective change or affecting any of the Relevant Jurisdictions including without limiting the generality thereof, international national declarations, sanctions, escalation of hostilities (whether or not war is declared), any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic (including SARS, H5N1, H1N1 or such related/mutated forms), terrorism, strike or lock-out;
- (viii) any change or development or event involving a prospective materialization of any of the risks set out in the section headed "Risk Factors" in this prospectus;
- (ix) the issue or requirement to issue by our Company of a supplementary prospectus or offering document pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules;
- (x) a petition is presented for the winding up or liquidation of our Company or any of our subsidiaries or our Company or any of our subsidiaries make any composition or arrangement with our or our subsidiaries' creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or of any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries;
- (xi) a valid demand by any creditor for repayment or payment of any of our Company's indebtednesses or those of any of our subsidiaries or in respect of which our Company or any of our subsidiaries is liable prior to its stated maturity, or any loss or damage sustained by our Company or any of our subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person);
- (xii) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;
- (xiii) the chairman or chief executive officer of our Company vacating his or her office;

## UNDERWRITING

- (xiv) a governmental authority or a political body or organization in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director;
- (xv) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares issued pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xvi) a contravention by any member of our Group of the Listing Rules or applicable laws,

and which, in any such case and in the sole opinion of the Sole Bookrunner (for itself and on behalf of the other Hong Kong Underwriters),

- (A) has or will or may have a material adverse effect on the business or financial position or prospects of our Company or our subsidiaries as a whole;
  - (B) has or will or may have a material adverse change on the success or marketability of the Hong Kong Public Offering or the International Offering;
  - (C) makes or will make or may make it inadvisable, inexpedient or impractical for the Global Offering to proceed or to market the Global Offering; or
  - (D) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the terms contained in the Hong Kong Underwriting Agreement, and/or related agreements; or
- (b) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement including but not limited to any forecasts, expressions of opinion, intention or expectation contained in this prospectus or the Application Forms becomes or is discovered to be untrue, inaccurate, incomplete or misleading or in the case of forecasts, expressions of opinion, intention or expectation, are not fair and honest based on reasonable assumptions with reference to the facts and circumstances then subsisting;
  - (ii) any matter or event arising or has been discovered rendering or there coming to the notice of any of the Sole Bookrunner or the Hong Kong Underwriters any matter or event showing any of the representation and warranties given by our Company or our Controlling Shareholders in the Hong Kong Underwriting Agreement to be untrue, inaccurate or misleading or having been breached;
  - (iii) there shall have occurred any matter or event, act or omission which gives or is likely to give rise to any liability of our Company or the covenantors pursuant to the indemnities given by our Company, our Controlling Shareholders or any of them under the Hong Kong Underwriting Agreement;
  - (iv) any breach on the part of our Company and/or our Controlling Shareholders of any provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement in any material respect;

## UNDERWRITING

- (v) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, not having been disclosed in this Prospectus, constitute an omission therefrom; or
- (vi) our Company withdraws this prospectus and the Application Forms on the Global Offering,

### **Lock-up**

#### ***Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules***

##### *Undertakings by our Company*

Pursuant to Rule 10.08 of the Listing Rules, our Company will not, any time within six months from the Listing Date, issue any Shares or other securities convertible into equity securities (whether or not of a class already listed) of our Company or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

##### *Undertakings by our Controlling Shareholders*

#### **Mr. Kwak**

Pursuant to Rule 10.07 of the Listing Rules, Mr. Kwak has undertaken to us and to the Hong Kong Stock Exchange, that he will not, without the prior written consent of the Hong Kong Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “First 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 of our Shares in respect of which he is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (“Parent Shares”); or
- (b) during the period of six months commencing on the date on which the First Six-month Period expires (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 of the Parent Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would cease to be our Controlling Shareholder (as defined in the Listing Rules).

#### **Hahn & Co. Eye**

Hahn & Co. Eye has undertaken to us and to the Hong Kong Stock Exchange, that it will not, without the prior written consent of the Hong Kong Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules, in the First 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 of our Shares in respect of which it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (except pursuant to the Global Offering, the Over-allotment Option, the Stock Borrowing Agreement and unless in compliance with the requirements of the Listing Rules).



## UNDERWRITING

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of Mr. Kwak and Hahn & Co. Eye has undertaken to us and to the Hong Kong Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he or it will:

- (a) if he or it pledges or charges any of our securities beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if he or it receives indications, either verbal or written, from the pledgee or chargee that any of his or its pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

### ***Undertakings Pursuant to the Hong Kong Underwriting Agreement***

#### ***Undertakings by our Company***

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken with each of the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters that, we will not, without the prior written consent of the Sole Bookrunner (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules, at any time during the First Six-month Period:

- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, hypothecate, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any of its share capital, debt capital or any 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 share capital or securities or interest therein) or deposit any Shares or other securities of our Company, as applicable, with a depository in connection with the issue of any depository receipts; 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 such share capital or securities of our Company or interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or warrants or other rights to purchase our Shares or any shares of such other member of our Group, as applicable); or
- (iii) offer to or agree to or announce any intention to effect any transaction specified in (i), or (ii) above,

whether any of the foregoing transactions described in sub-paragraphs (i) to (iii) above is to be settled by delivery of our Shares or such other securities, in cash or otherwise provided that the foregoing

## UNDERWRITING

restrictions shall not apply to the issue of Shares by our Company pursuant to the Global Offering or grant of options or issuance of Shares upon exercise of such options pursuant to the Share Option Scheme.

In the event that, during the Second Six-month Period, we offer, issue or dispose of our Shares or any interest therein or announce any intention to effect such offer, issue or disposal, we will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

### *Undertaking by the Controlling Shareholders*

Each of our Controlling Shareholders has undertaken to us, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to (A) the Global Offering, (B) the Over-allotment Option or (C) if applicable, the Stock Borrowing Agreement, none of our Controlling Shareholders will, without the prior written consent of the Sole Bookrunner (on behalf of the Hong Kong Underwriters), at any time during the First Six-month Period:

- (i) offer, accept subscription for, sell, pledge, hypothecate, mortgage, assign, charge, 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, make any share sale, lend or otherwise transfer or dispose of, create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over either directly or indirectly, conditionally or unconditionally, any of the share capital of our Company or any 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 share capital or securities or interest therein) or deposit any Shares or other securities of our Company, as applicable, with a depository in connection with the issue of any depository receipts;
- (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 such share capital, debt capital or other securities of our Company or any interest therein;
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) to (iii) above,

whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

During the Second Six-month Period, Mr. Kwak will not enter into any of the transactions in subparagraphs (i), (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company.

Until the expiry of the Second Six-month Period, in the event that Mr. Kwak enters into any such transactions or agrees or contracts to or publicly announces an intention to enter into any such transactions, he will take all reasonable steps to ensure that he will not create a disorderly or false market in the securities of our Company.

## UNDERWRITING

At any time during the First Six-month Period, in the case of Hahn & Co. Eye, and the First Six-month Period and Second Six-month Period, in the case of Mr. Kwak, (i) our Controlling Shareholders will, if they pledge or charge or intends to pledge or charge any Shares or other securities of our Company in respect of which they are the beneficial owner, immediately inform our Company, the Sole Sponsor and the Hong Kong Stock Exchange of any such pledges or charges and the number of Shares or other securities of our Company so pledged or charged, and (ii) our Controlling Shareholders will, if they receive any indication, either verbal or written, from any such pledgee or chargee of Shares or other securities of our Company that such Shares or other securities of our Company will be disposed of, immediately inform our Company, the Sole Sponsor and the Hong Kong Stock Exchange of any such indication.

### **International Offering**

#### ***International Underwriting Agreement***

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the Controlling Shareholders, the Sole Global Coordinator and the Sole Bookrunner (on behalf of the International Underwriters). Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set forth therein, severally agree to purchase the International Offer Shares being offered pursuant to the International Offering, or procure purchasers for such International Offer Shares.

It is expected that the Selling Shareholder will grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Bookrunner (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until Wednesday, April 22, 2015, being the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require the Selling Shareholder to sell up to an aggregate of 31,200,000 additional Shares, representing 15% of the initial Offer Shares, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any.

Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

### **Indemnity**

We have agreed to indemnify the Hong Kong Underwriters for certain losses which it may suffer, including losses arising from its performance of its obligations under the Hong Kong Underwriting Agreement and any breach of the Hong Kong Underwriting Agreement by us. It is expected that we will also indemnify the International Underwriters for certain losses which they may suffer.

### **Commission and Expenses**

Morgan Stanley Asia Limited, as the Sole Bookrunner and the Hong Kong Underwriter, will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which it will pay any underwriting commission to the other Hong Kong Underwriters and the Hong Kong Underwriters will pay any applicable sub-underwriting commissions. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Sole Bookrunner and the relevant International Underwriters (but not the Hong Kong Underwriters). In addition we may, at our sole and absolute discretion, pay additional discretionary incentive fee as we deem fit.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$4.88, being the mid-point of the Offer Price range of HK\$4.00 to HK\$5.75 per Share, the fees and commissions

## UNDERWRITING

in connection with the Hong Kong Public Offering and the International Offering, together with the Hong Kong Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to amount to approximately HK\$65.7 million in aggregate. Such commissions, the Hong Kong Stock Exchange trading fee and the SFC transaction levy are payable and borne by us. The fees and expenses of professional advisers and service providers engaged in relation to the Global Offering will be borne by us and the Selling Shareholder as agreed between us and the Selling Shareholder. We will reimburse the Sole Global Coordinator (on behalf of the Underwriters) and the Sole Sponsor for expenses they incurred in relation to the Global Offering.

### **Underwriters' Interests in our Company**

Save for their respective obligations under the Underwriting Agreements and save as otherwise disclosed in this prospectus, none of the Underwriters is interested legally or beneficially in any shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group in the Global Offering.

### **SPONSOR'S INDEPENDENCE**

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

### **ACTIVITIES BY SYNDICATE MEMBERS**

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as "Syndicate Members", may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (i) under the agreement among the Syndicate Members, all of them (except for Morgan Stanley Asia Limited and its affiliates as the stabilizing manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (ii) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets.

## UNDERWRITING

Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described under the section headed “Structure of the Global Offering — Stabilization” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Certain of the Syndicate Members or their respective affiliates have provided from time to time and expect to provide in the future, investment banking and other services to our Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commission.

## STRUCTURE OF THE GLOBAL OFFERING

### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering of 208,000,000 Shares comprises:

- (i) the Hong Kong Public Offering of 20,800,000 Shares (subject to reallocation) in Hong Kong, as described below in the paragraph headed “The Hong Kong Public Offering”; and
- (ii) the International Offering of an aggregate of 187,200,000 Shares (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares within Hong Kong) in offshore transactions in reliance on Regulation S, and to QIBs in the United States in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act,

to be offered by us and the Selling Shareholder.

Furthermore, up to 31,200,000 additional Shares may be offered pursuant to the exercise of the Over-allotment Option as set out further in “— Over-allotment Option” below.

The 208,000,000 Shares being offered by our Company and the Selling Shareholder under the Global Offering will represent about 25.01% of our Company’s enlarged share capital immediately after completion of the Global Offering (without taking into account any Shares which may be sold pursuant to the exercise of the Over-allotment Option).

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in Offer Shares under the International Offering, but may not apply in both the Hong Kong Public Offering and the International Offering.

References in this prospectus to “applications”, “Application Forms”, “application monies” or the “procedure for application” relate solely to the Hong Kong Public Offering.

### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares Initially Offered

Our Company is initially offering 20,800,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.50% of our Company’s enlarged issued share capital immediately after completion of the Global Offering.

The Hong Kong Public Offering is open to the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers), whose ordinary business involves dealing in shares and other securities, and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Hong Kong Public Offering” below.

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may

## STRUCTURE OF THE GLOBAL OFFERING

vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in such a ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available for subscription under the Hong Kong Public Offering (after taking into account any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 10,400,000 Offer Shares (being 50% of the total number of Offer Shares initially available under the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable). The Hong Kong Offer Shares in pool B will consist of 10,400,000 Offer Shares (being 50% of the total number of Offer Shares initially available under the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the total value of pool B (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “subscription price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than 10,400,000 Hong Kong Offer Shares, being the number of Hong Kong Offer Shares initially allocated to each pool, are liable to be rejected.

### **Reallocation**

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times or (iii) 100 times or more than the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 62,400,000 Offer Shares (in the case of (i)), 83,200,000 Offer Shares (in the case of (ii)) and 104,000,000 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Bookrunner deem appropriate. In addition, the Sole Bookrunner may, at their discretion, reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. If the Hong Kong Public Offering is not fully subscribed, the Sole Bookrunner have the authority to reallocate all or any unsubscribed Offer Shares from the Hong Kong Public Offering to the International Offering in such proportions as the Sole Bookrunner deem appropriate.

## STRUCTURE OF THE GLOBAL OFFERING

### Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he, or any person(s) for whose benefit he is making the application, has not applied for, taken up or indicated an interest in, and will not apply for, take up or indicate an interest in, any Offer Shares under the International Offering. Such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been, or will be, placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$5.75 per Offer Share in addition to the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing and Allocation" below, is less than the maximum Offer Price of HK\$5.75 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus.

### NO OVERSEAS REGISTRATION

The documents issued and to be issued in connection with the Hong Kong Public Offering will not be registered under applicable securities legislation of any jurisdiction other than Hong Kong.

### THE INTERNATIONAL OFFERING

#### Number of Offer Shares Initially Offered

The International Offering will consist of an initial offering of 187,200,000 Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the International Offer Shares will represent approximately 22.51% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

#### Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as defined in Rule 144A, as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers), whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell his/its Shares after the listing of our Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our Company's and our Shareholders' benefit as a whole.



## STRUCTURE OF THE GLOBAL OFFERING

The Sole Global Coordinator (on behalf of the Underwriters) may require investors who have been offered Offer Shares under the International Offering and who have made applications under the Hong Kong Public Offering to provide sufficient information to the Sole Bookrunner so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such applications are excluded from any allotment of Offer Shares under the Hong Kong Public Offering.

### **Reallocation**

The total number of Offer Shares to be sold and issued pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “The Hong Kong Public Offering – Reallocation” in this section, any exercise of the Over-allotment Option and/or any reallocation of unsold Offer Shares originally included in the Hong Kong Public Offering.

### **OVER-ALLOTMENT OPTION**

In connection with the Global Offering, it is expected that the Selling Shareholder will grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until Wednesday, April 22, 2015, being the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require the Selling Shareholder to sell up to an aggregate of 31,200,000 Shares, representing approximately 15% of the initial Offer Shares, at the same price per Share under the International Offering, to cover, among other things, over-allocations in the International Offering (if any). In the event that the Over-allotment Option is exercised, a press announcement will be made.

### **STABILIZATION**

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, underwriters may bid for or purchase securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements of the relevant jurisdictions. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Morgan Stanley Asia Limited, as stabilizing manager (the “Stabilizing Manager”), its affiliates or any persons acting for it (on behalf of the Underwriters) may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of our Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it to conduct any such stabilizing action. Such stabilizing action, if taken, will be required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering and conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any persons acting for it, and may be discontinued at any time. The number of Shares that may be over-allocated will not be greater than the number of Shares that may be sold upon exercise of the Over-allotment Option, being an aggregate of 31,200,000 additional Shares, which is 15% of the Shares initially available under the Global Offering. If

## STRUCTURE OF THE GLOBAL OFFERING

the Over-allotment Option is exercised in full, the Offer Shares will represent about 28.77% of our Company's enlarged issued share capital on completion of the Global Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares; (iii) purchasing or agreeing to purchase our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing or agreeing to purchase our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares; (v) selling or agreeing to sell our Shares in order to liquidate any position established as a result of the abovementioned purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in our Shares;
- there is no certainty as to the extent to which, and the time or period for which, the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation and selling of any such long position in the open market by the Stabilizing Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;
- no stabilizing action can be taken to support the price of our Shares for longer than the stabilization period which will begin on the Listing Date and is expected to expire on Wednesday, April 22, 2015, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

### OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may cover such over-allocation by (among other methods) using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market or exercising the Over-allotment Option in full or in part. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including those in relation to stabilization and the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed 31,200,000 Shares, being the

## STRUCTURE OF THE GLOBAL OFFERING

number of Shares which may be sold by the Selling Shareholder upon full exercise of the Over-allotment Option and representing 15% of the Offer Shares initially available under the Global Offering.

### STOCK BORROWING ARRANGEMENT

In order to facilitate settlement of the over-allocations under the International Offering, if any, the Stabilizing Manager, its affiliates or any person acting for it, will enter into the Stock Borrowing Agreement with the Selling Shareholder pursuant to which it shall, if so requested by Stabilizing Manager, its affiliates or any person acting for it, make available to the Stabilizing Manager its affiliates or any person acting for it, up to 31,200,000 Shares held by it to facilitate settlement of over-allocations in the International Offering.

The Stock Borrowing Agreement, in compliance with Rule 10.07(3) of the Listing Rules, shall provide that:

- (1) such stock borrowing arrangement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- (2) the maximum number of Shares to be borrowed from the Selling Shareholder under the Stock Borrowing Agreement by Stabilizing Manager, its affiliates or any person acting for it, will be limited to the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- (3) the same number of Shares so borrowed (if any) must be returned to the Selling Shareholder or its nominees (as the case may be) within three Business Days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;
- (4) borrowing of Shares pursuant to the stock borrowing arrangement will be effected in compliance with all applicable Listing Rules, laws, rules and regulatory requirements; and
- (5) no payments will be made to the Selling Shareholder by the Stabilizing Manager, its affiliates or any person acting for it, in relation to such borrowing arrangement.

### PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective professional and institutional investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering that they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Wednesday, March 25, 2015 and in any event no later than Monday, March 30, 2015, by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company. The number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share under the International Offering, as determined by the Sole Global Coordinator (on behalf of the

## STRUCTURE OF THE GLOBAL OFFERING

Underwriters) and our Company. The Offer Price per Offer Share under the Hong Kong Public Offering will be fixed at the Hong Kong dollar amount which, when including the 1% brokerage, 0.0027% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee payable thereon, is (subject to any necessary rounding) effectively equivalent to the Hong Kong dollar price per Offer Share under the International Offering. The SFC transaction levy and the Hong Kong Stock Exchange trading fee otherwise payable by investors on Offer Shares purchased by them in the International Offering will be paid by us.

The Offer Price will not be more than HK\$5.75 per Offer Share and is expected to be not less than HK\$4.00 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, in the event that the number of Offer Shares and/or the Offer Price is/are so reduced, such applications can subsequently be withdrawn.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate and with the consent of our Company, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction. Upon issue of such notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such announcement(s) will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics and any other financial information in this prospectus which may change as a result of any such reduction. In the absence of any such announcement, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon by our Company and the Sole Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Sole Bookrunner may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Bookrunner.

The net proceeds from the Global Offering accruing to us (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering) are estimated to be approximately HK\$340.4 million, assuming an Offer Price of HK\$4.88 per Offer Share, being the approximate mid-point of the proposed Offer Price range of HK\$4.00 to HK\$5.75.

## STRUCTURE OF THE GLOBAL OFFERING

The final Offer Price, the level of indications of interest in the Global Offering and the basis of allotment of Offer Shares available under the Hong Kong Public Offering are expected to be announced on Monday, March 30, 2015 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

### **HONG KONG UNDERWRITING AGREEMENT AND INTERNATIONAL UNDERWRITING AGREEMENT**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting” in this prospectus.

### **CONDITIONS OF THE HONG KONG PUBLIC OFFERING**

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue (including the Shares that may be sold pursuant to any exercise of the Over-allotment Option) and our Shares being offered pursuant to the Global Offering (subject only to allotment);
- (ii) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- (iii) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Monday, March 30, 2015, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the Hong

## STRUCTURE OF THE GLOBAL OFFERING

Kong Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.cowelleholdings.com](http://www.cowelleholdings.com), in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for the Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus. In the meantime, all application monies will be held in separate bank accounts with the receiving bank of our Company or any other banks in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. in Hong Kong on Tuesday, March 31, 2015 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement — Grounds for Termination" in this prospectus has not been exercised.

### APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be sold by the Selling Shareholder pursuant to the exercise of the Over-allotment Option) and the Shares which may be issued upon the exercise of the options that may be granted under the Share Option Scheme.

No part of the share capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, March 31, 2015, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, March 31, 2015.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at [www.eipo.com.hk](http://www.eipo.com.hk) or
- electrically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, March 19, 2015 until noon on Tuesday, March 24, 2015 from:

- (i) any of the following offices of the Hong Kong Underwriters:

**Morgan Stanley Asia Limited**

46/F, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**BNP Paribas Securities (Asia) Limited**

62/F, Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

**CIMB Securities Limited**

Units 7706-08, Level 77  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong



## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) any of the branches of the following receiving bank:

Standard Chartered Bank (Hong Kong) Limited

|                            | Branch Name                   | Address   |
|----------------------------|-------------------------------|---|
| Hong Kong Island . . . . . | 88 Des Voeux Road Branch      | 88 Des Voeux Road Central, Central  |
|                            | Wanchai Southorn Branch       | Shop C2 on G/F and 1/F, Lee Wing Building, No. 156-162 Hennessy Road, Wanchai |
|                            | Quarry Bay Branch             | G/F, Westlands Gardens, 1027 King's Road, Quarry Bay                          |
| Kowloon . . . . .          | 68 Nathan Road Branch         | Basement, Shop B1, G/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui     |
|                            | San Po Kong Branch            | Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong      |
|                            | Lok Fu Shopping Centre Branch | Shop G101, G/F., Lok Fu Shopping Centre                                       |
| New Territories . . . . .  | Shatin Plaza Branch           | Shop No. 8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin, New Territories |
|                            | Tsuen Wan Branch              | Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan                   |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, March 19, 2015 until 12:00 noon Tuesday, March 24, 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Horsford Nominees Limited — Cowell e Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- 9:00 a.m. to 5:00 p.m. on Thursday, March 19, 2015
- 9:00 a.m. to 5:00 p.m. on Friday, March 20, 2015
- 9:00 a.m. to 1:00 p.m. on Saturday, March 21, 2015
- 9:00 a.m. to 5:00 p.m. on Monday, March 23, 2015
- 9:00 a.m. to 12:00 noon on Tuesday, March 24, 2015

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, March 24, 2015, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you:

- (i) **undertake** to execute all relevant documents and instruct and authorize the Company and/ or the Sole Global Coordinator (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) **agree** to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) **agree** that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) **undertake** and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) **agree** to disclose to the Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) **agree** that your application will be governed by the laws of Hong Kong;
- (xii) **represent, warrant and undertake** that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) **warrant** that the information you have provided is true and accurate;
- (xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorize** our Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first- named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) **declare** and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) **understand** that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### Additional Instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 5. APPLYING THROUGH WHITE FORM eIPO SERVICE

#### General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

#### Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, March 19, 2015 until 11:30 a.m. on Tuesday, March 24, 2015 and the latest time for completing full payment of application monies in respect of such applications will be at 12:00 noon on Tuesday, March 24, 2015 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

#### No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

#### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

#### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self- serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Cowell e Holdings Inc.” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

#### Hong Kong Securities Clearing Company Limited

Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

#### Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - **agree** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - **agree** to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- **undertake** and **confirm** that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- **declare** that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- **confirm** that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- **authorize** the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- **confirm** that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- **agree** that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- **agree** to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/ or its respective advisers and agents;
- **agree** (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- **agree** that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- **agree** that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- **agree** with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- **agree** that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- 9:00 a.m. to 8:30 p.m.<sup>(1)</sup> on Thursday, March 19, 2015
- 8:00 a.m. to 8:30 p.m.<sup>(1)</sup> on Friday, March 20, 2015.
- 8:00 a.m. to 1:00 p.m.<sup>(1)</sup> on Saturday, March 21, 2015
- 8:00 a.m. to 8:30 p.m.<sup>(1)</sup> on Monday, March 23, 2015.
- 8:00 a.m.<sup>(1)</sup> to 12:00 noon on Tuesday, March 24, 2015

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, March 19, 2015 until 12:00 noon on Tuesday, March 24, 2015 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, March 24, 2015, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the



## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, March 24, 2015.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over

that company, then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, March 24, 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, March 24, 2015 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, March 30, 2015 in the South China Morning Post (in

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

English) and the Hong Kong Economic Times (in Chinese) and on the Company's website at [www.cowelleholdings.com](http://www.cowelleholdings.com) and the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at [www.cowelleholdings.com](http://www.cowelleholdings.com) and the Hong Kong Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Monday, March 30, 2015;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, March 30, 2015 to 12:00 midnight on Sunday, April 5, 2015;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, March 30, 2015 to Thursday, April 2, 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, March 30, 2015 to Wednesday, April 1, 2015 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

### **(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

### **(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

### **(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$5.75 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering – Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Monday, March 30, 2015.

### 14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, March 30, 2015. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, March 31, 2015 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### Personal Collection

#### (i) If you apply using a **WHITE** Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, March 30, 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, March 30, 2015, by ordinary post and at your own risk.

#### (ii) If you apply using a **YELLOW** Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, March 30, 2015, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, March 30, 2015 or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. Monday, March 30, 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) If you apply through the White Form eIPO**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, March 30, 2015 or such other date as notified by the Company in the newspapers as the date of dispatch/ collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, March 30, 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

### **(iv) If you apply via Electronic Application Instructions to HKSCC**

#### **Allocation of Hong Kong Offer Shares**

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### **Deposit of Share Certificates into CCASS and Refund of Application Monies**

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, March 30, 2015 or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Monday, March 30, 2015. You should check the announcement published by the Company and report any

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

discrepancies to HKSCC before 5:00 p.m. Monday, March 30, 2015 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, March 30, 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, March 30, 2015.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



*The following is the text of a report, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

The Directors  
Cowell e Holdings Inc.

Morgan Stanley Asia Limited

March 19, 2015

Dear Sirs,

## **INTRODUCTION**

We set out below our report on the financial information relating to Cowell e Holdings Inc. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2011, 2012 and 2013 and October 31, 2014 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated March 19, 2015 (the "Prospectus").

The Company was incorporated in the Cayman Islands on November 28, 2006 as an exempted company with limited liability under the Companies Law (as consolidated and revised) of the Cayman Islands.

All companies comprising the Group have adopted December 31 as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 13 of Section B. The statutory financial statements of these companies were prepared in accordance with International Financial Reporting Standards ("IFRSs") or the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established. Details of the companies comprising the Group that are not subject to audit during the Relevant Periods are set out in note 13 of Section B.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with IFRSs issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for the year ended December 31, 2011 have been prepared based on the Group's financial statements for the year ended December 31, 2011 which are publicly available in Korea after adjustments set out in the section headed "Financial Information" in the Prospectus. These Korean financial statements were audited by another auditor, Dasan Accounting Corporation. The Underlying Financial Statements for each of the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014 were

audited by us under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to October 31, 2014.

### **OPINION**

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2011, 2012 and 2013 and October 31, 2014 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

### **CORRESPONDING FINANCIAL INFORMATION**

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the ten months ended October 31, 2013, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, 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 Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

## A CONSOLIDATED FINANCIAL INFORMATION

## 1 Consolidated statement of profit or loss

|  | Section B<br>Note | Year ended December 31, |                      |                      | Ten months ended October 31, |                      |
|--|-------------------|-------------------------|----------------------|----------------------|------------------------------|----------------------|
|  |                   | 2011                    | 2012                 | 2013                 | 2013                         | 2014                 |
|  |                   | US\$                    | US\$                 | US\$                 | US\$<br>(unaudited)          | US\$                 |
| <b>Turnover</b> .....                        | 3                 | 323,118,954             | 527,501,615          | 813,935,600          | 616,095,134                  | 638,414,603          |
| Cost of sales .....                          |                   | <u>(287,335,188)</u>    | <u>(484,998,987)</u> | <u>(710,688,582)</u> | <u>(544,854,606)</u>         | <u>(566,809,923)</u> |
| <b>Gross profit</b> .....                    |                   | 35,783,766              | 42,502,628           | 103,247,018          | 71,240,528                   | 71,604,680           |
| Other revenue .....                          | 4                 | 1,036,153               | 6,979,230            | 1,314,661            | 919,603                      | 1,651,349            |
| Other net income/<br>(loss) .....            | 4                 | 634,937                 | 1,111,211            | (1,172,997)          | (626,509)                    | (154,551)            |
| Selling and distribution<br>expenses .....   |                   | <u>(2,570,354)</u>      | <u>(4,358,210)</u>   | <u>(5,892,020)</u>   | <u>(4,756,779)</u>           | <u>(4,132,950)</u>   |
| Administrative<br>expenses .....             |                   | <u>(11,760,894)</u>     | <u>(21,512,582)</u>  | <u>(28,511,809)</u>  | <u>(21,557,551)</u>          | <u>(27,404,432)</u>  |
| <b>Profit from<br/>operations</b> .....      |                   | 23,123,608              | 24,722,277           | 68,984,853           | 45,219,292                   | 41,564,096           |
| Finance costs .....                          | 5(a)              | <u>(951,037)</u>        | <u>(4,411,457)</u>   | <u>(5,182,334)</u>   | <u>(4,252,282)</u>           | <u>(2,303,620)</u>   |
| <b>Profit before<br/>taxation</b> .....      | 5                 | 22,172,571              | 20,310,820           | 63,802,519           | 40,967,010                   | 39,260,476           |
| Income tax .....                             | 6                 | <u>(4,021,160)</u>      | <u>(7,127,719)</u>   | <u>(13,560,782)</u>  | <u>(8,833,881)</u>           | <u>(8,670,146)</u>   |
| <b>Profit for the year/<br/>period</b> ..... |                   | <u>18,151,411</u>       | <u>13,183,101</u>    | <u>50,241,737</u>    | <u>32,133,129</u>            | <u>30,590,330</u>    |
| <b>Attributable to:</b>                      |                   |                         |                      |                      |                              |                      |
| Equity shareholders of<br>the Company .....  |                   | 18,144,566              | 13,183,101           | 50,241,737           | 32,133,129                   | 30,590,330           |
| Non-controlling<br>interests .....           |                   | <u>6,845</u>            | <u>—</u>             | <u>—</u>             | <u>—</u>                     | <u>—</u>             |
| <b>Profit for the year/<br/>period</b> ..... |                   | <u>18,151,411</u>       | <u>13,183,101</u>    | <u>50,241,737</u>    | <u>32,133,129</u>            | <u>30,590,330</u>    |
| <b>Earnings per share</b>                    | 10                |                         |                      |                      |                              |                      |
| Basic and diluted ..                         |                   | <u>0.024</u>            | <u>0.018</u>         | <u>0.067</u>         | <u>0.043</u>                 | <u>0.041</u>         |

The accompanying notes form part of the Financial Information.

## 2 Consolidated statement of profit or loss and other comprehensive income

|  | Section B<br>Note | Year ended December 31, |                   |                   | Ten months ended October 31, |                    |
|--|-------------------|-------------------------|-------------------|-------------------|------------------------------|--------------------|
|  |                   | 2011                    | 2012              | 2013              | 2013                         | 2014               |
|  |                   | US\$                    | US\$              | US\$              | US\$<br>(unaudited)          | US\$               |
| <b>Profit for the year/<br/>period</b> . . . . .   |                   | 18,151,411              | 13,183,101        | 50,241,737        | 32,133,129                   | 30,590,330         |
| <b>Other comprehensive<br/>income for the year/<br/>period (after tax<br/>adjustments):</b>                | 9                 |                         |                   |                   |                              |                    |
| <i>Items that may be<br/>reclassified<br/>subsequently to profit<br/>or loss</i>                           |                   |                         |                   |                   |                              |                    |
| Exchange differences on<br>translation of financial<br>statements of<br>overseas<br>subsidiaries . . . . . |                   | 1,296,527               | 1,282,215         | 3,267,590         | 2,064,352                    | (1,126,653)        |
| <i>Items that will not be<br/>reclassified to profit or<br/>loss</i>                                       |                   |                         |                   |                   |                              |                    |
| Remeasurement of net<br>defined benefit<br>liability . . . . .   |                   | (85,725)                | (83,748)          | (35,352)          | (1,064)                      | (107,452)          |
|  |                   | <u>1,210,802</u>        | <u>1,198,467</u>  | <u>3,232,238</u>  | <u>2,063,288</u>             | <u>(1,234,105)</u> |
| <b>Total comprehensive<br/>income for the year/<br/>period</b> . . . . .                                   |                   | <u>19,362,213</u>       | <u>14,381,568</u> | <u>53,473,975</u> | <u>34,196,417</u>            | <u>29,356,225</u>  |
| <b>Attributable to:</b>  |                   |                         |                   |                   |                              |                    |
| Equity shareholders of<br>the Company . . . . .  |                   | 19,367,172              | 14,381,568        | 53,473,975        | 34,196,417                   | 29,356,225         |
| Non-controlling<br>interests . . . . .   |                   | (4,959)                 | —                 | —                 | —                            | —                  |
| <b>Total comprehensive<br/>income for the year/<br/>period</b> . . . . .                                   |                   | <u>19,362,213</u>       | <u>14,381,568</u> | <u>53,473,975</u> | <u>34,196,417</u>            | <u>29,356,225</u>  |

The accompanying notes form part of the Financial Information.

## 3 Consolidated statement of financial position

|  | Section B<br>Note | As at December 31, |              |             | As at<br>October 31, |
|--|-------------------|--------------------|--------------|-------------|----------------------|
|  |                   | 2011               | 2012         | 2013        | 2014                 |
|  |                   | US\$               | US\$         | US\$        | US\$                 |
| <b>Non-current assets</b>  |                   |                    |              |             |                      |
| Fixed assets   | 11                |                    |              |             |                      |
| — Investment property  |                   | 3,401,800          | 3,664,177    | 3,654,990   | 3,613,943            |
| — Property, plant and equipment  |                   | 44,157,614         | 89,633,946   | 95,944,622  | 103,794,886          |
|  |                   | 47,559,414         | 93,298,123   | 99,599,612  | 107,408,829          |
| Intangible assets  | 12                | 256,655            | 507,069      | 1,442,543   | 2,390,586            |
| Other receivables  | 15(d)             | 3,244,184          | 4,418,345    | 5,287,713   | 6,867,192            |
| Deferred tax assets  | 21(b)             | 509,996            | 181,052      | —           | 120,944              |
|  |                   | 51,570,249         | 98,404,589   | 106,329,868 | 116,787,551          |
| <b>Current assets</b>  |                   |                    |              |             |                      |
| Inventories  | 14                | 39,232,546         | 58,215,586   | 55,034,171  | 82,357,738           |
| Trade and other receivables  | 15                | 85,394,728         | 157,579,107  | 167,400,739 | 201,931,237          |
| Current tax recoverable  | 21(a)             | —                  | 541,351      | —           | 2,126,117            |
| Pledged deposits   | 16(a)             | 23,032,128         | 52,115,065   | 26,237,518  | 21,943,813           |
| Cash and cash equivalents  | 16(b)             | 13,885,688         | 13,611,071   | 45,220,376  | 17,520,289           |
|  |                   | 161,545,090        | 282,062,180  | 293,892,804 | 325,879,194          |
| <b>Current liabilities</b>   |                   |                    |              |             |                      |
| Trade and other payables   | 17                | 85,852,686         | 144,525,029  | 123,114,666 | 180,482,139          |
| Bank loans and overdrafts  | 18                | 50,428,566         | 142,101,012  | 121,808,780 | 83,308,192           |
| Current tax payable  | 21(a)             | 1,966,743          | 4,684,944    | 12,579,340  | 8,164,937            |
| Loan from a director   | 26(c)             | 2,006,986          | 2,012,644    | 2,000,000   | —                    |
|  |                   | 140,254,981        | 293,323,629  | 259,502,786 | 271,955,268          |
| <b>Net current assets<br/>/(liabilities)</b>                           |                   |                    |              |             |                      |
|  |                   | 21,290,109         | (11,261,449) | 34,390,018  | 53,923,926           |
| <b>Total assets less current liabilities</b>                           |                   |                    |              |             |                      |
|  |                   | 72,860,358         | 87,143,140   | 140,719,886 | 170,711,477          |
| <b>Non-current liabilities</b>   |                   |                    |              |             |                      |
| Net defined benefit retirement obligation                              | 19                | 233,272            | 404,591      | 534,272     | 769,155              |
| Deferred tax liabilities   | 21(b)             | 333,971            | 349,663      | 322,753     | 723,236              |
|  |                   | 567,243            | 754,254      | 857,025     | 1,492,391            |
| <b>NET ASSETS</b>  |                   |                    |              |             |                      |
|  |                   | 72,293,115         | 86,388,886   | 139,862,861 | 169,219,086          |
| <b>Capital and reserves</b>  |                   |                    |              |             |                      |
| Share capital  | 22(b)             | 3,000,000          | 2,993,275    | 2,993,275   | 2,993,275            |
| Reserves   |                   | 69,121,227         | 83,395,611   | 136,869,586 | 166,225,811          |
| <b>Total equity attributable to equity shareholders of the Company</b> |                   |                    |              |             |                      |
|  |                   | 72,121,227         | 86,388,886   | 139,862,861 | 169,219,086          |
| <b>Non-controlling interests</b>                                       |                   |                    |              |             |                      |
|  |                   | 171,888            | —            | —           | —                    |
| <b>TOTAL EQUITY</b>  |                   |                    |              |             |                      |
|  |                   | 72,293,115         | 86,388,886   | 139,862,861 | 169,219,086          |

The accompanying notes form part of the Financial Information.

## 4 Statement of financial position

|  | Section B<br>Note | As at December 31, |                   |                   | As at             |
|--|-------------------|--------------------|-------------------|-------------------|-------------------|
|  |                   | 2011               | 2012              | 2013              | October 31,       |
|  |                   | US\$               | US\$              | US\$              | 2014              |
|  |                   |                    |                   | US\$              |                   |
| <b>Non-current assets</b>                                  |                   |                    |                   |                   |                   |
| Intangible assets . . . . .                                | 12                | —                  | 458,495           | 1,381,963         | 2,310,643         |
| Investments in<br>subsidiaries . . . . .                   | 13                | 725,990            | 843,575           | 843,575           | 843,575           |
|  |                   | <u>725,990</u>     | <u>1,302,070</u>  | <u>2,225,538</u>  | <u>3,154,218</u>  |
| <b>Current assets</b>                                      |                   |                    |                   |                   |                   |
| Other receivables . . . . .                                | 15                | 229,531            | 275,816           | 155,050           | 299,971           |
| Pledged deposits . . . . .                                 | 16(a)             | 19,418,529         | 20,913,080        | 21,226,192        | 16,129,032        |
| Cash and cash<br>equivalents . . . . .                     | 16(b)             | 438,595            | 229,900           | 227,470           | 5,044,692         |
|  |                   | <u>20,086,655</u>  | <u>21,418,796</u> | <u>21,608,712</u> | <u>21,473,695</u> |
| <b>Current liabilities</b>                                 |                   |                    |                   |                   |                   |
| Other payables . . . . .                                   | 17                | 189,796            | 2,971,636         | 8,638,583         | 12,358,762        |
| <b>Net current assets</b> . . . . .                        |                   | <u>19,896,859</u>  | <u>18,447,160</u> | <u>12,970,129</u> | <u>9,114,933</u>  |
| <b>Total assets less<br/>current liabilities</b> . . . . . |                   | <u>20,622,849</u>  | <u>19,749,230</u> | <u>15,195,667</u> | <u>12,269,151</u> |
| <b>NET ASSETS</b> . . . . .                                |                   | <u>20,622,849</u>  | <u>19,749,230</u> | <u>15,195,667</u> | <u>12,269,151</u> |
| <b>Capital and reserves</b> . . . . .                      |                   |                    |                   |                   |                   |
| Share capital . . . . .                                    | 22                | 3,000,000          | 2,993,275         | 2,993,275         | 2,993,275         |
| Reserves . . . . .   |                   | 17,622,849         | 16,755,955        | 12,202,392        | 9,275,876         |
| <b>TOTAL EQUITY</b> . . . . .                              |                   | <u>20,622,849</u>  | <u>19,749,230</u> | <u>15,195,667</u> | <u>12,269,151</u> |

The accompanying notes form part of the Financial Information.

## 5 Consolidated statement of changes in equity

|   |    | Attributable to equity shareholders of the Company |   |   |   |   |  |  |                          |                      |                                      |                      |
|---|----|--|---|---|---|---|--|--|--------------------------|----------------------|--------------------------------------|----------------------|
|   |    | Share capital<br>US\$                              | Share premium<br>US\$<br>(Note<br>22(d)(i)) | Capital redemption<br>reserve<br>US\$<br>(Note<br>22(d)(i)) | Other reserve<br>US\$<br>(Note<br>22(d)(iii)) | General reserve<br>US\$<br>(Note<br>22(d)(iii)) | Property revaluation<br>reserve<br>US\$<br>(Note<br>22(d)(iv)) | Exchange reserve<br>US\$<br>(Note<br>22(d)(v)) | Retained profits<br>US\$ | Total equity<br>US\$ | Non-controlling<br>interests<br>US\$ | Total equity<br>US\$ |
| <b>Balance at January 1, 2011</b>                       |    | 3,000,000  | 22,786,352                                  | —   | 269,079                                       | 465,635   | 1,029,978  | 2,987,995                                      | 21,863,611               | 52,402,650           | 176,847                              | 52,579,497           |
| <b>Changes in equity for 2011:</b>                      |    |  |   |   |   |   |  |  |                          |                      |                                      |                      |
| Profit for the year                                     |    | —  | —   | —   | —   | —   | —  | —  | 18,144,566               | 18,144,566           | 6,845                                | 18,151,411           |
| Other comprehensive income                              |    | —  | —   | —   | —   | —   | —  | 1,308,331                                      | (85,725)                 | 1,222,606            | (11,804)                             | 1,210,802            |
| Total comprehensive income                              |    | —  | —   | —   | —   | —   | —  | 1,308,331                                      | 18,058,841               | 19,367,172           | (4,959)                              | 19,362,213           |
| Equity settled share-based transactions                 | 20 | —  | —   | 351,405   | —   | —   | —  | —  | —                        | 351,405              | —                                    | 351,405              |
| Transfer from retained profits                          |    | —  | —   | —   | —   | 546,340   | —  | —  | (546,340)                | —                    | —                                    | —                    |
| <b>Balance at December 31, 2011 and January 1, 2012</b> |    | 3,000,000  | 22,786,352                                  | —   | 620,484                                       | 1,011,975                                       | 1,029,978  | 4,296,326                                      | 39,376,112               | 72,121,227           | 171,888                              | 72,293,115           |
| <b>Changes in equity for 2012:</b>                      |    |  |   |   |   |   |  |  |                          |                      |                                      |                      |
| Profit for the year                                     |    | —  | —   | —   | —   | —   | —  | —  | 13,183,101               | 13,183,101           | —                                    | 13,183,101           |
| Other comprehensive income                              |    | —  | —   | —   | —   | —   | —  | 1,282,215                                      | (83,748)                 | 1,198,467            | —                                    | 1,198,467            |
| Total comprehensive income                              |    | —  | —   | —   | —   | —   | —  | 1,282,215                                      | 13,099,353               | 14,381,568           | —                                    | 14,381,568           |
| Equity settled share-based transactions                 |    | —  | —   | —   | 86,852  | —   | —  | —  | —                        | 86,852               | —                                    | 86,852               |
| Purchase of own shares:                                 | 20 | —  | —   | —   | —   | —   | —  | —  | —                        | —                    | —                                    | —                    |
| — Par value paid  |    | (6,725)  | —   | —   | —   | —   | —  | —  | —                        | (6,725)              | —                                    | (6,725)              |
| — Premium paid  |    | —  | (248,339)                                   | —   | —   | —   | —  | —  | —                        | (248,339)            | —                                    | (248,339)            |
| — Transfer between reserves                             |    | —  | (6,725)                                     | 6,725   | —   | —   | —  | —  | —                        | —                    | —                                    | —                    |
| Acquisition of non-controlling interests                |    | —  | —   | —   | 54,303  | —   | —  | —  | —                        | 54,303               | (171,888)                            | (117,585)            |
| Transfer from retained profits                          |    | —  | —   | —   | —   | 686,305   | —  | —  | (686,305)                | —                    | —                                    | —                    |
| <b>Balance at December 31, 2012 and January 1, 2013</b> |    | 2,993,275  | 22,531,288                                  | 6,725   | 761,639                                       | 1,698,280                                       | 1,029,978  | 5,578,541                                      | 51,789,160               | 86,388,886           | —                                    | 86,388,886           |
| <b>Changes in equity for 2013:</b>                      |    |  |   |   |   |   |  |  |                          |                      |                                      |                      |
| Profit for the year                                     |    | —  | —   | —   | —   | —   | —  | —  | 50,241,737               | 50,241,737           | —                                    | 50,241,737           |
| Other comprehensive income                              |    | —  | —   | —   | —   | —   | —  | 3,267,590                                      | (36,352)                 | 3,232,238            | —                                    | 3,232,238            |
| Total comprehensive income                              |    | —  | —   | —   | —   | —   | —  | 3,267,590                                      | 50,206,385               | 53,473,975           | —                                    | 53,473,975           |
| Transfer from retained profits                          |    | —  | —   | —   | —   | 1,663,656                                       | —  | —  | (1,663,656)              | —                    | —                                    | —                    |

Attributable to equity shareholders of the Company

| Section B<br>Note   | Share<br>capital<br>US\$ | Share<br>premium<br>US\$<br>(Note 22(d)(i)) | Capital<br>redemption<br>reserve<br>US\$<br>(Note 22(d)(i)) | Other<br>reserve<br>US\$<br>(Note 22(d)(iii)) | General<br>reserve<br>fund<br>US\$<br>(Note 22(d)(iii)) | Property<br>revaluation<br>reserve<br>US\$<br>(Note 22(d)(iv)) | Exchange<br>reserve<br>US\$<br>(Note 22(d)(v)) | Retained<br>profits<br>US\$ | Total<br>equity<br>US\$ |
|---|--------------------------|---|---|---|---|--|--|-----------------------------|-------------------------|
|   | 2,993,275                | 22,531,288                                  | 6,725   | 761,639                                       | 3,361,936   | 1,029,978  | 8,846,131                                      | 100,331,889                 | 139,862,861             |
| <b>Balance at December 31, 2013 and<br/>January 1, 2014</b>             |                          |   |   |   |   |  |  |                             |                         |
| <b>Changes in equity for the ten<br/>months ended October 31, 2014:</b> |                          |   |   |   |   |  |  |                             |                         |
| Profit for the period   | —                        | —   | —   | —   | —   | —  | —  | 30,590,330                  | 30,590,330              |
| Other comprehensive income  | —                        | —   | —   | —   | —   | —  | (1,126,653)                                    | (107,452)                   | (1,234,105)             |
| Total comprehensive income  | —                        | —   | —   | —   | —   | —  | (1,126,653)                                    | 30,482,878                  | 29,356,225              |
| Transfer from retained profits  | —                        | —   | —   | —   | 1,243,411   | —  | —  | (1,243,411)                 | —                       |
| <b>Balance at October 31, 2014</b>                                      | 2,993,275                | 22,531,288                                  | 6,725   | 761,639                                       | 4,605,347   | 1,029,978  | 7,719,478                                      | 129,571,356                 | 169,219,086             |
| <b>(Unaudited)</b>  |                          |   |   |   |   |  |  |                             |                         |
| <b>Balance at December 31, 2012 and<br/>January 1, 2013</b>             | 2,993,275                | 22,531,288                                  | 6,725   | 761,639                                       | 1,698,280   | 1,029,978  | 5,578,541                                      | 51,789,160                  | 86,388,886              |
| <b>Changes in equity for the ten<br/>months ended October 31, 2013:</b> |                          |   |   |   |   |  |  |                             |                         |
| Profit for the period   | —                        | —   | —   | —   | —   | —  | —  | 32,133,129                  | 32,133,129              |
| Other comprehensive income  | —                        | —   | —   | —   | —   | —  | 2,064,352                                      | (1,064)                     | 2,063,288               |
| Total comprehensive income  | —                        | —   | —   | —   | —   | —  | 2,064,352                                      | 32,132,065                  | 34,196,417              |
| Transfer from retained profits  | —                        | —   | —   | —   | 964,888   | —  | —  | (964,888)                   | —                       |
| <b>Balance at October 31, 2013</b>                                      | 2,993,275                | 22,531,288                                  | 6,725   | 761,639                                       | 2,663,168   | 1,029,978  | 7,642,893                                      | 82,956,337                  | 120,585,303             |

The accompanying notes form part of the Financial Information.



## 6 Consolidated cash flow statement

|   | Section B<br>Note | Year ended December 31, |               |               | Ten months ended October 31, |               |
|---|-------------------|-------------------------|---------------|---------------|------------------------------|---------------|
|   |                   | 2011                    | 2012          | 2013          | 2013                         | 2014          |
|   |                   | US\$                    | US\$          | US\$          | US\$                         | US\$          |
|   |                   |                         |               |               |                              | (unaudited)   |
| <b>Operating activities</b>                                     |                   |                         |               |               |                              |               |
| <b>Cash generated from/(used in) operations</b>                 | 16(c)             | 11,919,293              | (3,428,640)   | 51,904,624    | 43,126,317                   | 46,865,039    |
| Tax paid  |                   |                         |               |               |                              |               |
| — Hong Kong Profits Tax paid . . .                              |                   | (2,538,343)             | (2,298,148)   | (907,093)     | (545,100)                    | (8,197,402)   |
| — Overseas tax paid . . . . .                                   |                   | (1,236,099)             | (2,366,021)   | (4,204,576)   | (4,116,928)                  | (6,593,855)   |
| <b>Net cash generated from/(used in) operating activities</b>   |                   | 8,144,851               | (8,092,809)   | 46,792,955    | 38,464,289                   | 32,073,782    |
| <b>Investing activities</b>                                     |                   |                         |               |               |                              |               |
| Payment for purchase of property, plant and equipment . . . . . |                   | (8,716,185)             | (50,681,569)  | (15,807,825)  | (11,355,242)                 | (20,353,351)  |
| Proceeds from sale of property, plant and equipment . . . . .   |                   | 7,757                   | 113,514       | 444,120       | —                            | —             |
| Payment for purchase of intangible assets . . . . .             |                   | (179,848)               | (290,443)     | (1,049,732)   | (1,048,709)                  | (1,145,813)   |
| Interest received . . . . .                                     |                   | 554,294                 | 735,261       | 592,072       | 391,364                      | 259,848       |
| <b>Net cash used in investing activities</b>                    |                   | (8,333,982)             | (50,123,237)  | (15,821,365)  | (12,012,587)                 | (21,239,316)  |
| <b>Financing activities</b>                                     |                   |                         |               |               |                              |               |
| Payment for acquisition of non-controlling interests . . . . .  |                   | —                       | (117,585)     | —             | —                            | —             |
| Payment for repurchase of shares . . . . .                      |                   | —                       | (255,064)     | —             | —                            | —             |
| Proceeds from bank loans . . . . .                              |                   | 116,725,943             | 500,810,475   | 693,950,868   | 561,197,791                  | 440,675,023   |
| Repayment of bank loans . . . . .                               |                   | (102,299,791)           | (398,054,215) | (714,068,754) | (595,524,727)                | (479,151,766) |
| Proceeds from new loan from a director . . . . .                |                   | 2,004,016               | —             | —             | —                            | —             |
| Repayment of loan from a director . . . . .                     |                   | —                       | —             | —             | —                            | (2,000,000)   |
| Interest paid . . . . .   |                   | (951,037)               | (4,411,457)   | (5,182,334)   | (4,252,282)                  | (2,303,620)   |
| (Increase)/decrease in pledged deposits . . . . .               |                   | (6,224,030)             | (29,082,937)  | 25,877,547    | 25,999,692                   | 4,293,705     |
| <b>Net cash generated from/(used in) financing activities</b>   |                   | 9,255,101               | 68,889,217    | 577,327       | (12,579,526)                 | (38,486,658)  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>     |                   | 9,065,970               | 10,673,171    | 31,548,917    | 13,872,176                   | (27,652,192)  |
| <b>Cash and cash equivalents at January 1,</b>                  |                   | (6,191,597)             | 2,874,802     | 13,606,046    | 13,606,046                   | 45,220,376    |
| <b>Effect of foreign exchange rate changes</b>                  |                   | 429                     | 58,073        | 65,413        | 41,219                       | (47,895)      |
| <b>Cash and cash equivalents at December 31/October 31,</b>     | 16(b)             | 2,874,802               | 13,606,046    | 45,220,376    | 27,519,441                   | 17,520,289    |

The accompanying notes form part of the Financial Information.

**B NOTES TO CONSOLIDATED FINANCIAL INFORMATION****1 Significant accounting policies****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards ("IAS") and related interpretation, promulgated by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning January 1, 2014. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning January 1, 2014 are set out in note 28.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the ten months ended October 31, 2013 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

**(b) Basis of presentation and measurement**

The Financial Information comprises the Company and its subsidiaries. The Financial Information is presented in United States dollars ("US\$"). It is prepared on the historical cost basis except investment property and certain employee benefits as set out below.

**(c) Use of estimates and judgements**

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

**(d) Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

**(e) Investment property**

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an

investment property is recognized in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(h).

**(f) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)), with the exception of construction in progress which is stated at cost less any impairment losses (see note 1(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

|  |  |
|--|--|
| — Leasehold improvements                   | Shorter of terms of leases or 20 years |
| — Plant and machinery                      | 10 years                               |
| — Office equipment, furniture and fixtures | 3 – 5 years                            |
| — Motor vehicles                           | 3 – 5 years                            |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(g) Intangible assets**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group or the Company has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(u)). Capitalized development costs are stated at cost less accumulated amortization and impairment losses (see note 1(i)). Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group or the Company are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(i)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

|                     |               |
|---------------------|---------------|
| — Development costs | 5 years       |
| — Software          | 5 to 10 years |

Both the period and method of amortization are reviewed annually.

**(h) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

**(i) Classification of assets leased to the Group**

Assets that are held by group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(e)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

**(ii) Operating lease charges**

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(e)).

**(i) Impairment of assets**

**(i) Impairment of receivables**

Receivables that are stated at cost or amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment

includes observable data that comes to the attention of the Group or the Company about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognized as follows:

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered receivables but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group or the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

#### **(j) Inventories**

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

**(k) Trade and other receivables**

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Trade and other receivables are derecognized if substantially all the risks and rewards of ownership of the trade and other receivables are transferred. If substantially all the risks and rewards of ownership of trade and other receivables are retained, the trade and other receivables are continued to recognize in the consolidated statement of financial position. For discounted commercial acceptance bills to banks with recourse, the bills receivable are not derecognized until the customer settled the respective bills with the banks.

**(l) Interest-bearing borrowings**

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(m) Preference share capital**

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognized as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognized in accordance with the Group's policy for interest-bearing borrowings set out in note 1(l) and accordingly dividends thereon are recognized on an accrual basis in profit or loss as part of finance costs.

**(n) Trade and other payables**

Trade and other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(o) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.



**(p) Employee benefits****(i) Short term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

**(ii) Defined benefit retirement plan obligations**

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognized in profit or loss and allocated by function as part of "cost of sales", "selling and distribution expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognized. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognized in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

**(iii) Share-based payments**

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as

an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Cancellations are treated as an acceleration of vesting.

(iv) Termination benefits

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

**(q) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combinations, items recognized in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(e), the amount of deferred tax recognized is measured using the tax rates that would

apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(r) Provisions and contingent liabilities**

Provisions are recognized for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(s) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

**(i) Sale of goods**

Revenue is recognized when goods are delivered at the customers' premises or consumed by customers, depending on sales terms, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

**(ii) Rental income from operating leases**

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

**(iii) Interest income**

Interest income is recognized as it accrues using the effective interest method.

**(iv) Compensation income**

Compensation income is recognized when the right to receive payment is established.

**(v) Subsidy income**

Subsidies are recognized initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Subsidies that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Subsidies that compensate the Group for the cost of an asset are initially recognized as deferred income and consequently are recognized in profit or loss over the useful life of the assets by way of reduced depreciation expense.

**(t) Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into United States dollars at the closing foreign exchange rates at the end of

the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

**(u) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**(v) Related parties**

- (i) A person, or a close member of that person's family, is related to the Group if that person:
  - (1) has control or joint control over the Group;
  - (2) has significant influence over the Group; or
  - (3) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
  - (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (3) Both entities are joint ventures of the same third party.
  - (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (6) The entity is controlled or jointly controlled by a person identified in (i).
  - (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(w) Segment reporting**

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**2 Accounting judgements and estimates**

Note 19 contains information about the assumptions and their risk factors relating to defined benefit retirement obligations. Other key areas of estimation uncertainty are as follows:

**(a) Impairment of fixed assets and intangible assets**

If the circumstances indicate that the carrying values of these assets may not be recoverable, the assets may be considered "impaired" and an impairment loss may be recognized in accordance with IAS 36, *Impairment of assets*. Under IAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs of disposal and value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group and the Company use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount. However, actual sales volume, selling prices and operating costs may be different from assumptions which may result in a material adjustment to the carrying amount of the assets affected. Details of the nature and carrying amounts of fixed assets and intangible assets are disclosed in notes 11 and 12 respectively.

**(b) Impairment of receivables**

Receivables that are measured at cost or amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recorded. Objective evidence of impairment includes observable data that comes to the attention of the Group or the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is a change in the objective evidence of impairment in relation to the debtors, the actual impairment loss would be higher or lower than the allowance for doubtful debts recognized in the financial statements.

**(c) Write down of inventories**

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, projections of expected future saleability of goods and, management experience and judgement. Based on this review, a write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realizable value. Due to changes in technological

environment, actual saleability of goods may be different from estimation and the statement of profit or loss in future accounting periods could be affected by differences in this estimation.

**(d) Taxation, indirect taxes and duties**

Determining the provision for income tax, indirect taxes and duties involves judgement, including the interpretation and application of tax and other legislation, on the future treatment of certain transactions. The Group carefully evaluates tax and other implications of transactions and provisions are set up accordingly. The treatment of such transactions is reconsidered periodically to take into account all changes in, including interpretation of, tax and other legislation. Where the final outcome of these transactions is different from the amounts that were initially recorded, such differences will impact provisions in the year in which such determination is made.

**3 Turnover and segment reporting**

**(a) Turnover**

The principal activities of the Group are manufacturing and sale of camera module and optical components. Turnover represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group's customer base includes two customers, with each of whom transactions have exceeded 10% of the Group's revenues, for the years ended December 31, 2011, 2012 and 2013 and for the ten months ended October 31, 2013 and 2014. Revenues from sales to these customers, during the Relevant Periods are set out below. Details of concentrations of credit risk arising from these customers are set out in note 23(a).

|                                   | Year ended December 31, |             |             | Ten months ended October 31, |             |
|-----------------------------------|-------------------------|-------------|-------------|------------------------------|-------------|
|                                   | 2011                    | 2012        | 2013        | 2013                         | 2014        |
|                                   | US\$                    | US\$        | US\$        | US\$                         | US\$        |
| Largest customer . . . . .        | 227,214,212             | 266,329,667 | 637,140,225 | 463,151,217                  | 471,869,423 |
| Second largest customer . . . . . | 34,236,176              | 130,156,042 | 102,658,248 | 87,713,752                   | 141,283,382 |

The second largest customer in 2012 was a sub-contractor for the largest customer in that year.

**(b) Segment reporting**

The Group manages its businesses by division, which is organized by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Camera module: this segment is involved in the design, development, manufacture and sale of camera modules for mobile devices and home appliances. These products are either sourced

externally or are manufactured in the Group's manufacturing facilities located primarily in the People's Republic of China ("PRC") and sold to customers mainly located in the PRC and the Republic of Korea ("Korea").

- Optical components: this segment is involved in the design, development, manufacture and sale of optical components for optical disk drivers. These products are manufactured in the PRC and sold to customers mainly located in the PRC and Korea.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

Segment profit is the profit before tax. To arrive at segment profit, the Group's earnings are further adjusted for items not specially attributed to individual segments, such as certain directors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning segment profit, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortization and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the Relevant Periods is set out below.

|   | <i>Camera module</i>           |                    |                    |                                     |                    |
|---|--------------------------------|--------------------|--------------------|-------------------------------------|--------------------|
|   | <i>Year ended December 31,</i> |                    |                    | <i>Ten months ended October 31,</i> |                    |
|   | <i>2011</i>                    | <i>2012</i>        | <i>2013</i>        | <i>2013</i>                         | <i>2014</i>        |
|   | US\$                           | US\$               | US\$               | US\$                                | US\$               |
|   | (unaudited)                    |                    |                    |                                     |                    |
| Revenue from external customers . . . . .         | <u>306,763,068</u>             | <u>514,539,279</u> | <u>802,804,942</u> | <u>606,582,665</u>                  | <u>628,539,503</u> |
| Reportable segment revenue . . . . .              | 306,763,068                    | 514,539,279        | 802,804,942        | 606,582,665                         | 628,539,503        |
| Segment profit . . . . .                          | 17,326,144                     | 18,948,469         | 65,402,851         | 42,231,233                          | 40,997,601         |
| Bank interest income . . . . .                    | 526,236                        | 717,188            | 583,975            | 385,322                             | 255,936            |
| Finance costs . . . . .                           | (902,896)                      | (4,303,054)        | (5,111,465)        | (4,186,627)                         | (2,269,122)        |
| Depreciation and amortization . . . . .           | (4,121,893)                    | (6,112,659)        | (10,035,852)       | (8,269,297)                         | (9,609,047)        |
| Additions to non-current segment assets . . . . . | 8,632,262                      | 50,811,957         | 13,338,779         | 9,317,387                           | 19,877,145         |



|   | <i>Optical components</i>      |                    |                                |                                     |                                     |
|---|--------------------------------|--------------------|--------------------------------|-------------------------------------|-------------------------------------|
|   | <i>Year ended December 31,</i> |                    |                                | <i>Ten months ended October 31,</i> |                                     |
|   | <i>2011</i>                    | <i>2012</i>        | <i>2013</i>                    | <i>2013</i>                         | <i>2014</i>                         |
|   | US\$                           | US\$               | US\$                           | US\$                                | US\$                                |
|   |                                |                    | (unaudited)                    |                                     |                                     |
| Revenue from external customers . . . . .         | <u>16,355,886</u>              | <u>12,962,336</u>  | <u>11,130,658</u>              | <u>9,512,469</u>                    | <u>9,875,100</u>                    |
| Reportable segment revenue . . . . .              | 16,355,886                     | 12,962,336         | 11,130,658                     | 9,512,469                           | 9,875,100                           |
| Segment profit . . . . .                          | 5,438,190                      | 4,434,576          | 4,143,086                      | 3,518,584                           | 1,637,078                           |
| Bank interest income . . . . .                    | 28,058                         | 18,073             | 8,097                          | 6,042                               | 3,912                               |
| Finance costs . . . . .                           | (48,141)                       | (108,403)          | (70,869)                       | (65,655)                            | (34,498)                            |
| Depreciation and amortization . . . . .           | (1,171,006)                    | (1,174,902)        | (928,338)                      | (743,205)                           | (1,144,392)                         |
| Additions to non-current segment assets . . . . . | 263,771                        | 160,055            | 3,518,778                      | 3,086,564                           | 1,622,019                           |
|   |                                |                    | <i>Total</i>                   |                                     |                                     |
|   |                                |                    | <i>Year ended December 31,</i> |                                     | <i>Ten months ended October 31,</i> |
|   |                                |                    | <i>2011</i>                    | <i>2012</i>                         | <i>2013</i>                         |
|   |                                |                    | <i>2013</i>                    | <i>2014</i>                         |                                     |
|   |                                |                    | US\$                           | US\$                                | US\$                                |
|   |                                |                    |                                |                                     | US\$                                |
|   |                                |                    |                                |                                     | (unaudited)                         |
| Revenue from external customers . . . . .         | <u>323,118,954</u>             | <u>527,501,615</u> | <u>813,935,600</u>             | <u>616,095,134</u>                  | <u>638,414,603</u>                  |
| Reportable segment revenue . . . . .              | 323,118,954                    | 527,501,615        | 813,935,600                    | 616,095,134                         | 638,414,603                         |
| Segment profit . . . . .                          | 22,764,334                     | 23,383,045         | 69,545,937                     | 45,749,817                          | 42,634,679                          |
| Bank interest income . . . . .                    | 554,294                        | 735,261            | 592,072                        | 391,364                             | 259,848                             |
| Finance costs . . . . .                           | (951,037)                      | (4,411,457)        | (5,182,334)                    | (4,252,282)                         | (2,303,620)                         |
| Depreciation and amortization . . . . .           | (5,292,899)                    | (7,287,561)        | (10,964,190)                   | (9,012,502)                         | (10,753,439)                        |
| Additions to non-current segment assets . . . . . | 8,896,033                      | 50,972,012         | 16,857,557                     | 12,403,951                          | 21,499,164                          |

## (ii) Reconciliations of reportable segment revenues and profit or loss

|  | Year ended December 31, |                    |                    | Ten months ended October 31, |                    |
|--|-------------------------|--------------------|--------------------|------------------------------|--------------------|
|  | 2011                    | 2012               | 2013               | 2013                         | 2014               |
|  | US\$                    | US\$               | US\$               | US\$                         | US\$               |
| <b>Revenue</b>   |                         |                    |                    | (unaudited)                  |                    |
| Reportable segment revenue . . . . .                     | <u>323,118,954</u>      | <u>527,501,615</u> | <u>813,935,600</u> | <u>616,095,134</u>           | <u>638,414,603</u> |
| <b>Profit</b>  |                         |                    |                    |                              |                    |
| Reportable segment profit . . . . .                      | 22,764,334              | 23,383,045         | 69,545,937         | 45,749,817                   | 42,634,679         |
| Unallocated head office and corporate expenses . . . . . | <u>(591,763)</u>        | <u>(3,072,225)</u> | <u>(5,743,418)</u> | <u>(4,782,807)</u>           | <u>(3,374,203)</u> |
| Consolidated profit before taxation . . . . .            | <u>22,172,571</u>       | <u>20,310,820</u>  | <u>63,802,519</u>  | <u>40,967,010</u>            | <u>39,260,476</u>  |

## (iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets and intangible assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of the operation to which they are allocated, in the case of intangible assets.

|                     | Revenue from external customers |                    |                    |                    |                    | Specified non-current assets |                   |                    |                    |
|---------------------|---------------------------------|--------------------|--------------------|--------------------|--------------------|------------------------------|-------------------|--------------------|--------------------|
|                     | Year ended December 31,         |                    |                    | Ten months ended   |                    | As at December 31,           |                   |                    | As at October 31,  |
|                     | 2011                            | 2012               | 2013               | 2013               | 2014               | 2011                         | 2012              | 2013               | 2014               |
|                     | US\$                            | US\$               | US\$               | US\$               | US\$               | US\$                         | US\$              | US\$               | US\$               |
|                     |                                 |                    |                    | (unaudited)        |                    |                              |                   |                    |                    |
| Hong Kong . . . . . | 297,821,507                     | 476,826,553        | 711,134,045        | 528,381,382        | 497,131,221        | 200,646                      | 672,728           | 20,404             | 18,297             |
| PRC . . . . .       | —                               | —                  | —                  | —                  | —                  | 44,582,967                   | 89,758,266        | 96,877,569         | 105,220,111        |
| Korea . . . . .     | 25,297,447                      | 50,675,062         | 102,801,555        | 87,713,752         | 141,283,382        | 3,032,456                    | 3,374,198         | 4,144,182          | 4,561,007          |
|                     | <u>323,118,954</u>              | <u>527,501,615</u> | <u>813,935,600</u> | <u>616,095,134</u> | <u>638,414,603</u> | <u>47,816,069</u>            | <u>93,805,192</u> | <u>101,042,155</u> | <u>109,799,415</u> |

## 4 Other revenue and other net income/(loss)

|  | Year ended December 31, |                  |                  | Ten months ended<br>October 31, |                  |
|--|-------------------------|------------------|------------------|---------------------------------|------------------|
|  | 2011                    | 2012             | 2013             | 2013                            | 2014             |
|  | US\$                    | US\$             | US\$             | US\$                            | US\$             |
|  |                         |                  |                  | (unaudited)                     |                  |
| <b>(a) Other revenue</b>                   |                         |                  |                  |                                 |                  |
| Bank interest income . . . . .             | 554,294                 | 735,261          | 592,072          | 391,364                         | 259,848          |
| Compensation income . . . . .              | —                       | 5,982,909        | —                | —                               | 99,904           |
| Rental income                              |                         |                  |                  |                                 |                  |
| — Investment property . . . . .            | 183,689                 | 198,229          | 252,340          | 206,566                         | 119,016          |
| — Other . . . . .                          | —                       | —                | —                | —                               | 156,864          |
| Government subsidy . . . . .               | 114,961                 | 24,499           | 410,086          | 317,320                         | 699,907          |
| Write-off of trade payables (note) . . . . | —                       | —                | —                | —                               | 167,584          |
| Others . . . . .                           | 183,209                 | 38,332           | 60,163           | 4,353                           | 148,226          |
|  | <u>1,036,153</u>        | <u>6,979,230</u> | <u>1,314,661</u> | <u>919,603</u>                  | <u>1,651,349</u> |

(note) The Group derecognized aged trade payables which have passed the statutes of limitation.

**(b) Other net income/(loss)**

|   |                |                  |                    |                  |                  |
|---|----------------|------------------|--------------------|------------------|------------------|
| Net (loss)/gain on disposal of plant<br>and equipment . . . . . | (4,071)        | 23,856           | (23,235)           | (19,913)         | (311,416)        |
| Net foreign exchange gain/(loss) . . . .                        | 691,197        | 1,169,418        | (1,107,413)        | (584,337)        | 259,034          |
| Valuation gain/(loss) on investment<br>property . . . . .       | 35,436         | (17,587)         | (42,349)           | (22,259)         | (46,009)         |
| Others . . . . .  | (87,625)       | (64,476)         | —                  | —                | (56,160)         |
|   | <u>634,937</u> | <u>1,111,211</u> | <u>(1,172,997)</u> | <u>(626,509)</u> | <u>(154,551)</u> |

**5 Profit before taxation**

Profit before taxation is arrived at after charging/(crediting):

|  | <i>Year ended December 31,</i> |                   |                   | <i>Ten months ended October 31,</i> |                   |
|--|--------------------------------|-------------------|-------------------|-------------------------------------|-------------------|
|  | <i>2011</i>                    | <i>2012</i>       | <i>2013</i>       | <i>2013</i>                         | <i>2014</i>       |
|  | US\$                           | US\$              | US\$              | US\$                                | US\$              |
|  |                                |                   |                   | (unaudited)                         |                   |
| <b>(a) Finance costs</b>   |                                |                   |                   |                                     |                   |
| Interest expense on bank borrowings wholly repayable within five years ..... | 951,037                        | 3,254,675         | 5,044,409         | 4,132,282                           | 2,303,620         |
| Interest expense on loan from a director .....                               | —                              | 160,887           | 137,925           | 120,000                             | —                 |
| Other borrowing cost paid to a director .....                                | —                              | 995,895           | —                 | —                                   | —                 |
|  | <u>951,037</u>                 | <u>4,411,457</u>  | <u>5,182,334</u>  | <u>4,252,282</u>                    | <u>2,303,620</u>  |
| <b>(b) Staff costs #</b>   |                                |                   |                   |                                     |                   |
| Contributions to defined contribution retirement plan .....                  | 656,582                        | 1,603,734         | 3,455,913         | 2,787,334                           | 2,438,280         |
| Expenses recognized in respect of defined benefit retirement plan .....      | <u>72,890</u>                  | <u>88,376</u>     | <u>109,607</u>    | <u>90,744</u>                       | <u>133,784</u>    |
| Total retirement costs .....   | 729,472                        | 1,692,110         | 3,565,520         | 2,878,078                           | 2,572,064         |
| Equity settled share-based payment expenses .....                            | 351,405                        | 86,852            | —                 | —                                   | —                 |
| Salaries, wages and other benefits .....                                     | <u>19,406,046</u>              | <u>41,993,846</u> | <u>69,188,966</u> | <u>54,798,521</u>                   | <u>52,304,965</u> |
|  | <u>20,486,923</u>              | <u>43,772,808</u> | <u>72,754,486</u> | <u>57,676,599</u>                   | <u>54,877,029</u> |

Staff costs also include directors' remuneration disclosed in note 7.

|  | Section B<br>Note | Year ended December 31, |             |             | Ten months ended October 31, |             |
|--|-------------------|-------------------------|-------------|-------------|------------------------------|-------------|
|  |                   | 2011                    | 2012        | 2013        | 2013                         | 2014        |
|  |                   | US\$                    | US\$        | US\$        | US\$<br>(unaudited)          | US\$        |
| <b>(c) Other items</b>   |                   |                         |             |             |                              |             |
| Amortization . . . . .   | 12                | 102,417                 | 51,100      | 114,610     | 83,215                       | 197,457     |
| Depreciation# . . . . .  | 11(a)             | 5,190,482               | 7,236,461   | 10,849,580  | 8,929,287                    | 10,555,982  |
| (Reversal of<br>impairment of/<br>impairment of<br>trade<br>receivables . . . . .  | 15(b)             | (8,122)                 | 61,850      | (10,959)    | (10,887)                     | (7,187)     |
| Auditors'<br>remuneration . . . . .  |                   | 55,214                  | 34,995      | 59,562      | 65,515                       | 42,828      |
| Operating lease<br>charges: minimum<br>lease payments in<br>respect of property<br>rentals# . . . . .  |                   | 1,006,811               | 2,009,142   | 3,886,775   | 3,257,579                    | 2,981,653   |
| Rentals income from<br>investment<br>property less direct<br>outgoings of<br>US\$37,380 (2013<br>October (unaudited):<br>US\$114,319;<br>2013: US\$138,906;<br>2012: US\$108,001;<br>2011: US\$91,220) | 4(a)              | (92,469)                | (90,228)    | (113,434)   | (92,247)                     | (81,636)    |
| Cost of<br>inventories# . . . . .  |                   | 287,335,188             | 484,998,987 | 710,688,582 | 544,854,606                  | 566,809,923 |
| Listing expenses . . . . .   |                   | —                       | —           | 456,932     | —                            | 2,920,957   |

# Cost of inventories includes US\$19,775,045, US\$38,974,395, US\$66,023,945, US\$53,666,494 and US\$49,919,831 for the year ended December 31, 2011, 2012 and 2013 and for the ten months ended October 31, 2013 and 2014 respectively, relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

**6 Income tax in the consolidated statement of profit or loss****(a) Taxation in the consolidated statement of profit or loss represents:**

|   | Year ended December 31, |                  |                   | Ten months ended October 31, |                  |
|---|-------------------------|------------------|-------------------|------------------------------|------------------|
|   | 2011                    | 2012             | 2013              | 2013                         | 2014             |
|   | US\$                    | US\$             | US\$              | US\$<br>(unaudited)          | US\$             |
| <b>Current tax – Hong Kong Profits Tax</b>                |                         |                  |                   |                              |                  |
| Provision for the year/period . . . . .                   | 1,981,340               | 1,447,398        | 6,412,578         | 3,192,586                    | 2,045,849        |
| Over-provision in respect of prior years . . . . .        | —                       | (1,547)          | (155)             | (155)                        | (901,489)        |
|   | <u>1,981,340</u>        | <u>1,445,851</u> | <u>6,412,423</u>  | <u>3,192,431</u>             | <u>1,144,360</u> |
| <b>Current tax – Overseas</b>                             |                         |                  |                   |                              |                  |
| Provision for the year/period . . . . .                   | 2,565,302               | 5,349,117        | 6,960,162         | 5,555,012                    | 7,221,984        |
| (Over)/under-provision in respect of prior years . . . .  | (169,670)               | 19,898           | 5,562             | (77,769)                     | (5,517)          |
|   | <u>2,395,632</u>        | <u>5,369,015</u> | <u>6,965,724</u>  | <u>5,477,243</u>             | <u>7,216,467</u> |
| <b>Deferred tax</b>                                       |                         |                  |                   |                              |                  |
| Origination and reversal of temporary differences . . . . | (355,812)               | 312,853          | 182,635           | 164,207                      | 309,319          |
|   | <u>4,021,160</u>        | <u>7,127,719</u> | <u>13,560,782</u> | <u>8,833,881</u>             | <u>8,670,146</u> |

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Relevant Periods.

The Corporate Income Tax ("CIT") rate applicable to the subsidiary registered in the PRC is 25% for the Relevant Periods.

Under the tax law in Korea, the statutory corporate tax rate applicable to the subsidiary in Korea was 10% for assessable income below Korean Won ("KRW") 200 million and 22% for income above KRW200 million for the year ended December 31, 2011. The statutory corporate tax rate is 10% for assessable income below KRW200 million, 20% for assessable income between KRW200 million and KRW20 billion and 22% for assessable income above KRW20 billion for the years ended December 31, 2012 and 2013 and for the ten months ended October 31, 2013 and 2014.

**(b) Reconciliation between tax expense and accounting profit at applicable tax rates:**

|  | Year ended December 31, |                   |                   | Ten months ended October 31, |                   |
|--|-------------------------|-------------------|-------------------|------------------------------|-------------------|
|  | 2011                    | 2012              | 2013              | 2013                         | 2014              |
|  | US\$                    | US\$              | US\$              | US\$                         | US\$              |
|  | (unaudited)             |                   |                   |                              |                   |
| Profit before taxation . . . . .   | <u>22,172,571</u>       | <u>20,310,820</u> | <u>63,802,519</u> | <u>40,967,010</u>            | <u>39,260,476</u> |
| Notional tax on profit before<br>taxation, calculated at the<br>rates applicable to profits in<br>the jurisdictions<br>concerned . . . . . | 4,655,071               | 4,874,925         | 13,695,037        | 9,277,794                    | 9,400,027         |
| Tax effect of non-deductible<br>expenses . . . . .   | 632,667                 | 2,399,280         | 1,097,908         | 614,883                      | 572,980           |
| Tax effect of non-taxable<br>income . . . . .  | (1,119,724)             | (259,815)         | (1,228,395)       | (976,544)                    | (427,291)         |
| (Over)/under-provision in prior<br>years . . . . .   | (169,670)               | 18,351            | 5,407             | (77,924)                     | (907,006)         |
| Others . . . . .   | <u>22,816</u>           | <u>94,978</u>     | <u>(9,175)</u>    | <u>(4,328)</u>               | <u>31,436</u>     |
| Actual tax expense . . . . .   | <u>4,021,160</u>        | <u>7,127,719</u>  | <u>13,560,782</u> | <u>8,833,881</u>             | <u>8,670,146</u>  |

## 7 Directors' remuneration

Directors' remuneration during the Relevant Periods is as follows:

**Year ended December 31, 2011**

|  | <i>Discretionary<br/>bonuses</i> | <i>Salaries,<br/>allowances<br/>and<br/>benefits<br/>in kind</i> | <i>Retirement<br/>scheme<br/>contributions</i> | <i>Sub-total</i> | <i>Share-based<br/>payments<br/>(note)</i> | <i>Total</i>   |
|--|----------------------------------|--|--|------------------|--|----------------|
|  | US\$                             | US\$   | US\$   | US\$             | US\$                                       | US\$           |
| <b>Chairman</b>  |                                  |  |  |                  |  |                |
| Kwak Joung Hwan (appointed on<br>October 24, 2011) .....   | —                                | 38,462   | 256  | 38,718           | —  | 38,718         |
| <b>Executive directors</b>                                 |                                  |  |  |                  |  |                |
| Kim Hyunwook Eugene .....                                  | —                                | —  | —  | —                | —  | —              |
| Kim Kab Cheol .....  | 100,000                          | 128,887  | 912  | 229,799          | 108,125                                    | 337,924        |
| Yoon Yeo Eul (appointed on<br>October 24, 2011) .....      | —                                | —  | —  | —                | —  | —              |
| Hahn Sang Won (appointed on<br>October 24, 2011) .....     | —                                | —  | —  | —                | —  | —              |
| Kodera Kei (appointed on October 24,<br>2011) .....        | —                                | —  | —  | —                | —  | —              |
| Kubota Yukio (appointed on<br>October 24, 2011) .....      | —                                | —  | —  | —                | —  | —              |
| Kim Seok Stone (resigned on<br>March 28, 2011) .....       | —                                | —  | —  | —                | —  | —              |
| Cho Kyu Beom (resigned on May 6,<br>2011) .....            | —                                | 50,166   | 5,693  | 55,859           | 43,546                                     | 99,405         |
| Ho Mei Ling Rosana (resigned on<br>October 24, 2011) ..... | —                                | 50,970   | 1,282  | 52,252           | —  | 52,252         |
| Yoon Tae Jung (resigned on<br>October 24, 2011) .....      | —                                | —  | —  | —                | —  | —              |
| Park Se Hoon (resigned on October 24,<br>2011) .....       | —                                | —  | —  | —                | —  | —              |
|  | <u>100,000</u>                   | <u>268,485</u>   | <u>8,143</u>                                   | <u>376,628</u>   | <u>151,671</u>                             | <u>528,299</u> |



**Year ended December 31, 2012**

|   | <i>Discretionary<br/>bonuses</i> | <i>Salaries,<br/>allowances<br/>and benefits<br/>in kind</i> | <i>Retirement<br/>scheme<br/>contributions</i> | <i>Sub-total</i> | <i>Share-based<br/>payments<br/>(note)</i> | <i>Total</i>     |
|---|----------------------------------|--|--|------------------|--|------------------|
|   | US\$                             | US\$   | US\$   | US\$             | US\$                                       | US\$             |
| <b>Chairman</b>   |                                  |  |  |                  |  |                  |
| Kwak Joung Hwan . . . . .                                     | 1,500,000                        | 758,500  | 1,772  | 2,260,272        | —  | 2,260,272        |
| <b>Executive directors</b>                                    |                                  |  |  |                  |  |                  |
| Kim Kab Cheol . . . . .                                       | —                                | 143,810  | 5,441  | 149,251          | 26,724                                     | 175,975          |
| Yoon Yeo Eul . . . . .  | —                                | —  | —  | —                | —  | —                |
| Hahn Sang Won . . . . .                                       | —                                | —  | —  | —                | —  | —                |
| Kodera Kei . . . . .  | —                                | 64,645   | —  | 64,645           | —  | 64,645           |
| Kubota Yukio . . . . .  | —                                | 62,706   | —  | 62,706           | —  | 62,706           |
| Seong Seokhoon<br>(appointed on<br>December 17, 2012) . .     | —                                | —  | —  | —                | —  | —                |
| Kim Hyunwook Eugene<br>(resigned on<br>December 17, 2012) . . | —                                | 304,486  | —  | 304,486          | —  | 304,486          |
|   | <u>1,500,000</u>                 | <u>1,334,147</u>   | <u>7,213</u>                                   | <u>2,841,360</u> | <u>26,724</u>                              | <u>2,868,084</u> |

**Year ended December 31, 2013**

|                            | <i>Discretionary<br/>bonuses</i> | <i>Salaries,<br/>allowances<br/>and benefits<br/>in kind</i> | <i>Retirement<br/>scheme<br/>contributions</i> | <i>Total</i> |
|----------------------------|----------------------------------|--|--|--------------|
|                            | US\$                             | US\$   | US\$   | US\$         |
| <b>Chairman</b>            |                                  |  |  |              |
| Kwak Joung Hwan . . . . .  | 4,050,000                        | 749,999  | 1,933  | 4,801,932    |
| <b>Executive directors</b> |                                  |  |  |              |
| Kim Kab Cheol . . . . .    | 32,629                           | 196,464  | 11,345   | 240,438      |
| Yoon Yeo Eul . . . . .     | —                                | —  | —  | —            |
| Hahn Sang Won . . . . .    | —                                | —  | —  | —            |

|  | <i>Discretionary<br/>bonuses</i> | <i>Salaries,<br/>allowances<br/>and benefits<br/>in kind</i> | <i>Retirement<br/>scheme<br/>contributions</i> | <i>Total</i>     |
|--|----------------------------------|--|--|------------------|
|  | US\$                             | US\$   | US\$   | US\$             |
| Kodera Kei .....                                       | —                                | 50,000   | —  | 50,000           |
| Seong Seokhoon .....                                   | 31,475                           | 133,193  | —  | 164,668          |
| Lee Dong Chun (appointed on January 30,<br>2013) ..... | —                                | —  | —  | —                |
| Kubota Yukio (resigned on January 30,<br>2013) .....   | —                                | 4,167  | —  | 4,167            |
|  | <u>4,114,104</u>                 | <u>1,133,823</u>   | <u>13,278</u>                                  | <u>5,261,205</u> |

**Ten months ended October 31, 2013 (Unaudited)**

|  | <i>Discretionary<br/>bonuses</i> | <i>Salaries,<br/>allowances<br/>and benefits<br/>in kind</i> | <i>Retirement<br/>scheme<br/>contributions</i> | <i>Total</i>     |
|--|----------------------------------|--|--|------------------|
|  | US\$                             | US\$   | US\$   | US\$             |
| <b>Chairman</b>  |                                  |  |  |                  |
| Kwak Joung Hwan .....                                  | 3,541,667                        | 624,999  | 1,611  | 4,168,277        |
| <b>Executive directors</b>                             |                                  |  |  |                  |
| Kim Kab Cheol .....                                    | —                                | 128,859  | 5,083  | 133,942          |
| Yoon Yeo Eul .....                                     | —                                | —  | —  | —                |
| Hahn Sang Won .....                                    | —                                | —  | —  | —                |
| Kodera Kei .....                                       | —                                | 37,500   | —  | 37,500           |
| Seong Seokhoon .....                                   | —                                | 91,067   | —  | 91,067           |
| Lee Dong Chun (appointed on January 30,<br>2013) ..... | —                                | —  | —  | —                |
| Kubota Yukio (resigned on January 30, 2013) .....      | —                                | 4,167  | —  | 4,167            |
|  | <u>3,541,667</u>                 | <u>886,592</u>   | <u>6,694</u>                                   | <u>4,434,953</u> |

**Ten months ended October 31, 2014**

|  | <i>Discretionary<br/>bonuses</i> | <i>Salaries,<br/>allowances<br/>and benefits<br/>in kind</i> | <i>Retirement<br/>scheme<br/>contributions</i> | <i>Total</i>     |
|--|----------------------------------|--|--|------------------|
|  | US\$                             | US\$   | US\$   | US\$             |
| <b>Chairman</b>  |                                  |  |  |                  |
| Kwak Joung Hwan .....  | —                                | 699,999  | 1,772  | 701,771          |
| <b>Executive directors</b>   |                                  |  |  |                  |
| Kim Kab Cheol .....  | 50,723                           | 162,007  | —  | 212,730          |
| Seong Seokhoon .....   | 53,131                           | 144,324  | —  | 197,455          |
| Hahn Sang Won (resigned on April 14,<br>2014) .....                    | —                                | —  | —  | —                |
| Kodera Kei (resigned on April 14, 2014) .....                          | —                                | 14,418   | —  | 14,418           |
| <b>Non-executive directors</b>   |                                  |  |  |                  |
| Yoon Yeo Eul (re-designated from director on<br>April 14, 2014) .....  | —                                | —  | —  | —                |
| Lee Dong Chun (re-designated from director<br>on April 14, 2014) ..... | —                                | —  | —  | —                |
| Kim Jae Min (appointed on April 14, 2014) ...                          | —                                | —  | —  | —                |
| <b>Independent non-executive director</b>                              |                                  |  |  |                  |
| Okayama Masanori (appointed on April 14,<br>2014) .....                | —                                | 23,185   | —  | 23,185           |
|  | <u>103,854</u>                   | <u>1,043,933</u>   | <u>1,772</u>                                   | <u>1,149,559</u> |

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

*Note:*

These represented the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options was measured according to the accounting policies for share-based payments transactions as set out in note 1(p)(iii).

The details of these share-based payments transactions, including the principal terms and number of options granted, are disclosed in note 20.

## 8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three are directors during the Relevant Periods, whose emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the remaining individuals are as follows:

|   | <i>Year ended December 31,</i> |                |                | <i>Ten months ended<br/>October 31,</i> |                |
|---|--------------------------------|----------------|----------------|---|----------------|
|   | <i>2011</i>                    | <i>2012</i>    | <i>2013</i>    | <i>2013</i>                             | <i>2014</i>    |
|   | US\$                           | US\$           | US\$           | US\$                                    | US\$           |
|   |                                |                |                | (unaudited)                             |                |
| Salaries and other emoluments . . . . .                 | 227,464                        | 441,303        | 300,066        | 282,256                                 | 344,377        |
| Contributions to retirement benefit<br>scheme . . . . . | —                              | —              | 63,582         | 24,708                                  | 26,114         |
|   | <u>227,464</u>                 | <u>441,303</u> | <u>363,648</u> | <u>306,964</u>                          | <u>370,491</u> |

The emoluments of the two individuals with the highest emoluments during the Relevant Periods are within the following bands:

|   | <i>Year ended December 31,</i> |                          |                          | <i>Ten months ended<br/>October 31,</i> |                          |
|---|--------------------------------|--------------------------|--------------------------|---|--------------------------|
|   | <i>2011</i>                    | <i>2012</i>              | <i>2013</i>              | <i>2013</i>                             | <i>2014</i>              |
|   | Number of<br>individuals       | Number of<br>individuals | Number of<br>individuals | Number of<br>individuals                | Number of<br>individuals |
| HK\$Nil (equivalent to US\$Nil) to HK\$1,000,000<br>(equivalent to US\$128,000) . . . . .       | <u>2</u>                       | <u>—</u>                 | <u>—</u>                 | <u>1</u>                                | <u>—</u>                 |
| HK\$1,000,001 (equivalent to US\$128,001) to<br>HK\$1,500,000 (equivalent to US\$192,000) . . . | <u>—</u>                       | <u>1</u>                 | <u>1</u>                 | <u>1</u>                                | <u>1</u>                 |
| HK\$1,500,001 (equivalent to US\$192,001) to<br>HK\$2,000,000 (equivalent to US\$256,000) . . . | <u>—</u>                       | <u>—</u>                 | <u>1</u>                 | <u>—</u>                                | <u>1</u>                 |
| HK\$2,000,001 (equivalent to US\$256,001) to<br>HK\$2,500,000 (equivalent to US\$320,000) . . . | <u>—</u>                       | <u>1</u>                 | <u>—</u>                 | <u>—</u>                                | <u>—</u>                 |

## 9 Other comprehensive income

## Tax effects relating to each component of other comprehensive income

|  | Year ended December 31, |                   |                   |                   |                   |             | Ten months ended October 31, |                   |                   |             |                   |                   |             |        |             |
|--|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------|------------------------------|-------------------|-------------------|-------------|-------------------|-------------------|-------------|--------|-------------|
|  | 2011                    |                   | 2012              |                   | 2013              |             | 2013                         |                   | 2014              |             | 2014              |                   |             |        |             |
|  | Before tax amount       | Net-of-tax amount | Before tax amount | Net-of-tax amount | Before tax amount | Tax benefit | Before tax amount            | Net-of-tax amount | Before tax amount | Tax benefit | Before tax amount | Net-of-tax amount |             |        |             |
|  | US\$                    | US\$              | US\$              | US\$              | US\$              | US\$        | US\$                         | US\$              | US\$              | US\$        | US\$              | US\$              |             |        |             |
| Exchange differences on translation of financial statements of overseas subsidiaries . . . . . | 1,296,527               | (1,296,527)       | 1,282,215         | (1,282,215)       | 3,267,590         | —           | 3,267,590                    | 2,064,352         | (2,064,352)       | 1,126,653   | —                 | (1,126,653)       |             |        |             |
| Remeasurement of net defined benefit liability . . . . .                                       | (107,155)               | 21,430            | (85,725)          | (104,687)         | 20,939            | (83,748)    | (44,192)                     | 8,840             | (35,352)          | (1,330)     | 266               | (1,064)           | (137,759)   | 30,307 | (107,452)   |
| Other comprehensive income . . . . .   | 1,189,372               | 21,430            | 1,210,802         | 1,177,528         | 20,939            | 1,198,467   | 3,223,398                    | 8,840             | 3,232,238         | 2,063,022   | 266               | 2,063,288         | (1,264,412) | 30,307 | (1,234,105) |

**10 Earnings per share****(a) Basis earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the years ended December 31, 2011, 2012 and 2013 and for the ten months ended October 31, 2013 and 2014 and the weighted average number of ordinary shares in issue during the respective year/period, calculated as follows, which has been adjusted retrospectively for the share subdivision on September 19, 2014 as described in note 22(b).

*Weighted average number of ordinary shares*

|  | <u>Year ended December 31,</u> |                    |                    | <u>Ten months end October 31,</u> |                    |
|--|--------------------------------|--------------------|--------------------|-----------------------------------|--------------------|
|  | <u>2011</u>                    | <u>2012</u>        | <u>2013</u>        | <u>2013</u>                       | <u>2014</u>        |
|  |                                |                    |                    | (unaudited)                       |                    |
| Issued ordinary shares at                        |                                |                    |                    |                                   |                    |
| January 1, . . . . .                             | 750,000,000                    | 750,000,000        | 748,318,800        | 748,318,800                       | 748,318,800        |
| Effect of shares repurchased . . . . .           | —                              | (560,400)          | —                  | —                                 | —                  |
| Weighted average number of<br>ordinary shares at |                                |                    |                    |                                   |                    |
| December 31/October 31, . . . . .                | <u>750,000,000</u>             | <u>749,439,600</u> | <u>748,318,800</u> | <u>748,318,800</u>                | <u>748,318,800</u> |

The calculation of basic earnings per share does not take into account the proposed issue of 83,200,000 ordinary shares as detailed in the section headed "Structure of the Global Offering" in the Prospectus.

**(b) Diluted earnings per share**

The diluted earnings per share is the same as the basic earnings per share as the potential ordinary shares in respect of outstanding share options were anti-dilutive in the years ended December 31, 2011 and 2012, and the Group did not have dilutive potential ordinary shares in the year ended December 31, 2013 and the ten months ended October 31, 2013 and 2014.

## 11 Fixed assets

## (a) The Group

|                       | Leasehold improvements | Plant and machinery | Office equipment, furniture and fixtures | Motor vehicles | Construction in progress | Sub-total   | Investment property | Total       |
|-----------------------|------------------------|---------------------|--|----------------|--------------------------|-------------|---------------------|-------------|
|                       | US\$                   | US\$                | US\$                                     | US\$           | US\$                     | US\$        | US\$                | US\$        |
| At January 1, 2011    | 3,701,647              | 39,700,042          | 5,646,058                                | 193,834        | 4,950,764                | 54,192,345  | 3,410,334           | 57,602,679  |
| Exchange adjustments  | 315,926                | 1,887,794           | 262,030                                  | 8,136          | 126,401                  | 2,600,287   | (43,970)            | 2,556,317   |
| Additions             | 1,210,374              | 5,772,081           | 954,285                                  | 16,288         | 763,157                  | 8,716,185   | —                   | 8,716,185   |
| Disposals             | —                      | —                   | (61,953)                                 | —              | —                        | (61,953)    | —                   | (61,953)    |
| Transfers             | 5,369,108              | 253,836             | 79,438                                   | —              | (5,702,382)              | —           | —                   | —           |
| Fair value adjustment | —                      | —                   | —  | —              | —                        | —           | 35,436              | 35,436      |
| At December 31, 2011  | 10,597,055             | 47,613,753          | 6,879,858                                | 218,258        | 137,940                  | 65,446,864  | 3,401,800           | 68,848,664  |
| <b>Representing:</b>  |                        |                     |  |                |                          |             |                     |             |
| Cost                  | 10,597,055             | 47,613,753          | 6,879,858                                | 218,258        | 137,940                  | 65,446,864  | —                   | 65,446,864  |
| Valuation             | —                      | —                   | —  | —              | —                        | —           | 3,401,800           | 3,401,800   |
|                       | 10,597,055             | 47,613,753          | 6,879,858                                | 218,258        | 137,940                  | 65,446,864  | 3,401,800           | 68,848,664  |
| At January 1, 2012    | 10,597,055             | 47,613,753          | 6,879,858                                | 218,258        | 137,940                  | 65,446,864  | 3,401,800           | 68,848,664  |
| Exchange adjustments  | 411,856                | 1,983,712           | 163,606                                  | 6,146          | 21,832                   | 2,587,152   | 279,964             | 2,867,116   |
| Additions             | 20,680,194             | 21,606,824          | 4,519,377                                | 199,662        | 3,675,512                | 50,681,569  | —                   | 50,681,569  |
| Disposals             | —                      | —                   | (2,910)                                  | (44,695)       | (86,371)                 | (133,976)   | —                   | (133,976)   |
| Transfers             | —                      | 1,886,893           | 140,117                                  | —              | (2,027,010)              | —           | —                   | —           |
| Fair value adjustment | —                      | —                   | —  | —              | —                        | —           | (17,587)            | (17,587)    |
| At December 31, 2012  | 31,689,105             | 73,091,182          | 11,700,048                               | 379,371        | 1,721,903                | 118,581,609 | 3,664,177           | 122,245,786 |
| <b>Representing:</b>  |                        |                     |  |                |                          |             |                     |             |
| Cost                  | 31,689,105             | 73,091,182          | 11,700,048                               | 379,371        | 1,721,903                | 118,581,609 | —                   | 118,581,609 |
| Valuation             | —                      | —                   | —  | —              | —                        | —           | 3,664,177           | 3,664,177   |
|                       | 31,689,105             | 73,091,182          | 11,700,048                               | 379,371        | 1,721,903                | 118,581,609 | 3,664,177           | 122,245,786 |

|  | Leasehold improvements | Plant and machinery | Office equipment, furniture and fixtures | Motor vehicles | Construction in progress | Sub-total   | Investment property | Total       |
|--|------------------------|---------------------|--|----------------|--------------------------|-------------|---------------------|-------------|
|  | US\$                   | US\$                | US\$                                     | US\$           | US\$                     | US\$        | US\$                | US\$        |
| At January 1, 2013                       | 31,689,105             | 73,091,182          | 11,700,048                               | 379,371        | 1,721,903                | 118,581,609 | 3,664,177           | 122,245,786 |
| Exchange adjustments                     | 802,916                | 1,445,984           | 292,700                                  | 8,577          | 21,030                   | 2,571,207   | 33,162              | 2,604,369   |
| Additions                                | 5,996,241              | 1,648,280           | 2,443,798                                | 47,328         | 5,672,178                | 15,807,825  | —                   | 15,807,825  |
| Disposals                                | —                      | (578,584)           | (150,852)                                | (10,222)       | —                        | (739,658)   | —                   | (739,658)   |
| Transfers                                | —                      | 6,630,104           | —  | —              | (6,630,104)              | —           | —                   | —           |
| Fair value adjustment                    | —                      | —                   | —  | —              | —                        | —           | (42,349)            | (42,349)    |
| At December 31, 2013                     | 38,488,262             | 82,236,966          | 14,285,694                               | 425,054        | 785,007                  | 136,220,983 | 3,654,990           | 139,875,973 |
| <b>Representing:</b>                     |                        |                     |  |                |                          |             |                     |             |
| Cost                                     | 38,488,262             | 82,236,966          | 14,285,694                               | 425,054        | 785,007                  | 136,220,983 | —                   | 136,220,983 |
| Valuation                                | —                      | —                   | —  | —              | —                        | —           | 3,654,990           | 3,654,990   |
| At January 1, 2014                       | 38,488,262             | 82,236,966          | 14,285,694                               | 425,054        | 785,007                  | 136,220,983 | 3,654,990           | 139,875,973 |
| Exchange adjustments                     | (491,389)              | (675,905)           | (89,146)                                 | (3,301)        | (6,104)                  | (1,265,845) | 4,962               | (1,260,883) |
| Additions                                | 4,414,671              | 8,301,719           | 5,746,809                                | 103,355        | 1,786,797                | 20,353,351  | —                   | 20,353,351  |
| Disposals                                | —                      | (1,530,348)         | (38,383)                                 | (7,012)        | —                        | (1,575,743) | —                   | (1,575,743) |
| Transfers                                | —                      | 2,362,888           | —  | —              | (2,362,888)              | —           | —                   | —           |
| Fair value adjustment                    | —                      | —                   | —  | —              | —                        | —           | (46,009)            | (46,009)    |
| At October 31, 2014                      | 42,411,544             | 90,695,320          | 19,904,974                               | 518,096        | 202,812                  | 153,732,746 | 3,613,943           | 157,346,689 |
| <b>Representing:</b>                     |                        |                     |  |                |                          |             |                     |             |
| Cost                                     | 42,411,544             | 90,695,320          | 19,904,974                               | 518,096        | 202,812                  | 153,732,746 | —                   | 153,732,746 |
| Valuation                                | —                      | —                   | —  | —              | —                        | —           | 3,613,943           | 3,613,943   |
| At December 31, 2011                     | 635,419                | 10,952,462          | 3,701,334                                | 127,571        | —                        | 15,416,786  | —                   | 15,416,786  |
| Exchange adjustments                     | 34,599                 | 522,010             | 169,891                                  | 5,607          | —                        | 732,107     | —                   | 732,107     |
| Charge for the year                      | 267,431                | 4,152,382           | 742,119                                  | 28,550         | —                        | 5,190,482   | —                   | 5,190,482   |
| Written back on disposals                | —                      | —                   | (50,125)                                 | —              | —                        | (50,125)    | —                   | (50,125)    |
| At December 31, 2011 and January 1, 2012 | 937,449                | 15,626,854          | 4,563,219                                | 161,728        | —                        | 21,289,250  | —                   | 21,289,250  |
| Exchange adjustments                     | 20,579                 | 371,234             | 71,255                                   | 3,202          | —                        | 466,270     | —                   | 466,270     |
| Charge for the year                      | 578,868                | 5,595,836           | 1,026,629                                | 35,128         | —                        | 7,236,461   | —                   | 7,236,461   |
| Written back on disposals                | —                      | —                   | (1,858)                                  | (42,460)       | —                        | (44,318)    | —                   | (44,318)    |

**Accumulated depreciation:**

|  |   |   |   |   |   |   |   |   |
|--|---|---|---|---|---|---|---|---|
| At January 1, 2011                       | — | — | — | — | — | — | — | — |
| Exchange adjustments                     | — | — | — | — | — | — | — | — |
| Charge for the year                      | — | — | — | — | — | — | — | — |
| Written back on disposals                | — | — | — | — | — | — | — | — |
| At December 31, 2011 and January 1, 2012 | — | — | — | — | — | — | — | — |
| Exchange adjustments                     | — | — | — | — | — | — | — | — |
| Charge for the year                      | — | — | — | — | — | — | — | — |
| Written back on disposals                | — | — | — | — | — | — | — | — |



|  | Leasehold improvements |            | Plant and machinery |          | Office equipment, furniture and fixtures |      | Motor vehicles |           | Construction in progress |      | Sub-total   |           | Investment property |      | Total       |      |
|--|------------------------|------------|---------------------|----------|--|------|----------------|-----------|--------------------------|------|-------------|-----------|---------------------|------|-------------|------|
|  | US\$                   | US\$       | US\$                | US\$     | US\$                                     | US\$ | US\$           | US\$      | US\$                     | US\$ | US\$        | US\$      | US\$                | US\$ | US\$        | US\$ |
| At December 31, 2012 and January 1, 2013 | 1,536,896              | 21,593,924 | 5,659,245           | 157,598  | —  | —    | 28,947,663     | —         | —                        | —    | 28,947,663  | —         | —                   | —    | 28,947,663  | —    |
| Exchange adjustments                     | 64,630                 | 528,524    | 154,305             | 3,962    | —  | —    | 751,421        | —         | —                        | —    | 751,421     | —         | —                   | —    | 751,421     | —    |
| Charge for the year                      | 1,745,079              | 7,231,876  | 1,811,062           | 61,563   | —  | —    | 10,849,580     | —         | —                        | —    | 10,849,580  | —         | —                   | —    | 10,849,580  | —    |
| Written back on disposals                | —                      | (170,830)  | (91,251)            | (10,222) | —  | —    | (272,303)      | —         | —                        | —    | (272,303)   | —         | —                   | —    | (272,303)   | —    |
| At December 31, 2013 and January 1, 2014 | 3,346,605              | 29,183,494 | 7,533,361           | 212,901  | —  | —    | 40,276,361     | —         | —                        | —    | 40,276,361  | —         | —                   | —    | 40,276,361  | —    |
| Exchange adjustments                     | (27,304)               | (239,730)  | (48,809)            | (1,593)  | —  | —    | (317,436)      | —         | —                        | —    | (317,436)   | —         | —                   | —    | (317,436)   | —    |
| Charge for the period                    | 1,653,388              | 6,744,244  | 2,086,732           | 71,618   | —  | —    | 10,555,982     | —         | —                        | —    | 10,555,982  | —         | —                   | —    | 10,555,982  | —    |
| Written back on disposals                | —                      | (532,241)  | (37,794)            | (7,012)  | —  | —    | (577,047)      | —         | —                        | —    | (577,047)   | —         | —                   | —    | (577,047)   | —    |
| At October 31, 2014                      | 4,972,689              | 35,155,767 | 9,533,490           | 275,914  | —  | —    | 49,937,860     | —         | —                        | —    | 49,937,860  | —         | —                   | —    | 49,937,860  | —    |
| <b>Net book value:</b>                   |                        |            |                     |          |  |      |                |           |                          |      |             |           |                     |      |             |      |
| At December 31, 2011                     | 9,659,606              | 31,986,899 | 2,316,639           | 56,530   | —  | —    | 44,157,614     | 137,940   | —                        | —    | 44,157,614  | 3,401,800 | —                   | —    | 47,559,414  | —    |
| At December 31, 2012                     | 30,152,209             | 51,497,258 | 6,040,803           | 221,773  | —  | —    | 89,633,946     | 1,721,903 | —                        | —    | 89,633,946  | 3,664,177 | —                   | —    | 93,298,123  | —    |
| At December 31, 2013                     | 35,141,657             | 53,053,472 | 6,752,333           | 212,153  | —  | —    | 95,944,622     | 785,007   | —                        | —    | 95,944,622  | 3,654,990 | —                   | —    | 99,599,612  | —    |
| At October 31, 2014                      | 37,438,855             | 55,539,553 | 10,371,484          | 242,182  | —  | —    | 103,794,886    | 202,812   | —                        | —    | 103,794,886 | 3,613,943 | —                   | —    | 107,408,829 | —    |

The Group's investment property with carrying value of US\$3,401,800, US\$3,664,177, US\$3,654,990 and US\$3,613,943 and the Group's other property, plant and equipment with total carrying values of US\$Nil, US\$17,958,212, US\$12,889,634 and US\$1,963,274, as at December 31, 2011, 2012 and 2013 and October 31, 2014 respectively, were pledged to various banks to secure banking facilities granted to the Group (note 18).

**(b) Fair value measurement of properties**

The investment property is stated at fair value at the end of the Relevant Periods, which is valued on an open market basis assuming sale with existing tenancies by using the investment method and otherwise with vacant possession by using the sale comparison approach. The valuation was carried out by an independent firm of surveyors, Daehwa Appraisal Corporation in Korea, who have among their staff fellows of Korean Association of Property Appraisers with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

The fair value measurements are categorized as Level 3 valuations under the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Significant unobservable inputs are recent sales prices of comparable properties and standard price per square foot announced by the Korean government.

*Information about Level 3 fair value measurements*

| Year ended December 31, 2011      |                             |   |                    |                         |
|-----------------------------------|-----------------------------|---|--------------------|-------------------------|
|                                   | <i>Valuation techniques</i> | <i>Unobservable input</i>                     | <i>Range</i>       | <i>Weighted average</i> |
| Investment property<br>— land     | Standard price assessment   | Expected land price fluctuation               | 0.750% to 0.950%   | 0.786%                  |
|                                   |                             | Expected market transaction comparable factor | (42.16)% to 61.00% | 21.30%                  |
| Investment property<br>— building | Replacement cost approach   | Obsolescence factor                           | 35.00% to 60.00%   | 56.30%                  |

| <b>Year ended December 31, 2012</b>  |                             |   |                    |                         |
|--------------------------------------|-----------------------------|---|--------------------|-------------------------|
|                                      | <i>Valuation techniques</i> | <i>Unobservable input</i>                     | <i>Range</i>       | <i>Weighted average</i> |
| Investment property<br>— land        | Standard price assessment   | Expected land price fluctuation               | 0.000% to 1.420%   | 1.252%                  |
|                                      |                             | Expected market transaction comparable factor | (20.25)% to 24.50% | 20.00%                  |
| Investment property<br>— building    | Replacement cost approach   | Obsolescence factor                           | 40.00% to 62.50%   | 58.54%                  |
| <b>Year ended December 31, 2013</b>  |                             |   |                    |                         |
|                                      | <i>Valuation techniques</i> | <i>Unobservable input</i>                     | <i>Range</i>       | <i>Weighted average</i> |
| Investment property<br>— land        | Standard price assessment   | Expected land price fluctuation               | (0.055)% to 0.605% | 0.548%                  |
|                                      |                             | Expected market transaction comparable factor | (22.20)% to 24.50% | 20.00%                  |
| Investment property<br>— building    | Replacement cost approach   | Obsolescence factor                           | 45.00% to 64.67%   | 60.73%                  |
| <b>Period ended October 31, 2014</b> |                             |   |                    |                         |
|                                      | <i>Valuation techniques</i> | <i>Unobservable input</i>                     | <i>Range</i>       | <i>Weighted average</i> |
| Investment property<br>— land        | Standard price assessment   | Expected land price fluctuation               | 0.401% to 0.703%   | 0.611%                  |
|                                      |                             | Expected market transaction comparable factor | (17.86)% to 39.13% | 15.00%                  |
| Investment property<br>— building    | Replacement cost approach   | Obsolescence factor                           | 50.00% to 64.67%   | 60.76%                  |

The valuations take into account expected land price fluctuation, expected market transaction comparable and obsolescence factor of the respective properties and have been adjusted for comparable property price growth, the quality and location of the property. The fair value measurement is positively correlated to the expected land price fluctuation and expected market transaction comparables, and negatively correlated to the obsolescence factor.

The movements during the Relevant Periods in the balance of these Level 3 fair value measurements are as follows:

|  | US\$                    |
|--|-------------------------|
| At January 1, 2011 .....                       | 3,410,334               |
| Fair value adjustment .....                    | 35,436                  |
| Exchange adjustment .....                      | <u>(43,970)</u>         |
| At December 31, 2011 and January 1, 2012 ..... | 3,401,800               |
| Fair value adjustment .....                    | (17,587)                |
| Exchange adjustment .....                      | <u>279,964</u>          |
| At December 31, 2012 and January 1, 2013 ..... | 3,664,177               |
| Fair value adjustment .....                    | (42,349)                |
| Exchange adjustment .....                      | <u>33,162</u>           |
| At December 31, 2013 and January 1, 2014 ..... | 3,654,990               |
| Fair value adjustment .....                    | (46,009)                |
| Exchange adjustment .....                      | <u>4,962</u>            |
| At October 31, 2014 .....                      | <u><u>3,613,943</u></u> |

Fair value adjustment of investment property is recognized in the line item "valuation gain/(loss) on investment property" included in other net income/(loss) on the face of the consolidated statement of profit or loss.

**(c) The analysis of net book value of properties of the Group is as follows:**

|  | <i>The Group</i>          |                  |                  |                    |
|--|---------------------------|------------------|------------------|--------------------|
|  | <i>As at December 31,</i> |                  |                  | <i>As at</i>       |
|  | <i>2011</i>               | <i>2012</i>      | <i>2013</i>      | <i>October 31,</i> |
|  | US\$                      | US\$             | US\$             | US\$               |
| Outside Hong Kong  |                           |                  |                  |                    |
| — freehold factory land and building in Daejeon, Korea ..... | <u>3,401,800</u>          | <u>3,664,177</u> | <u>3,654,990</u> | <u>3,613,943</u>   |

**Representing:**

|                           |                  |                  |                  |                  |
|---------------------------|------------------|------------------|------------------|------------------|
| Investment property ..... | <u>3,401,800</u> | <u>3,664,177</u> | <u>3,654,990</u> | <u>3,613,943</u> |
|---------------------------|------------------|------------------|------------------|------------------|

**(d) Fixed assets leased out under operating leases**

The Group leases out investment property under operating leases. The leases typically run for an initial period of 1 year, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

|                     | <i>As at December 31,</i> |                |                | <i>As at</i>       |
|---------------------|---------------------------|----------------|----------------|--------------------|
|                     | <i>2011</i>               | <i>2012</i>    | <i>2013</i>    | <i>October 31,</i> |
|                     | <i>US\$</i>               | <i>US\$</i>    | <i>US\$</i>    | <i>2014</i>        |
| Within 1 year ..... | <u>100,928</u>            | <u>120,979</u> | <u>138,046</u> | <u>34,507</u>      |

## 12 Intangible assets

|  | <i>The Group</i>         |                 |              |
|--|--------------------------|-----------------|--------------|
|  | <i>Development costs</i> | <i>Software</i> | <i>Total</i> |
|  | <i>US\$</i>              | <i>US\$</i>     | <i>US\$</i>  |
| <b>Cost:</b>                                   |                          |                 |              |
| At January 1, 2011 .....                       | 498,240                  | —               | 498,240      |
| Exchange adjustments .....                     | (6,221)                  | 266             | (5,955)      |
| Additions .....                                | —                        | 179,848         | 179,848      |
| At December 31, 2011 and January 1, 2012 ..... | 492,019                  | 180,114         | 672,133      |
| Exchange adjustments .....                     | 21,033                   | 6,610           | 27,643       |
| Additions .....                                | —                        | 290,443         | 290,443      |
| Written off .....                              | (341,604)                | —               | (341,604)    |
| At December 31, 2012 and January 1, 2013 ..... | 171,448                  | 477,167         | 648,615      |
| Exchange adjustments .....                     | (1,689)                  | 505             | (1,184)      |
| Additions .....                                | —                        | 1,049,732       | 1,049,732    |
| Written off .....                              | (88,035)                 | —               | (88,035)     |
| At December 31, 2013 and January 1, 2014 ..... | 81,724                   | 1,527,404       | 1,609,128    |
| Exchange adjustments .....                     | (197)                    | (237)           | (434)        |
| Additions .....                                | 30,144                   | 1,115,669       | 1,145,813    |
| At October 31, 2014 .....                      | 111,671                  | 2,642,836       | 2,754,507    |
| <b>Accumulated amortization:</b>               |                          |                 |              |
| At January 1, 2011 .....                       | 321,083                  | —               | 321,083      |
| Exchange adjustments .....                     | (8,022)                  | —               | (8,022)      |
| Charge for the year .....                      | 102,417                  | —               | 102,417      |
| At December 31, 2011 and January 1, 2012 ..... | 415,478                  | —               | 415,478      |
| Exchange adjustments .....                     | 16,572                   | —               | 16,572       |
| Charge for the year .....                      | 32,428                   | 18,672          | 51,100       |
| Written off .....                              | (341,604)                | —               | (341,604)    |

|  | <i>The Group</i>             |                  |                  |
|--|------------------------------|------------------|------------------|
|  | <i>Development<br/>costs</i> | <i>Software</i>  | <i>Total</i>     |
|  | US\$                         | US\$             | US\$             |
| At December 31, 2012 and January 1, 2013 ..... | 122,874                      | 18,672           | 141,546          |
| Exchange adjustments .....                     | (1,557)                      | 21               | (1,536)          |
| Charge for the year .....                      | 15,752                       | 98,858           | 114,610          |
| Written off .....                              | (88,035)                     | —                | (88,035)         |
| At December 31, 2013 and January 1, 2014 ..... | 49,034                       | 117,551          | 166,585          |
| Exchange adjustments .....                     | (110)                        | (11)             | (121)            |
| Change for the period .....                    | 17,314                       | 180,143          | 197,457          |
| At October 31, 2014 .....                      | <u>66,238</u>                | <u>297,683</u>   | <u>363,921</u>   |
| <b>Net book value:</b>                         |                              |                  |                  |
| At December 31, 2011 .....                     | <u>76,541</u>                | <u>180,114</u>   | <u>256,655</u>   |
| At December 31, 2012 .....                     | <u>48,574</u>                | <u>458,495</u>   | <u>507,069</u>   |
| At December 31, 2013 .....                     | <u>32,690</u>                | <u>1,409,853</u> | <u>1,442,543</u> |
| At October 31, 2014 .....                      | <u>45,433</u>                | <u>2,345,153</u> | <u>2,390,586</u> |

The amortization charges of intangible assets during the Relevant Periods are included in administrative expenses in the consolidated statement of profit or loss.

|   | <i>The Company</i> |
|---|--------------------|
|   | <i>Software</i>    |
|   | US\$               |
| <b>Cost:</b>  |                    |
| At January 1, 2011, December 31, 2011 and January 1, 2012 ..... | —                  |
| Transfer from a subsidiary .....                                | 186,724            |
| Additions .....   | <u>290,443</u>     |
| At December 31, 2012 and January 1, 2013 .....                  | 477,167            |
| Additions .....   | <u>1,021,132</u>   |
| At December 31, 2013 and January 1, 2014 .....                  | 1,498,299          |
| Additions .....   | <u>1,106,347</u>   |
| At October 31, 2014 .....                                       | <u>2,604,646</u>   |
| <b>Accumulated amortization:</b>                                |                    |
| At January 1, 2011, December 31, 2011 and January 1, 2012 ..... | —                  |
| Charge for the year .....                                       | <u>18,672</u>      |
| At December 31, 2012 and January 1, 2013 .....                  | 18,672             |
| Charge for the year .....                                       | <u>97,664</u>      |
| At December 31, 2013 and January 1, 2014 .....                  | 116,336            |
| Charge for the period .....                                     | <u>177,667</u>     |
| At October 31, 2014 .....                                       | <u>294,003</u>     |
| <b>Net book value:</b>  |                    |
| At December 31, 2011 .....                                      | <u>—</u>           |
| At December 31, 2012 .....                                      | <u>458,495</u>     |
| At December 31, 2013 .....                                      | <u>1,381,963</u>   |
| At October 31, 2014 .....                                       | <u>2,310,643</u>   |

## 13 Investments in subsidiaries

|                                      | <i>The Company</i>        |             |             |                    |
|--------------------------------------|---------------------------|-------------|-------------|--------------------|
|                                      | <i>As at December 31,</i> |             |             | <i>As at</i>       |
|                                      | <i>2011</i>               | <i>2012</i> | <i>2013</i> | <i>October 31,</i> |
|                                      | <i>US\$</i>               | <i>US\$</i> | <i>US\$</i> | <i>2014</i>        |
|                                      | <i>US\$</i>               | <i>US\$</i> | <i>US\$</i> | <i>US\$</i>        |
| Unlisted equities, at cost . . . . . | 725,990                   | 843,575     | 843,575     | 843,575            |

(a) **The following list contains the particulars of subsidiaries. The class of shares held is ordinary unless otherwise stated.**

| <i>Name of company</i>   | <i>Place of incorporation/ registration and operation</i> | <i>Type of entity</i>     | <i>Particulars of issued and paid up capital</i> | <i>Proportion of ownership interest during the Relevant Periods</i> |                            |                             | <i>Principal activities</i>                       |
|--|---|---------------------------|--|---|----------------------------|-----------------------------|---|
|  |   |                           |  | <i>Group's effective interest</i>                                   | <i>Held by the Company</i> | <i>Held by a subsidiary</i> |   |
| Cowell Optic Electronics Limited (Note (i)) . . . . .            | Hong Kong   | Limited liability company | 100 shares                                       | 100%  | 100%                       | —                           | Trading of camera module and optical products     |
| Dongguan Cowell Optic Electronics Co., Ltd. (Note (i)) . . . . . | The PRC   | Limited liability company | US\$118,136,140                                  | 100%  | —                          | 100%                        | Manufacture of camera module and optical products |
| Cowell Electronics Co., Ltd (Note (ii)) . . . . .                | Korea   | Limited liability company | KRW1,934,540,000                                 | 100%  | 100%                       | —                           | Trading of camera module and optical products     |

Note:

(i) The Group's equity interests in Cowell Optic Electronics Limited is pledged to a customer against machinery provided to the Group by the customer for production of goods to that customer. The machinery amounted to US\$Nil, US\$77,795,912, US\$77,795,912 and US\$110,159,964 as at December 31, 2011, 2012, 2013 and October 31, 2014, respectively and were not recognized as the Group's property, plant and equipment. There is no rental charge for the machinery and the management consider that the arrangement has been taken into account in determining sales price with the customer.

Movements in authorized and paid up capital of Dongguan Cowell Optic Electronics Co., Ltd. ("Cowell DG") during the Relevant Periods were as follows:

|                                   | <i>As at December 31,</i> |             |             | <i>As at</i>       |
|-----------------------------------|---------------------------|-------------|-------------|--------------------|
|                                   | <i>2011</i>               | <i>2012</i> | <i>2013</i> | <i>October 31,</i> |
|                                   | <i>US\$</i>               | <i>US\$</i> | <i>US\$</i> | <i>2014</i>        |
|                                   | <i>US\$</i>               | <i>US\$</i> | <i>US\$</i> | <i>US\$</i>        |
| Authorized capital . . . . .      | 40,331,900                | 185,831,900 | 185,831,900 | 129,035,988        |
| Total paid up capital . . . . .   | 32,408,094                | 163,956,867 | 178,751,327 | 118,136,140        |
| Paid up by the Group . . . . .    | 32,408,094                | 86,160,955  | 100,955,415 | 118,136,140        |
| Paid up by the customer . . . . . | —                         | 77,795,912  | 77,795,912  | —                  |



Paid up capital by the Group was smaller than total paid up capital by US\$77,795,912 as at December 31, 2012 and 2013 as the Group has registered the machinery provided by a customer aforementioned as its capital in the PRC. The Group completed deregistration of the customer's machinery and reduction of the capital of Cowell DG accordingly in June 2014. More details are disclosed in the section headed "Business" in the Prospectus. The deregistered machinery is still in use by the Group.

The paid up capital as at October 31, 2014 included US\$2,739,315, the verification of which was completed by a PRC local auditor in November 2014.

- (ii) The Group's effective interest in Cowell Electronics Co., Ltd held by the Company was 93% in 2011. During the year ended December 31, 2012, the Company acquired all of the non-controlling interests of Cowell Electronics Co., Ltd.

**(b) The list of auditors for the statutory financial statements of the subsidiaries is as follows:**

| Name of company  | Year ended December 31,                                |  |  |
|--|--|--|--|
|  | 2011   | 2012   | 2013   |
| Cowell Optic Electronics Limited . . . . .             | Ting Ho Kwan &<br>Chan Certified<br>Public Accountants | Ting Ho Kwan &<br>Chan Certified<br>Public Accountants | KPMG   |
| Dongguan Cowell Optic Electronics<br>Co., Ltd. . . . . | Dongguan Xinheng<br>Certified Public<br>Accountants    | Dongguan Xinheng<br>Certified Public<br>Accountants    | Dongguan<br>Xinheng<br>Certified Public<br>Accountants |
| Cowell Electronics Co., Ltd . . . . .                  | N/A<br>(Note)  | N/A<br>(Note)  | KPMG Samjong<br>Accounting<br>Corporation              |

Note: Cowell Electronics Co., Ltd was not subject to statutory audit in Korea during the years ended December 31, 2011 and 2012.

The Group's financial statements for the year ended December 31, 2011 which is publicly available in Korea was audited by another auditor before adjustments set out in the section headed "Financial Information" in the Prospectus.

**14 Inventories**

**(a) Inventories in the statement of financial position comprise:**

|                            | The Group          |                   |                   |                   |
|----------------------------|--------------------|-------------------|-------------------|-------------------|
|                            | As at December 31, |                   |                   | As at             |
|                            | 2011               | 2012              | 2013              | October 31,       |
|                            | US\$               | US\$              | US\$              | 2014              |
|                            |                    |                   |                   | US\$              |
| Raw materials . . . . .    | 16,563,960         | 25,630,606        | 29,634,588        | 28,297,056        |
| Work in progress . . . . . | 2,798,437          | 6,229,105         | 7,477,387         | 15,789,802        |
| Finished goods . . . . .   | 19,870,149         | 26,355,875        | 17,922,196        | 38,270,880        |
|                            | <u>39,232,546</u>  | <u>58,215,586</u> | <u>55,034,171</u> | <u>82,357,738</u> |

(b) *The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:*

|                                 | <i>The Group</i>               |                    |                    |                          |
|---------------------------------|--------------------------------|--------------------|--------------------|--------------------------|
|                                 | <i>Year ended December 31,</i> |                    |                    | <i>Ten months</i>        |
|                                 | <i>ended October 31,</i>       |                    |                    | <i>ended October 31,</i> |
|                                 | <i>2011</i>                    | <i>2012</i>        | <i>2013</i>        | <i>2014</i>              |
|                                 | US\$                           | US\$               | US\$               | US\$                     |
| Carrying amount of inventories  |                                |                    |                    |                          |
| sold .....                      | 287,145,824                    | 485,136,893        | 710,329,369        | 566,901,732              |
| Write-down of inventories ..... | 189,364                        | 33,134             | 359,213            | 168,082                  |
| Reversal of write-down of       |                                |                    |                    |                          |
| inventories .....               | —                              | (171,040)          | —                  | (259,891)                |
|                                 | <u>287,335,188</u>             | <u>484,998,987</u> | <u>710,688,582</u> | <u>566,809,923</u>       |

The reversal of write-down of inventories arose upon sales of inventories, the value of which was written-down in prior years.

## 15 Trade and other receivables

|                  | <i>The Group</i>          |                    |                    |                    | <i>The Company</i>        |                |                |                    |
|------------------|---------------------------|--------------------|--------------------|--------------------|---------------------------|----------------|----------------|--------------------|
|                  | <i>As at December 31,</i> |                    |                    | <i>As at</i>       | <i>As at December 31,</i> |                |                | <i>As at</i>       |
|                  | <i>ended October 31,</i>  |                    |                    | <i>October 31,</i> | <i>ended October 31,</i>  |                |                | <i>October 31,</i> |
|                  | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>2014</i>        | <i>2011</i>               | <i>2012</i>    | <i>2013</i>    | <i>2014</i>        |
|                  | US\$                      | US\$               | US\$               | US\$               | US\$                      | US\$           | US\$           |                    |
| Trade            |                           |                    |                    |                    |                           |                |                |                    |
| receivables . .  | 76,942,162                | 127,261,800        | 156,800,295        | 183,064,135        | —                         | —              | —              | —                  |
| Less: allowance  |                           |                    |                    |                    |                           |                |                |                    |
| for doubtful     |                           |                    |                    |                    |                           |                |                |                    |
| debts            |                           |                    |                    |                    |                           |                |                |                    |
| (note 15(b)) . . | (90,038)                  | (92,962)           | (16,310)           | (9,214)            | —                         | —              | —              | —                  |
|                  | 76,852,124                | 127,168,838        | 156,783,985        | 183,054,921        | —                         | —              | —              | —                  |
| Other            |                           |                    |                    |                    |                           |                |                |                    |
| receivables      |                           |                    |                    |                    |                           |                |                |                    |
| and              |                           |                    |                    |                    |                           |                |                |                    |
| prepayments      | 8,542,604                 | 30,410,269         | 10,616,754         | 18,876,316         | 229,531                   | 275,816        | 155,050        | 299,971            |
|                  | <u>85,394,728</u>         | <u>157,579,107</u> | <u>167,400,739</u> | <u>201,931,237</u> | <u>229,531</u>            | <u>275,816</u> | <u>155,050</u> | <u>299,971</u>     |

All of the trade and other receivables are expected to be recovered or recognized as expense within one year. Some of the trade receivables were pledged to banks to secure banking facilities granted to the Group (note 18).

**(a) Ageing analysis**

As of the end of each of the Relevant Periods, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

|                              | <i>The Group</i>          |                    |                    |                    |
|------------------------------|---------------------------|--------------------|--------------------|--------------------|
|                              | <i>As at December 31,</i> |                    |                    | <i>As at</i>       |
|                              | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>October 31,</i> |
|                              | <i>US\$</i>               | <i>US\$</i>        | <i>US\$</i>        | <i>2014</i>        |
|                              |                           |                    |                    | <i>US\$</i>        |
| Within 1 month . . . . .     | 46,231,279                | 69,567,745         | 86,211,668         | 123,811,026        |
| Over 1 to 2 months . . . . . | 28,198,484                | 56,801,168         | 69,565,439         | 56,838,511         |
| Over 2 to 3 months . . . . . | 1,735,403                 | 662,541            | 646,900            | 1,899,819          |
| Over 3 months . . . . .      | <u>686,958</u>            | <u>137,384</u>     | <u>359,978</u>     | <u>505,565</u>     |
|                              | <u>76,852,124</u>         | <u>127,168,838</u> | <u>156,783,985</u> | <u>183,054,921</u> |

Trade receivables are due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 23(a).

**(b) Impairment of trade receivables**

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(i)).

The movement in the allowance for doubtful debts during the Relevant Periods is as follows:

|   | <i>The Group</i>               |               |               |                    |
|---|--------------------------------|---------------|---------------|--------------------|
|   | <i>Year ended December 31,</i> |               |               | <i>Ten months</i>  |
|   | <i>2011</i>                    | <i>2012</i>   | <i>2013</i>   | <i>ended</i>       |
|   | <i>US\$</i>                    | <i>US\$</i>   | <i>US\$</i>   | <i>October 31,</i> |
|   |                                |               |               | <i>2014</i>        |
|   |                                |               |               | <i>US\$</i>        |
| At January 1, . . . . .                     | 98,305                         | 90,038        | 92,962        | 16,310             |
| Impairment loss recognized . . . . .        | —                              | 65,490        | —             | —                  |
| Reversal of impairment loss . . . . .       | (8,122)                        | (3,640)       | (10,959)      | (7,187)            |
| Uncollectible amounts written off . . . . . | —                              | (61,241)      | (65,465)      | —                  |
| Exchange differences . . . . .              | <u>(145)</u>                   | <u>2,315</u>  | <u>(228)</u>  | <u>91</u>          |
| At December 31/October 31, . . . . .        | <u>90,038</u>                  | <u>92,962</u> | <u>16,310</u> | <u>9,214</u>       |

The Group's trade receivables of US\$90,038, US\$92,962, US\$16,310 and US\$9,214 were individually determined to be impaired as at December 31, 2011, 2012 and 2013 and October 31, 2014, respectively. The individually impaired receivables related to customers that were in financial difficulties

and management assessed that none of the receivables are recoverable. Consequently, specific allowances for doubtful debts of US\$90,038, US\$92,962, US\$16,310 and US\$9,214 were recognized as at December 31, 2011, 2012 and 2013 and October 31, 2014. The Group does not hold any collateral over these balances.

**(c) Trade receivables that are not impaired**

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

|  | <i>The Group</i>          |                    |                    |                    |
|--|---------------------------|--------------------|--------------------|--------------------|
|  | <i>As at December 31,</i> |                    |                    | <i>As at</i>       |
|  | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>October 31,</i> |
|  | US\$                      | US\$               | US\$               | 2014               |
|  | US\$                      | US\$               | US\$               | US\$               |
| Neither past due nor impaired . . . . .                          | 67,537,422                | 115,588,174        | 151,892,428        | 180,116,312        |
| Less than 1 month past due . . . . .                             | 8,520,349                 | 11,444,372         | 4,536,985          | 2,280,390          |
| 1 to 3 months past due . . . . .                                 | 535,473                   | 136,292            | 224,783            | 596,491            |
| More than 3 months but less than<br>12 months past due . . . . . | 258,880                   | —                  | 129,789            | 61,728             |
|  | <u>9,314,702</u>          | <u>11,580,664</u>  | <u>4,891,557</u>   | <u>2,938,609</u>   |
|  | <u>76,852,124</u>         | <u>127,168,838</u> | <u>156,783,985</u> | <u>183,054,921</u> |

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

**(d)** Non-current other receivables represented deposits and prepayments for property rental, fixed assets purchase, and guaranteed deposits paid to local customs authority.

**16 Cash and cash equivalents and pledged deposits**

**(a) Pledged deposits**

At December 31, 2011, 2012, 2013 and October 31, 2014, the Group and the Company had deposits pledged to secure the Group's banking facilities respectively, the details of which are set out in note 18.

At October 31, 2014, the Group's pledged deposits included US\$2,813,980 provided to local customs authority in the PRC.

**(b) Cash and cash equivalents comprise:**

|  | <i>The Group</i>          |                   |                   |                    | <i>The Company</i>        |                |                |                    |
|--|---------------------------|-------------------|-------------------|--------------------|---------------------------|----------------|----------------|--------------------|
|  | <i>As at December 31,</i> |                   |                   | <i>As at</i>       | <i>As at December 31,</i> |                |                | <i>As at</i>       |
|  | <i>2011</i>               | <i>2012</i>       | <i>2013</i>       | <i>October 31,</i> | <i>2011</i>               | <i>2012</i>    | <i>2013</i>    | <i>October 31,</i> |
|  | US\$                      | US\$              | US\$              | US\$               | US\$                      | US\$           | US\$           | US\$               |
| Bank deposits within three months to maturity when placed . . . . .          | 380,461                   | 850,997           | 1,878,737         | 1,353,692          | 346,831                   | —              | —              | —                  |
| Cash at bank and in hand . . . . .   | <u>13,505,227</u>         | <u>12,760,074</u> | <u>43,341,639</u> | <u>16,166,597</u>  | <u>91,764</u>             | <u>229,900</u> | <u>227,470</u> | <u>5,044,692</u>   |
| Cash and cash equivalents in the statement of financial position . . . . .   | <u>13,885,688</u>         | <u>13,611,071</u> | <u>45,220,376</u> | <u>17,520,289</u>  | <u>438,595</u>            | <u>229,900</u> | <u>227,470</u> | <u>5,044,692</u>   |
| Bank overdrafts (note 18) . . . . .  | <u>(11,010,886)</u>       | <u>(5,025)</u>    | <u>—</u>          | <u>—</u>           |                           |                |                |                    |
| Cash and cash equivalents in the consolidated cash flow statements . . . . . | <u>2,874,802</u>          | <u>13,606,046</u> | <u>45,220,376</u> | <u>17,520,289</u>  |                           |                |                |                    |

Included in the above are US\$8,395,017, US\$7,420,167, US\$33,026,714 and US\$4,512,596 as at December 31, 2011, 2012, 2013 and October 31, 2014, respectively, which are placed at banks which have general security over the bank accounts with them for banking facilities granted to the Group.

**(c) Reconciliation of profit before taxation to cash generated from/(used in) operations:**

|  | Section B<br>Note | Year ended December 31, |                    |                   | Ten months ended October 31, |                   |
|--|-------------------|-------------------------|--------------------|-------------------|------------------------------|-------------------|
|  |                   | 2011                    | 2012               | 2013              | 2013                         | 2014              |
|  |                   | US\$                    | US\$               | US\$              | US\$<br>(unaudited)          | US\$              |
| Profit before taxation . . .                                 |                   | 22,172,571              | 20,310,820         | 63,802,519        | 40,967,010                   | 39,260,476        |
| Adjustments for:   |                   |                         |                    |                   |                              |                   |
| Interest income . . . . .                                    | 4(a)              | (554,294)               | (735,261)          | (592,072)         | (391,364)                    | (259,848)         |
| Net loss/(gain) on disposal of plant and equipment . . .     | 4(b)              | 4,071                   | (23,856)           | 23,235            | 19,913                       | 311,416           |
| Valuation (gain)/loss on investment property . . . . .       | 4(b)              | (35,436)                | 17,587             | 42,349            | 22,259                       | 46,009            |
| Finance costs . . . . .                                      | 5(a)              | 951,037                 | 4,411,457          | 5,182,334         | 4,252,282                    | 2,303,620         |
| Equity settled share-based payment expense . . . . .         | 5(b)              | 351,405                 | 86,852             | —                 | —                            | —                 |
| Amortization . . . . .                                       | 5(c)              | 102,417                 | 51,100             | 114,610           | 83,215                       | 197,457           |
| Depreciation . . . . .                                       | 5(c)              | 5,190,482               | 7,236,461          | 10,849,580        | 8,929,287                    | 10,555,982        |
| Foreign exchange (gain)/loss . . . . .                       |                   | (452,721)               | (1,181,195)        | 1,316,528         | (612,266)                    | (268,407)         |
| Changes in working capital:                                  |                   |                         |                    |                   |                              |                   |
| (Increase)/decrease in inventories . . . . .                 |                   | (12,315,557)            | (18,983,040)       | 3,181,415         | (25,549,350)                 | (27,323,567)      |
| (Increase)/decrease in trade and other receivables . . . . . |                   | (46,415,702)            | (73,358,540)       | (10,691,000)      | 23,029,384                   | (35,422,696)      |
| Increase/(decrease) in trade and other payables . . . . .    |                   | 42,874,636              | 58,672,343         | (21,410,363)      | (7,719,830)                  | 57,367,473        |
| Increase in defined benefit obligations . . . . .            |                   | 46,384                  | 66,632             | 85,489            | 95,777                       | 97,124            |
| Cash generated from/ (used in) operations . . . . .          |                   | <u>11,919,293</u>       | <u>(3,428,640)</u> | <u>51,904,624</u> | <u>43,126,317</u>            | <u>46,865,039</u> |

## 17 Trade and other payables

|                                    | <i>The Group</i>          |                    |                    |                    | <i>The Company</i>        |                  |                  |                    |
|------------------------------------|---------------------------|--------------------|--------------------|--------------------|---------------------------|------------------|------------------|--------------------|
|                                    | <i>As at December 31,</i> |                    |                    | <i>As at</i>       | <i>As at December 31,</i> |                  |                  | <i>As at</i>       |
|                                    | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>October 31,</i> | <i>2011</i>               | <i>2012</i>      | <i>2013</i>      | <i>October 31,</i> |
|                                    | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>2014</i>        | <i>2011</i>               | <i>2012</i>      | <i>2013</i>      | <i>2014</i>        |
|                                    | US\$                      | US\$               | US\$               | US\$               | US\$                      | US\$             | US\$             | US\$               |
| Trade payables                     | 79,197,930                | 125,244,545        | 106,701,048        | 163,028,650        | —                         | —                | —                | —                  |
| Accrued charges and other payables | 6,654,756                 | 19,280,484         | 16,413,618         | 17,453,489         | —                         | 2,781,840        | 3,312,500        | 1,760,887          |
| Amounts due to subsidiaries        | —                         | —                  | —                  | —                  | 189,796                   | 189,796          | 5,326,083        | 10,597,875         |
|                                    | <u>85,852,686</u>         | <u>144,525,029</u> | <u>123,114,666</u> | <u>180,482,139</u> | <u>189,796</u>            | <u>2,971,636</u> | <u>8,638,583</u> | <u>12,358,762</u>  |

Amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

All of the trade and other payables are expected to be settled or recognized as income within one year or are repayable on demand.

As of the end of each of the Relevant Periods, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

|                    | <i>The Group</i>          |                    |                    |                    |
|--------------------|---------------------------|--------------------|--------------------|--------------------|
|                    | <i>As at December 31,</i> |                    |                    | <i>As at</i>       |
|                    | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>October 31,</i> |
|                    | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>2014</i>        |
|                    | US\$                      | US\$               | US\$               | US\$               |
| Within 1 month     | 35,813,855                | 44,313,281         | 39,973,960         | 94,626,431         |
| Over 1 to 3 months | 42,096,080                | 68,791,539         | 66,231,598         | 68,329,198         |
| Over 3 to 6 months | 1,125,048                 | 11,974,476         | 326,607            | 73,021             |
| Over 6 months      | 162,947                   | 165,249            | 168,883            | —                  |
|                    | <u>79,197,930</u>         | <u>125,244,545</u> | <u>106,701,048</u> | <u>163,028,650</u> |

**18 Bank loans and overdrafts**

At December 31, 2011, 2012 and 2013 and October 31, 2014, the bank loans and overdrafts were secured as follows:

|  | <i>The Group</i>          |                    |                    |                    |
|--|---------------------------|--------------------|--------------------|--------------------|
|  | <i>As at December 31,</i> |                    |                    | <i>As at</i>       |
|  | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>October 31,</i> |
|  | US\$                      | US\$               | US\$               | 2014               |
|  |                           |                    |                    | US\$               |
| Current—Within 1 year or on demand           |                           |                    |                    |                    |
| — Secured bank overdrafts (note 16(b)) . . . | 11,010,886                | 5,025              | —                  | —                  |
| — Secured bank loans . . . . .               | 39,417,680                | 142,095,987        | 121,808,780        | 83,308,192         |
|  | <u>50,428,566</u>         | <u>142,101,012</u> | <u>121,808,780</u> | <u>83,308,192</u>  |

Bank loans and overdrafts of the Group are secured as follows:

As at December 31, 2011, the Group's bank overdrafts and bank loans were also secured by pledged deposits, trade and other receivables and investment property, the carrying amounts of which were US\$23,032,128, US\$21,467,594 and US\$3,401,800, respectively. Certain loans were also secured by corporate guarantee given by the Company and by assets of a director. A loan of US\$1,143,267 was secured by the Government of the Hong Kong Special Administrative Region to the extent of 50% of the banking facility limit, HK\$6,000,000 (equivalent to US\$771,000).

As at December 31, 2012, the Group's bank overdrafts and bank loans were also secured by pledged deposits, trade and other receivables, plant and equipment and investment property, the carrying amounts of which were US\$52,115,065, US\$119,919,890, US\$17,958,212 and US\$3,664,177, respectively. Certain loans were also secured by corporate guarantee given by the Company and 50% of the Company's issued share capital held by one of the shareholders that have been pledged for the loans. The loan from a director was subordinated to bank loans.

As at December 31, 2013, the Group's bank loans were secured by pledged deposits, trade and other receivables and plant and equipment, the carrying amounts of which were US\$16,109,163, US\$115,416,254 and US\$12,889,634, respectively. Certain loans were also secured by corporate guarantee given by the Company.

As at October 31, 2014, the Group's bank loans were secured by pledged deposits, trade and other receivables, investment property and plant and equipment, the carrying amounts of which were US\$19,129,833, US\$142,128,568, US\$3,613,943 and US\$1,963,274, respectively. Certain loans were also secured by corporate guarantee given by the Company.

Unused facilities of the Group amounted to US\$20,991,026, US\$38,595,133, US\$71,780,381 and US\$65,441,960 as at December 31, 2011, 2012 and 2013 and October 31, 2014, respectively, which were secured by the securities disclosed above. Unused facilities as at December 31, 2013 were also secured by pledged deposits of US\$10,128,355 and investment property of US\$3,654,990.



As at December 31, 2013 and October 31, 2014, some of the Group's banking facilities were subject to the fulfilment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk and covenants are set out in note 23(b) and 22(f), respectively. None of the covenants relating to drawn down facilities had been breached during the Relevant Periods.

## 19 Employees retirement schemes

### (a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan for Korean employees working in Korea which covers 1.1%, 0.3%, 0.3% and 0.3% of the Group's employees as at December 31, 2011, 2012 and 2013 and October 31, 2014, respectively. The plan is administered by a trustee, who is independent, with its assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The independent actuarial valuation of the plan at December 31, 2011, 2012, 2013 and October 31, 2014 was prepared by qualified actuaries of Aon Hewitt Korea in Korea, who are Associates of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are 35.6%, 25.4%, 19.6% and 14.8% covered by the plan assets held by the trustees at December 31, 2011, 2012 and 2013 and October 31, 2014, respectively.

(i) The amounts recognized in the consolidated statement of financial position are as follows:

|  | <i>The Group</i>          |                  |                  |                    |
|--|---------------------------|------------------|------------------|--------------------|
|  | <i>As at December 31,</i> |                  |                  | <i>As at</i>       |
|  | <i>2011</i>               | <i>2012</i>      | <i>2013</i>      | <i>October 31,</i> |
|  | US\$                      | US\$             | US\$             | US\$               |
| Present value of wholly or partly funded by obligation . . . . . | 362,342                   | 542,045          | 664,626          | 902,502            |
| Fair value of plan assets . . . . .                              | <u>(129,070)</u>          | <u>(137,454)</u> | <u>(130,354)</u> | <u>(133,347)</u>   |
|  | <u>233,272</u>            | <u>404,591</u>   | <u>534,272</u>   | <u>769,155</u>     |

A portion of the above asset is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay US\$33,672 in contributions to the defined benefit retirement plan for the period from November 1, 2014 to October 31, 2015.

(ii) Plan assets

As at December 31, 2011, 2012 and 2013 and October 31, 2014, the Group's liability under this plan is covered by deposits placed with several banks. There is no plan asset invested in the Company's own financial instruments or any property occupied or other assets used by the Group.

## (iii) Movements in the present value of the defined benefit obligation

|  | Year ended December 31, |                |                | Ten months ended |
|--|-------------------------|----------------|----------------|------------------|
|  | 2011                    | 2012           | 2013           | October 31,      |
|  | US\$                    | US\$           | US\$           | 2014             |
| At January 1, .....  | 218,305                 | 362,342        | 542,045        | 664,626          |
| Remeasurements   |                         |                |                |                  |
| – Actuarial losses arising from changes in demographic assumptions .....       | 65,880                  | 46,554         | 82,780         | –                |
| – Actuarial losses arising from experience .....                               | –                       | –              | –              | 27,844           |
| – Actuarial losses/(gains) arising from changes in financial assumptions ..... | 41,436                  | 56,324         | (40,044)       | 107,953          |
|  | <u>107,316</u>          | <u>102,878</u> | <u>42,736</u>  | <u>135,797</u>   |
| Benefits paid .....  | (37,103)                | (28,309)       | (44,264)       | (34,986)         |
| Current service cost .....   | 64,727                  | 77,304         | 94,393         | 114,548          |
| Interest cost .....  | 12,357                  | 17,415         | 20,313         | 24,058           |
| Exchange difference .....  | (3,260)                 | 10,415         | 9,403          | (1,541)          |
| At December 31/October 31, .....   | <u>362,342</u>          | <u>542,045</u> | <u>664,626</u> | <u>902,502</u>   |

The weighted average duration of the defined benefit obligation is 14.1 years, 14.6 years and 13.6 years and 13.7 years, as at December 31, 2011, 2012 and 2013 and October 31, 2014, respectively.

## (iv) Movements in plan assets

|  | Year ended December 31, |                |                | Ten months ended |
|--|-------------------------|----------------|----------------|------------------|
|  | 2011                    | 2012           | 2013           | October 31,      |
|  | US\$                    | US\$           | US\$           | 2014             |
| At January 1, .....                                    | 137,563                 | 129,070        | 137,454        | 130,354          |
| Group's contributions paid to the plan .....           | 25,696                  | 21,623         | 32,522         | 34,986           |
| Benefits paid .....                                    | (37,103)                | (28,309)       | (44,264)       | (34,986)         |
| Interest income .....                                  | 4,194                   | 6,343          | 5,099          | 4,822            |
| Return on plan assets, excluding interest income ..... | 161                     | (1,809)        | (1,456)        | (1,962)          |
| Exchange difference .....                              | (1,441)                 | 10,536         | 999            | 133              |
| At December 31/October 31, .....                       | <u>129,070</u>          | <u>137,454</u> | <u>130,354</u> | <u>133,347</u>   |

- (v) Amounts recognized in the consolidated statement of profit or loss and other comprehensive income are as follows:

|  | Year ended December 31, |         |         | Ten months ended October 31, |         |
|--|-------------------------|---------|---------|------------------------------|---------|
|  | 2011                    | 2012    | 2013    | 2013                         | 2014    |
|  | US\$                    | US\$    | US\$    | US\$<br>(unaudited)          | US\$    |
| Current service cost . . . . .                                   | 64,727                  | 77,304  | 94,393  | 78,149                       | 114,548 |
| Net interest on net defined benefit liability . . . . .          | 8,163                   | 11,072  | 15,214  | 12,595                       | 19,236  |
| Total amount recognized in profit or loss . . . . .              | 72,890                  | 88,376  | 109,607 | 90,744                       | 133,784 |
| Actuarial losses . . . . .                                       | 107,316                 | 102,878 | 42,736  | —                            | 135,797 |
| Return on plan assets, excluding interest income . . . . .       | (161)                   | 1,809   | 1,456   | 1,330                        | 1,962   |
| Total amounts recognized in other comprehensive income . . . . . | 107,155                 | 104,687 | 44,192  | 1,330                        | 137,759 |
| Total defined benefits costs . . . . .                           | 180,045                 | 193,063 | 153,799 | 92,074                       | 271,543 |

The current service cost and the net interest on net defined benefit liability are recognized in administrative expenses in the consolidated statement of profit or loss.

- (vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

|                                   | As at December 31, |       |       | As at       |
|-----------------------------------|--------------------|-------|-------|-------------|
|                                   | 2011               | 2012  | 2013  | October 31, |
|                                   |                    |       |       | 2014        |
| Discount rate . . . . .           | 4.80%              | 3.93% | 4.39% | 3.41%       |
| Future salary increases . . . . . | 5.00%              | 5.00% | 5.00% | 5.00%       |

The below analysis shows how the defined benefit obligation as at October 31, 2014 would have increased/(decreased) as a result of 1% change in the significant actuarial assumptions:

|                                   | Increase in 1% | Decrease in 1% |
|-----------------------------------|----------------|----------------|
|                                   | US\$           | US\$           |
| Discount rate . . . . .           | (108,869)      | 132,307        |
| Future salary increases . . . . . | 128,828        | (108,331)      |

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

**(b) Defined contribution retirement plan**

The subsidiary in Hong Kong also participates in a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 (HK\$25,000 prior to June 2014 and HK\$20,000 prior to June 2012). Contributions to the scheme vest immediately.

Cowell DG participates in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred. The Group is required to contribute 16.3% to 17.8% of employees' remuneration to these schemes during the Relevant Periods.

**20 Equity-settled share based transactions**

The Company had one share option scheme which was adopted on March 30, 2010 whereby the directors of the Company were authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company. The options were to vest after two years from the date of grant and exercisable within a period of five years. Each option gave the holder the right to subscribe for one ordinary share in the Company and was to be settled gross in shares.

During 2012, all exercisable options were cancelled and therefore the Company recognized expenses that otherwise would have been recognized for services received over the remainder of the vesting period.

**(a) The terms and conditions of the grant were as follows:**

|   | <u>Number of<br/>instruments</u> | <u>Vesting<br/>conditions</u>          | <u>Contractual<br/>life of<br/>options</u> |
|---|----------------------------------|--|--|
| Options granted to directors: . . . . . | 200,000                          | Two years<br>from the<br>date of grant | 7 years                                    |
| Options granted to employees: . . . . . | 450,000                          | Two years<br>from the<br>date of grant | 7 years                                    |
|   | <u>650,000</u>                   |  |  |

**(b) The number and weighted average exercise prices of share options were as follows:**

|  | 2011                                  |                      | 2012                                  |                      |
|--|---------------------------------------|----------------------|---------------------------------------|----------------------|
|  | Weighted<br>average<br>exercise price | Number of<br>options | Weighted<br>average<br>exercise price | Number of<br>options |
|  | US\$/KRW                              |                      | US\$/KRW                              |                      |
| Outstanding at the beginning of the year . . . . . | 1.92/2,125                            | 650,000              | 1.89/2,125                            | 650,000              |
| Cancelled during the year . . . . .                | —                                     | —                    | 1.89/2,125                            | (650,000)            |
| Outstanding at the end of the year . . . . .       | 1.92/2,125                            | <u>650,000</u>       | —                                     | <u>—</u>             |
| Exercisable at the end of the year . . . . .       | 1.92/2,125                            | <u>650,000</u>       | —                                     | <u>—</u>             |

The options outstanding at December 31, 2011 had an exercise price of US\$1.92 and a weighted average remaining contractual life of 5.2 years.

**(c) Fair value of share options and assumptions**

The fair value of services received in return for share options granted was measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was measured based on the Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

*Fair value of share options and assumptions (original currency in KRW)*

|   | KRW   | Equivalents to US\$ |           |
|---|-------|---------------------|-----------|
|   |       | 2011                | 2012      |
| Fair value at measurement date . . . . .                            | 1,247 | 1.13                | 1.11      |
| Share price . . . . .   | 2,000 | 1.80                | 1.78      |
| Exercise price . . . . .  | 2,125 | 1.92                | 1.89      |
| Expected volatility . . . . .                                       |       | 79.41%              | 79.41%    |
| Expected life . . . . .   |       | 4.5 years           | 4.5 years |
| Expected dividends . . . . .  |       | —                   | —         |
| Risk-free interest rate (based on Korean government bond) . . . . . |       | 3.92%               | 3.92%     |

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The expected volatility was based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

## 21 Income tax in the consolidated statement of financial position

## (a) Current taxation in the consolidated statement of financial position represents:

|   | <i>The Group</i>          |                    |                    |                    |
|---|---------------------------|--------------------|--------------------|--------------------|
|   | <i>As at December 31,</i> |                    |                    | <i>As at</i>       |
|   | <i>2011</i>               | <i>2012</i>        | <i>2013</i>        | <i>October 31,</i> |
|   | <i>US\$</i>               | <i>US\$</i>        | <i>US\$</i>        | <i>2014</i>        |
|   | <i>US\$</i>               | <i>US\$</i>        | <i>US\$</i>        | <i>US\$</i>        |
| Provision for Hong Kong Profits Tax for the year/period . . . . . | 1,981,340                 | 1,447,398          | 6,412,578          | 2,045,849          |
| Provisional Profits Tax paid . . . . .                            | <u>(1,670,609)</u>        | <u>(1,988,749)</u> | <u>(1,447,971)</u> | <u>(4,134,284)</u> |
|   | 310,731                   | (541,351)          | 4,964,607          | (2,088,435)        |
| Provision for tax outside Hong Kong . . . . .                     | <u>1,656,012</u>          | <u>4,684,944</u>   | <u>7,614,733</u>   | <u>8,127,255</u>   |
|   | <u>1,966,743</u>          | <u>4,143,593</u>   | <u>12,579,340</u>  | <u>6,038,820</u>   |
| <b>Representing:</b>  |                           |                    |                    |                    |
| Tax recoverable . . . . .   | —                         | (541,351)          | —                  | (2,126,117)        |
| Tax payable . . . . .   | <u>1,966,743</u>          | <u>4,684,944</u>   | <u>12,579,340</u>  | <u>8,164,937</u>   |
|   | <u>1,966,743</u>          | <u>4,143,593</u>   | <u>12,579,340</u>  | <u>6,038,820</u>   |

**(b) Deferred tax assets and liabilities recognized:**

## (i) The Group

The components of deferred tax assets/(liabilities) recognized in the consolidated statement of financial position and the movements during the Relevant Periods are as follows:

|  | <b>Depreciation<br/>allowances<br/>less than/(in<br/>excess of)<br/>the related<br/>depreciation</b> | <b>Unused tax<br/>losses</b> | <b>Defined<br/>benefit<br/>retirement<br/>plan<br/>liability</b> | <b>Provisions</b> | <b>Revaluation<br/>of investment<br/>property</b> | <b>Unrealized<br/>profits</b> | <b>Others</b> | <b>Total</b>     |
|--|--|------------------------------|--|-------------------|---|-------------------------------|---------------|------------------|
|  | <b>US\$</b>  | <b>US\$</b>                  | <b>US\$</b>  | <b>US\$</b>       | <b>US\$</b>                                       | <b>US\$</b>                   | <b>US\$</b>   | <b>US\$</b>      |
| At January 1, 2011 . . . . .                                     | 200,108  | 21,029                       | 42,305   | 34,363            | (484,642)   | —                             | (18,786)      | (205,623)        |
| Credited/(charged) to<br>profit or loss<br>(note 6(a)) . . . . . | 232,026  | (21,614)                     | 9,796  | (9,977)           | (7,796)   | 131,788                       | 21,589        | 355,812          |
| Credited to reserves<br>(note 9) . . . . .                       | —  | —                            | 21,430   | —                 | —   | —                             | —             | 21,430           |
| Exchange adjustments . . .                                       | (1,468)  | 585                          | (420)  | (37)              | 6,356   | —                             | (610)         | 4,406            |
| At December 31, 2011<br>and January 1, 2012 . . .                | 430,666  | —                            | 73,111   | 24,349            | (486,082)   | 131,788                       | 2,193         | 176,025          |
| (Charged)/credited to<br>profit or loss (note<br>6(a)) . . . . . | (238,402)  | —                            | 5,609  | 11,037            | 25,000  | (106,355)                     | (9,742)       | (312,853)        |
| Credited to reserves<br>(note 9) . . . . .                       | —  | —                            | 20,939   | —                 | —   | —                             | —             | 20,939           |
| Exchange adjustments . . .                                       | (6,574)  | —                            | (2,100)  | (2,954)           | (38,322)  | —                             | (2,772)       | (52,722)         |
| At December 31, 2012<br>and January 1, 2013 . . .                | 185,690  | —                            | 97,559   | 32,432            | (499,404)   | 25,433                        | (10,321)      | (168,611)        |
| (Charged)/credited to<br>profit or loss (note<br>6(a)) . . . . . | (376,737)  | —                            | 15,403   | 8,506             | 8,470   | 93,702                        | 68,021        | (182,635)        |
| Credited to reserves<br>(note 9) . . . . .                       | —  | —                            | 8,840  | —                 | —   | —                             | —             | 8,840            |
| Exchange adjustments . . .                                       | 10,446   | —                            | 5,311  | 6,281             | (4,813)   | —                             | 2,428         | 19,653           |
| At December 31, 2013<br>and January 1, 2014 . . .                | (180,601)  | —                            | 127,113  | 47,219            | (495,747)   | 119,135                       | 60,128        | (322,753)        |
| (Charged)/credited to<br>profit or loss<br>(note 6(a)) . . . . . | (308,887)  | —                            | 2,467  | 4,775             | (11,797)  | 39,418                        | (35,295)      | (309,319)        |
| Credited to reserves<br>(note 9) . . . . .                       | —  | —                            | 30,307   | —                 | —   | —                             | —             | 30,307           |
| Exchange adjustments . . .                                       | 129  | —                            | (170)  | 10                | (496)   | —                             | —             | (527)            |
| At October 31, 2014 . . . .                                      | <u>(489,359)</u>   | <u>—</u>                     | <u>159,717</u>   | <u>52,004</u>     | <u>(508,040)</u>                                  | <u>158,553</u>                | <u>24,833</u> | <u>(602,292)</u> |

## (ii) Reconciliation to the consolidated statement of financial position

|  | <b>The Group</b>          |                  |                  |                    |
|--|---------------------------|------------------|------------------|--------------------|
|  | <b>As at December 31,</b> |                  |                  | <b>As at</b>       |
|  | <b>2011</b>               | <b>2012</b>      | <b>2013</b>      | <b>October 31,</b> |
|  | <b>US\$</b>               | <b>US\$</b>      | <b>US\$</b>      | <b>2014</b>        |
|  | <b>US\$</b>               | <b>US\$</b>      | <b>US\$</b>      | <b>US\$</b>        |
| Net deferred tax assets recognized in the consolidated<br>statement of financial position . . . . .      | 509,996                   | 181,052          | —                | 120,944            |
| Net deferred tax liabilities recognized in the consolidated<br>statement of financial position . . . . . | (333,971)                 | (349,663)        | (322,753)        | (723,236)          |
|  | <u>176,025</u>            | <u>(168,611)</u> | <u>(322,753)</u> | <u>(602,292)</u>   |

**(c) Deferred tax liabilities not recognized**

Under the CIT and its implementation rules, a withholding tax at 10%, unless reduced by a tax treaty or arrangement, is applied on dividends received by non-PRC-resident corporate investors from PRC-resident enterprises, such as the Company's PRC subsidiary. Undistributed earnings prior to January 1, 2008 are exempt from such withholding tax. Under the China-Hong Kong Tax Arrangement and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%. The Group has determined that it qualifies for the 5% withholding tax rate.

Temporary differences relating to the undistributed profits of the Group's PRC subsidiary amounted to US\$10,119,752, US\$16,982,797, US\$33,619,356 and US\$46,053,466 as at December 31, 2011, 2012 and 2013 and October 31, 2014 respectively. Deferred tax liabilities of US\$505,988, US\$849,140, US\$1,680,968 and US\$2,302,673 as at December 31, 2011, 2012 and 2013 and October 31, 2014 respectively, have not been recognized in respect of these undistributed profits as the Company controls the dividend policy of the subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

**22 Capital and reserves****(a) Movements in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the Relevant Periods are set out below:

*The Company*

|   | <i>Section B<br/>Note</i> | <i>Share<br/>capital</i> | <i>Share<br/>premium</i> | <i>Capital<br/>redemption<br/>reserve</i> | <i>Other<br/>reserve</i> | <i>Accumulated<br/>losses</i> | <i>Total</i> |
|---|---------------------------|--------------------------|--------------------------|---|--------------------------|-------------------------------|--------------|
|   |                           | US\$                     | US\$                     | US\$                                      | US\$                     | US\$                          | US\$         |
| <b>At January 1, 2011</b> . . . . .                           |                           | 3,000,000                | 22,786,352               | —   | 269,079                  | (5,372,380)                   | 20,683,051   |
| <b>Changes in equity for 2011:</b>                            |                           |                          |                          |   |                          |                               |              |
| Loss for the year and total comprehensive income . . . . .    |                           | —                        | —                        | —   | —                        | (411,607)                     | (411,607)    |
| Equity settled share-based transactions . . . . .             |                           | —                        | —                        | —   | 351,405                  | —                             | 351,405      |
| <b>At December 31, 2011 and<br/>January 1, 2012</b> . . . . . |                           | 3,000,000                | 22,786,352               | —   | 620,484                  | (5,783,987)                   | 20,622,849   |
| <b>Changes in equity for 2012:</b>                            |                           |                          |                          |   |                          |                               |              |
| Loss for the year and total comprehensive income . . . . .    |                           | —                        | —                        | —   | —                        | (705,407)                     | (705,407)    |
| Equity settled share-based transactions . . . . .             |                           | —                        | —                        | —   | 86,852                   | —                             | 86,852       |
| Purchase of own shares: . . . . .                             | 22(c)                     |                          |                          |   |                          |                               |              |
| — Par value paid . . . . .                                    |                           | (6,725)                  | —                        | —   | —                        | —                             | (6,725)      |
| — Premium paid . . . . .                                      |                           | —                        | (248,339)                | —   | —                        | —                             | (248,339)    |
| — Transfer between reserves . . .                             |                           | —                        | (6,725)                  | 6,725                                     | —                        | —                             | —            |



|   | Section B<br>Note | Share<br>capital | Share<br>premium  | Capital<br>redemption<br>reserve | Other<br>reserve | Accumulated<br>losses | Total             |
|---|-------------------|------------------|-------------------|----------------------------------|------------------|-----------------------|-------------------|
|   |                   | US\$             | US\$              | US\$                             | US\$             | US\$                  | US\$              |
| <b>At December 31, 2012 and<br/>January 1, 2013</b> .....                   |                   | 2,993,275        | 22,531,288        | 6,725                            | 707,336          | (6,489,394)           | 19,749,230        |
| <b>Changes in equity for 2013:</b>  |                   |                  |                   |                                  |                  |                       |                   |
| Loss for the year and total<br>comprehensive income .....                   |                   | —                | —                 | —                                | —                | (4,553,563)           | (4,553,563)       |
| <b>At December 31, 2013 and<br/>January 1, 2014</b> .....                   |                   | 2,993,275        | 22,531,288        | 6,725                            | 707,336          | (11,042,957)          | 15,195,667        |
| <b>Changes in equity for the ten<br/>months ended October 31,<br/>2014:</b> |                   |                  |                   |                                  |                  |                       |                   |
| Loss for the period and total<br>comprehensive income .....                 |                   | —                | —                 | —                                | —                | (2,926,516)           | (2,926,516)       |
| <b>At October 31, 2014</b> .....  |                   | <u>2,993,275</u> | <u>22,531,288</u> | <u>6,725</u>                     | <u>707,336</u>   | <u>(13,969,473)</u>   | <u>12,269,151</u> |
| <b>(Unaudited)</b>  |                   |                  |                   |                                  |                  |                       |                   |
| <b>At December 31, 2012 and<br/>January 1, 2013</b> .....                   |                   | 2,993,275        | 22,531,288        | 6,725                            | 707,336          | (6,489,394)           | 19,749,230        |
| <b>Changes in equity for the ten<br/>months ended October 31,<br/>2013:</b> |                   |                  |                   |                                  |                  |                       |                   |
| Loss for the period and total<br>comprehensive income .....                 |                   | —                | —                 | —                                | —                | (4,070,595)           | (4,070,595)       |
| <b>At October 31, 2013</b> .....  |                   | <u>2,993,275</u> | <u>22,531,288</u> | <u>6,725</u>                     | <u>707,336</u>   | <u>(10,559,989)</u>   | <u>15,678,635</u> |

**(b) Share capital**

(i) Authorized and issued share capital

|   | As at December 31,  |                  |                     |                  |                     |                  | As at October 31,   |                  |
|---|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
|   | 2011                |                  | 2012                |                  | 2013                |                  | 2014                |                  |
|   | Number<br>of shares | Amount           | Number<br>of shares | Amount           | Number<br>of shares | Amount           | Number<br>of shares | Amount           |
|   | '000                | US\$             | '000                | US\$             | '000                | US\$             | '000                | US\$             |
| <b>Authorized:</b>                                      |                     |                  |                     |                  |                     |                  |                     |                  |
| Ordinary shares of<br>US\$0.1 each                      |                     |                  |                     |                  |                     |                  |                     |                  |
| At December 31/<br>Ordinary shares of<br>US\$0.004 each |                     |                  |                     |                  |                     |                  |                     |                  |
| At October 31, .....                                    | 50,000              | 5,000,000        | 50,000              | 5,000,000        | 50,000              | 5,000,000        | 10,000,000          | 40,000,000       |
| Redeemable preference<br>shares of US\$0.1 each         |                     |                  |                     |                  |                     |                  |                     |                  |
| At  |                     |                  |                     |                  |                     |                  |                     |                  |
| December 31/<br>October 31, .....                       | —                   | —                | 30,000              | 3,000,000        | 30,000              | 3,000,000        | —                   | —                |
| <b>Ordinary shares, issued<br/>and fully paid:</b>      |                     |                  |                     |                  |                     |                  |                     |                  |
| At January 1, .....                                     | 30,000              | 3,000,000        | 30,000              | 3,000,000        | 29,933              | 2,993,275        | 748,319             | 2,993,275        |
| Shares repurchased .....                                | —                   | —                | (67)                | (6,725)          | —                   | —                | —                   | —                |
| At December 31/<br>October 31, .....                    | <u>30,000</u>       | <u>3,000,000</u> | <u>29,933</u>       | <u>2,993,275</u> | <u>29,933</u>       | <u>2,993,275</u> | <u>748,319</u>      | <u>2,993,275</u> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The holders of redeemable preference shares carry the right to vote. Dividends accrue on the preference shares at a rate to be agreed between the holders and the Company. The redeemable preference shares can be redeemed at a date to be agreed between the holders and the Company at an amount of the aggregate consideration paid for the redeemable preference shares and the aggregate accrued dividends not paid. There were no redeemable preference shares issued or in issue during the Relevant Periods.

Each of the redeemable preference shares was converted into one ordinary share on September 19, 2014.

Pursuant to a resolution dated September 19, 2014, the Company subdivided one share into 25 shares and reduced par value from US\$0.1 each to US\$0.004 each accordingly. After the share subdivision, total number of authorized ordinary shares were increased to 2,000,000,000 shares of US\$0.004 each and total number of issued and fully paid ordinary shares were increased to 748,318,800 shares of US\$0.004 each.

(ii) Increase in authorized share capital

By a special resolution passed at the extraordinary general meeting held on February 22, 2012, the Company's authorized share capital was increased to US\$8,000,000 by the creation of an additional 30,000,000 redeemable preference shares of US\$0.1 each.

By a resolution dated September 19, 2014, the Company's authorized share capital was increased to US\$40,000,000 by creation of an additional 8,000,000,000 ordinary shares of US\$0.004 each.

**(c) Purchase of own shares**

The Company repurchased its own ordinary shares in 2012 with details as follows:

| <i>Month/year</i> | <i>Number of<br/>shares<br/>repurchased</i> | <i>Price paid<br/>per share</i> | <i>Aggregate<br/>price</i> |
|-------------------|---|---------------------------------|----------------------------|
|                   |   | US\$                            | US\$                       |
| August 2012 ..... | <u>67,248</u>                               | <u>3.79</u>                     | <u>255,064</u>             |

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the par value of the shares cancelled of US\$6,725 was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of US\$248,339 was charged to share premium.

**(d) Nature and purpose of reserves**

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve of the Group and the Company is governed by the Companies Law of the Cayman Islands.

(ii) Other reserve

The Company's other reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Group recognized in accordance with the accounting policy adopted for share-based payments in note 1(p)(iii).

The Group's other reserve comprises the Company's other reserve and the difference between the consideration paid by the Company to acquire non-controlling interests in Cowell Electronics Co., Ltd. (note 13(a)) and its carrying amount on the date of acquisition.

(iii) General reserve fund

According to the PRC laws applicable to wholly-owned foreign investment enterprises, the PRC subsidiary of the Group is required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the general reserve fund until the balance of the fund equals to 50% of the respective enterprise's authorized capital. This fund can be used to make good losses and to convert into paid-up capital.

(iv) Property revaluation reserve

The fair value reserve of the Group comprises the revaluation gain upon transfer of a property from property, plant and equipment to investment property.

(v) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

**(e) Distributability of reserves of the Company**

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The aggregate amount of distributable reserves of the Company as at December 31, 2011, 2012 and 2013 and October 31, 2014, was US\$17,622,849, US\$16,749,230, US\$12,195,667 and US\$9,269,151 respectively.

**(f) Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt as total debt (which includes bank loans and overdrafts) less cash and cash equivalents and pledged deposits.

The Group's strategy was to maintain a relatively low net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

|   | <i>The Group</i>          |                   |                          |                    | <i>The Company</i>        |                     |                          |                     |
|---|---------------------------|-------------------|--------------------------|--------------------|---------------------------|---------------------|--------------------------|---------------------|
|   | <i>As at December 31,</i> |                   | <i>As at October 31,</i> |                    | <i>As at December 31,</i> |                     | <i>As at October 31,</i> |                     |
|   | <i>2011</i>               | <i>2012</i>       | <i>2013</i>              | <i>2014</i>        | <i>2011</i>               | <i>2012</i>         | <i>2013</i>              | <i>2014</i>         |
|   | <i>US\$</i>               | <i>US\$</i>       | <i>US\$</i>              | <i>US\$</i>        | <i>US\$</i>               | <i>US\$</i>         | <i>US\$</i>              | <i>US\$</i>         |
| Bank loans and overdrafts<br>(note 18) . . . . .          | 50,428,566                | 142,101,012       | 121,808,780              | 83,308,192         | —                         | —                   | —                        | —                   |
| Less: Cash and cash equivalents<br>(note 16(b)) . . . . . | (13,885,688)              | (13,611,071)      | (45,220,376)             | (17,520,289)       | (438,595)                 | (229,900)           | (227,470)                | (5,044,692)         |
| Pledged deposits<br>(note 16(a)) . . . . .                | (23,032,128)              | (52,115,065)      | (26,237,518)             | (21,943,813)       | (19,418,529)              | (20,913,080)        | (21,226,192)             | (16,129,032)        |
| Adjusted net debt . . . . .                               | <u>13,510,750</u>         | <u>76,374,876</u> | <u>50,350,886</u>        | <u>43,844,090</u>  | <u>(19,857,124)</u>       | <u>(21,142,980)</u> | <u>(21,453,662)</u>      | <u>(21,173,724)</u> |
| Total equity . . . . .                                    | <u>72,293,115</u>         | <u>86,388,886</u> | <u>139,862,861</u>       | <u>169,219,086</u> | <u>20,622,849</u>         | <u>19,749,230</u>   | <u>15,195,667</u>        | <u>12,269,151</u>   |
| Adjusted net debt-to capital ratio . . . . .              | <u>0.187</u>              | <u>0.884</u>      | <u>0.360</u>             | <u>0.259</u>       | <u>(0.963)</u>            | <u>(1.071)</u>      | <u>(1.412)</u>           | <u>(1.726)</u>      |

As at December 31, 2013 and October 31, 2014, the Group is subject to the fulfilment of certain covenants which include maintaining its total indebtedness over earnings before interest, tax, depreciation and amortization of the Group is not and will not be at any time greater than 2.5 times and the maximum tangible net worth of the Group is not and will not be at any time less than US\$100 million. Except for the above, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements, during the Relevant Periods.

## 23 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, financial assets and deposits with banks. Management has a credit policy of monitoring the exposures to these credit risks on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within thirty to ninety days from the date of billing. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2011, 2012, 2013 and October 31, 2014, 76.0%, 80.7%, 90.6% and 86.3%, respectively of the total trade receivables was due from the Group's largest customer, and 96.9%, 98.1%, 98.9% and 98.9%, respectively, of total trade receivables were due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position, after deducting any impairment provisions. Except for the financial guarantees given by the Company as set out in notes 18 and 25, the Group and the Company do not provide other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

**(b) Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the approval by the parent company's board in respect of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of each of the Relevant Periods of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of each of the Relevant Periods) and the earliest date the Group can be required to pay.

|                                 | <i>As at December 31, 2011</i>                       |                            |
|---------------------------------|--|----------------------------|
|                                 | <i>Contractual<br/>undiscounted<br/>cash outflow</i> |                            |
|                                 | <i>Within<br/>1 year or<br/>on demand</i>            | <i>Carrying<br/>amount</i> |
|                                 | US\$   | US\$                       |
| Trade and other payables .....  | 85,852,686   | 85,852,686                 |
| Bank loans and overdrafts ..... | 50,726,414   | 50,428,566                 |
| Loan from a director .....      | 2,006,986  | 2,006,986                  |
|                                 | <u>138,586,086</u>                                   | <u>138,288,238</u>         |
|                                 | <i>As at December 31, 2012</i>                       |                            |
|                                 | <i>Contractual<br/>undiscounted<br/>cash outflow</i> |                            |
|                                 | <i>Within<br/>1 year or<br/>on demand</i>            | <i>Carrying<br/>amount</i> |
|                                 | US\$   | US\$                       |
| Trade and other payables .....  | 144,525,029  | 144,525,029                |
| Bank loans and overdrafts ..... | 144,242,186  | 142,101,012                |
| Loan from a director .....      | 2,173,656  | 2,012,644                  |
|                                 | <u>290,940,871</u>                                   | <u>288,638,685</u>         |

|                                 | <i>As at December 31, 2013</i>                       |                            |
|---------------------------------|--|----------------------------|
|                                 | <i>Contractual<br/>undiscounted<br/>cash outflow</i> |                            |
|                                 | <i>Within<br/>1 year or<br/>on demand</i>            | <i>Carrying<br/>amount</i> |
|                                 | US\$   | US\$                       |
| Trade and other payables .....  | 123,114,666  | 123,114,666                |
| Bank loans and overdrafts ..... | 121,813,189  | 121,808,780                |
| Loan from a director .....      | 2,071,600  | 2,000,000                  |
|                                 | <u>246,999,455</u>                                   | <u>246,923,446</u>         |
|                                 | <i>As at October 31, 2014</i>                        |                            |
|                                 | <i>Contractual<br/>undiscounted<br/>cash outflow</i> |                            |
|                                 | <i>Within<br/>1 year or<br/>on demand</i>            | <i>Carrying<br/>amount</i> |
|                                 | US\$   | US\$                       |
| Trade and other payables .....  | 180,482,139  | 180,482,139                |
| Bank loans and overdrafts ..... | 83,324,822   | 83,308,192                 |
|                                 | <u>263,806,961</u>                                   | <u>263,790,331</u>         |

As shown in the above analysis, bank loans and overdrafts of the Group amounting to US\$50,726,414, US\$144,242,186, US\$121,813,189 and US\$83,324,822, respectively, were due to be repaid during the year ended December 31, 2012, 2013 and 2014 and the period from November 1, 2014 to October 31, 2015, respectively. The short-term liquidity risk inherent in this contractual maturity has been addressed at the time the loans were drawn and are accounted for in the Group's cash flow forecasts.

The Company's financial liabilities were all expected to be repaid within 1 year or on demand at their carrying amounts as at December 31, 2011, 2012 and 2013 and October 31, 2014.

**(c) Interest rate risk**

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group monitors the level of its fixed rate and variable rate borrowings and manages the contractual terms of the interest-bearing financial liabilities. The Group's interest rate profile as monitored by management is set out in (i) below.

## (i) Interest rate profile

*The Group*

|   | As at December 31,      |                   |                         |                    |                         |                    | As at October 31,       |                   |
|---|-------------------------|-------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|-------------------|
|   | 2011                    |                   | 2012                    |                    | 2013                    |                    | 2014                    |                   |
|   | Effective interest rate | Amount            | Effective interest rate | Amount             | Effective interest rate | Amount             | Effective interest rate | Amount            |
|   | %                       | US\$              | %                       | US\$               | %                       | US\$               | %                       | US\$              |
| <b>Fixed rate borrowings:</b>   |                         |                   |                         |                    |                         |                    |                         |                   |
| Bank loans and overdrafts . . . . .                                     | 6.10                    | 1,899,035         | 3.69                    | 3,688,554          | 2.72                    | 2,115,362          | —                       | —                 |
| Loan from a director . . . . .  | —                       | 2,006,986         | 8.00                    | 2,012,644          | —                       | —                  | —                       | —                 |
|   |                         | <u>3,906,021</u>  |                         | <u>5,701,198</u>   |                         | <u>2,115,362</u>   |                         | <u>—</u>          |
| <b>Variable rate borrowings:</b>  |                         |                   |                         |                    |                         |                    |                         |                   |
| Bank loans and overdrafts . . . . .                                     | 1.74                    | 48,529,531        | 2.67                    | 138,412,458        | 1.62                    | 119,693,418        | 1.76                    | 83,308,192        |
| Loan from a director . . . . .  | —                       | —                 | —                       | —                  | 3.58                    | 2,000,000          | —                       | —                 |
|   |                         | <u>48,529,531</u> |                         | <u>138,412,458</u> |                         | <u>121,693,418</u> |                         | <u>83,308,192</u> |
| Total borrowings . . .  |                         | <u>52,435,552</u> |                         | <u>144,113,656</u> |                         | <u>123,808,780</u> |                         | <u>83,308,192</u> |
| Fixed rate borrowings as a percentage of total net borrowings . . . . . |                         | <u>7.45%</u>      |                         | <u>3.96%</u>       |                         | <u>1.71%</u>       |                         | <u>—%</u>         |



(ii) Sensitivity analysis

At December 31, 2011, 2012 and 2013 and October 31, 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately US\$404,448, US\$1,155,249, US\$1,016,140 and US\$695,206, respectively. Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of each of the Relevant Periods and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of each of the Relevant Periods. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of each of the Relevant Periods, the impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualized impact on interest expense of such a change in interest rates. The analysis is performed on the same basis throughout the Relevant Periods.

**(d) Currency risk**

The Company's functional currency and presentation currency are US\$.

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HK\$"), KRW and Japanese Yen ("JPY").

As the HK\$ is pegged to the US\$, the Company does not expect any significant movements in the US\$/HK\$ exchange rate.

The Group's foreign operations do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the foreign operations for use within the respective operations.

## (i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of each of the Relevant Periods to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US\$, translated using spot rate at the year end date. Differences resulting from the translation of financial statements of foreign operations into the Group's presentation currency is excluded.

*The Group*

|                                | Exposure to foreign currencies (expressed in US\$) |                   |                  |                     |                   |                  |                     |                   |                  |                     |                   |                  |
|--------------------------------|--|-------------------|------------------|---------------------|-------------------|------------------|---------------------|-------------------|------------------|---------------------|-------------------|------------------|
|                                | As at December 31,                                 |                   |                  |                     |                   |                  |                     |                   |                  | As at October 31,   |                   |                  |
|                                | 2011   |                   |                  | 2012                |                   |                  | 2013                |                   |                  | 2014                |                   |                  |
|                                | US\$<br>\$   | KRW<br>\$         | JPY<br>\$        | US\$<br>\$          | KRW<br>\$         | JPY<br>\$        | US\$<br>\$          | KRW<br>\$         | JPY<br>\$        | US\$<br>\$          | KRW<br>\$         | JPY<br>\$        |
| Trade and other                |  |                   |                  |                     |                   |                  |                     |                   |                  |                     |                   |                  |
| receivables . . . . .          | 77,575,009   | —                 | —                | 132,915,604         | —                 | —                | 159,065,981         | —                 | 6,081            | 192,353,719         | —                 | —                |
| Pledged deposits . . . . .     | 3,613,599  | 19,418,529        | —                | 31,201,985          | 20,913,080        | —                | 5,011,326           | 21,226,192        | —                | 3,000,801           | 16,129,032        | —                |
| Cash and cash                  |  |                   |                  |                     |                   |                  |                     |                   |                  |                     |                   |                  |
| equivalents . . . . .          | 11,338,810   | 390,212           | 1,026            | 8,195,939           | 30,066            | 915              | 41,756,539          | 218,671           | 1,973            | 10,993,025          | 422,282           | 1,447            |
| Trade and other                |  |                   |                  |                     |                   |                  |                     |                   |                  |                     |                   |                  |
| payables . . . . .             | (80,066,061)                                       | (381,426)         | (973,446)        | (117,280,300)       | (1,975,769)       | (497,674)        | (113,260,013)       | (741,609)         | (119,066)        | (168,414,724)       | (2,975,497)       | (127,444)        |
| Bank loans and                 |  |                   |                  |                     |                   |                  |                     |                   |                  |                     |                   |                  |
| overdrafts . . . . .           | (47,027,636)                                       | —                 | —                | (138,512,453)       | —                 | —                | (121,793,418)       | —                 | —                | (82,549,179)        | —                 | —                |
| Loan from a director . . . . . | (2,006,986)  | —                 | —                | (2,012,644)         | —                 | —                | (2,000,000)         | —                 | —                | —                   | —                 | —                |
| Net exposure arising           |  |                   |                  |                     |                   |                  |                     |                   |                  |                     |                   |                  |
| from recognized                |  |                   |                  |                     |                   |                  |                     |                   |                  |                     |                   |                  |
| assets and                     |  |                   |                  |                     |                   |                  |                     |                   |                  |                     |                   |                  |
| liabilities . . . . .          | <u>(36,573,265)</u>                                | <u>19,427,315</u> | <u>(972,420)</u> | <u>(85,491,869)</u> | <u>18,967,377</u> | <u>(496,759)</u> | <u>(31,219,585)</u> | <u>20,703,254</u> | <u>(111,012)</u> | <u>(44,616,358)</u> | <u>13,575,817</u> | <u>(125,997)</u> |

*The Company*

|                                      | Exposure to foreign currencies (expressed in US\$) |                   |                   |                   |
|--------------------------------------|--|-------------------|-------------------|-------------------|
|                                      | As at December 31,                                 |                   |                   | As at October 31, |
|                                      | 2011   | 2012              | 2013              | 2014              |
|                                      | KRW<br>\$  | KRW<br>\$         | KRW<br>\$         | KRW<br>\$         |
| Pledged deposits . . . . .           | 19,418,529   | 20,913,080        | 21,226,192        | 16,129,032        |
| Cash and cash equivalents . . . . .  | 390,212  | 30,066            | 218,671           | 422,282           |
| Net exposure arising from recognized |  |                   |                   |                   |
| assets and liabilities . . . . .     | <u>19,808,741</u>                                  | <u>20,943,146</u> | <u>21,444,863</u> | <u>16,551,314</u> |

## (ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's and the Company's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group and the Company have significant exposure at the end of each of the Relevant Periods had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HK\$ and the US\$ would be materially unaffected by any changes in movement in value of the US\$ against other currencies.

*The Group*

|         | As at December 31,   |   |  |   |  |   | As at October 31,  |   |
|---------|--|---|--|---|--|---|--|---|
|         | 2011   |   | 2012   |   | 2013   |   | 2014   |   |
|         | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Effect on<br>profit after<br>tax and<br>retained<br>profits | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Effect on<br>profit after<br>tax and<br>retained<br>profits | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Effect on<br>profit after<br>tax and<br>retained<br>profits | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Effect on<br>profit after<br>tax and<br>retained<br>profits |
|         | US\$   |   | US\$   |   | US\$   |   | US\$   |   |
| KRW ..  | 5%   | 974,513   | 5%   | 964,669   | 5%   | 1,041,281   | 5%   | 703,339   |
|         | (5%)   | (974,513)   | (5%)   | (964,669)   | (5%)   | (1,041,281)   | (5%)   | (703,339)   |
| JPY ... | 5%   | (40,600)  | 5%   | (20,741)  | 5%   | (4,640)   | 5%   | (5,264)   |
|         | (5%)   | <u>40,600</u>   | (5%)   | <u>20,741</u>   | (5%)   | <u>4,640</u>  | (5%)   | <u>5,264</u>  |

*The Company*

|        | As at December 31,   |   |  |   |  |   | As at October 31,  |   |
|--------|--|---|--|---|--|---|--|---|
|        | 2011   |   | 2012   |   | 2013   |   | 2014   |   |
|        | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Effect on<br>loss after<br>tax and<br>accumulated<br>losses | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Effect on<br>loss after<br>tax and<br>accumulated<br>losses | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Effect on<br>loss after<br>tax and<br>accumulated<br>losses | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Effect on<br>loss after<br>tax and<br>accumulated<br>losses |
|        | US\$   |   | US\$   |   | US\$   |   | US\$   |   |
| KRW .. | 5%   | (990,437)   | 5%   | (1,047,157)   | 5%   | (1,072,243)   | 5%   | (827,566)   |
|        | (5%)   | <u>990,437</u>  | (5%)   | <u>1,047,157</u>  | (5%)   | <u>1,072,243</u>  | (5%)   | <u>827,566</u>  |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated to the US\$ at the exchange rate ruling at the end of each of the Relevant Periods for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each of the Relevant Periods, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial

statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis throughout the Relevant Periods.

**(e) Fair values**

The directors consider that the carrying amounts of the Group's and the Company's financial instruments carried at cost or amortized cost are not materially different from their fair values as at December 31, 2011, 2012 and 2013 and October 31, 2014.

**24 Commitments**

**(a) Capital commitments outstanding at December 31, 2011, 2012 and 2013 and October 31, 2014 not provided for in the financial statements were as follows:**

|   | <i>The Group</i>          |                   |                  |                    |
|---|---------------------------|-------------------|------------------|--------------------|
|   | <i>As at December 31,</i> |                   |                  | <i>As at</i>       |
|   | <i>2011</i>               | <i>2012</i>       | <i>2013</i>      | <i>October 31,</i> |
|   | <i>US\$</i>               | <i>US\$</i>       | <i>US\$</i>      | <i>2014</i>        |
|   | <i>US\$</i>               | <i>US\$</i>       | <i>US\$</i>      | <i>US\$</i>        |
| Contracted for . . . . .                    | 8,217,503                 | 22,271,358        | 7,828,262        | 10,956,476         |
| Authorized but not contracted for . . . . . | 3,802                     | —                 | —                | —                  |
|   | <u>8,221,305</u>          | <u>22,271,358</u> | <u>7,828,262</u> | <u>10,956,476</u>  |

Included in the above is the Group's un-paid capital injection into Cowell DG of US\$7,923,806, US\$21,875,033, US\$7,080,573 and US\$10,899,848 as at December 31, 2011, 2012 and 2013 and October 31, 2014, respectively.

**(b) At December 31, 2011, 2012 and 2013 and October 31, 2014, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:**

|   | <i>The Group</i>          |                   |                   |                    |
|---|---------------------------|-------------------|-------------------|--------------------|
|   | <i>As at December 31,</i> |                   |                   | <i>As at</i>       |
|   | <i>2011</i>               | <i>2012</i>       | <i>2013</i>       | <i>October 31,</i> |
|   | <i>US\$</i>               | <i>US\$</i>       | <i>US\$</i>       | <i>2014</i>        |
|   | <i>US\$</i>               | <i>US\$</i>       | <i>US\$</i>       | <i>US\$</i>        |
| Within 1 year . . . . .                   | 1,097,238                 | 3,458,182         | 2,366,109         | 2,254,866          |
| After 1 year but within 5 years . . . . . | 3,057,280                 | 11,465,167        | 6,640,805         | 6,480,853          |
| After 5 years . . . . .                   | —                         | 23,199,336        | 20,751,405        | 19,201,783         |
|   | <u>4,154,518</u>          | <u>38,122,685</u> | <u>29,758,319</u> | <u>27,937,502</u>  |

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to eighteen years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

**25 Contingent liabilities*****Financial guarantees issued***

The Company has issued guarantees to bank to secure banking facilities granted by banks to certain subsidiaries amounting to US\$53,043,835, US\$170,000,000, US\$191,000,000 and US\$146,852,619 as at December 31, 2011, 2012 and 2013 and October 31, 2014, respectively. The Company did not recognize any deferred income in respect of the guarantees as the fair values could not be reliably measured and its transaction price was US\$Nil. Accordingly, the guarantees have not been accounted for as financial liabilities and measured at fair value.

As at the end of each of the Relevant Periods, the directors do not consider it to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the Company under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries amounting to US\$32,122,668, US\$132,479,568, US\$119,693,418 and US\$82,549,179 as at December 31, 2011, 2012 and 2013 and October 31, 2014.

**26 Material related party transactions**

The Group entered into the following material related party transactions.

**(a) Security provided**

A director provided personal assets as a pledge for one of the Group's bank loans and received a payment of US\$995,895 in 2012 as disclosed in note 5(a).

One of the Company's shareholders provided its shareholding in the Company as a pledge for one of the Group's bank loans in 2012 as disclosed in note 18.

**(b) Key management personnel remuneration**

All members of key management personnel are the directors of the Company, and their remuneration is disclosed in note 7.

**(c) Loan from a director**

Loan from a director was unsecured and repayable on demand. The loan bore interest at Nil% in 2011, 8% in 2012 and LIBOR plus 3% which was 3.58% in 2013. It was fully repaid in January 2014.

**27 Subsequent events after the end of the Relevant Periods**

Authorized capital of Cowell DG was increased to US\$186,035,988 in January 2015.

**28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the ten months ended October 31, 2014**

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the Relevant Periods and which have not been adopted in these Financial Information.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

**C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS**

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to October 31, 2014. No dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to October 31, 2014.

Yours faithfully,

**KPMG**

*Certified Public Accountants*

Hong Kong

The information set forth below does not form part of the Accountants' Report from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants, as set forth in the Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of Cowell e Holdings Inc. (the "Company") and its subsidiaries (the "Group") was prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the public offering by the Company of its shares (the "Global Offering") on the net tangible assets of the Group attributable to the equity shareholders of the Company as of October 31, 2014 as if the Global Offering had taken place on that date.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group had the Global Offering been completed as of October 31, 2014 or at any future date.

|   | Consolidated net tangible assets attributable to the equity shareholders of the Company as of October 31, 2014 <sup>(1)</sup> | Estimated net proceeds from the Global Offering <sup>(2)(4)</sup> | Unaudited pro forma adjusted consolidated net tangible assets of the Company as of October 31, 2014 | Unaudited pro forma adjusted consolidated net tangible assets per Share | Equivalent to HK\$ <sup>(4)</sup> |
|---|---|---|---|---|-----------------------------------|
|   | US\$  | US\$  | US\$  | US\$ <sup>(3)</sup>   |                                   |
| Based on an Offer Price of HK\$4.00 per share . . . . . | 166,828,500   | 38,919,396  | 205,747,896   | 0.247   | 1.917                             |
| Based on an Offer Price of HK\$5.75 per share . . . . . | 166,828,500   | 57,213,210  | 224,041,710   | 0.269   | 2.087                             |

*Notes:*

- (1) The consolidated net tangible assets attributable to the equity shareholders of the Company as of October 31, 2014 is based on the consolidated net assets attributable to the equity shareholders of the Company of US\$169,219,086 with an adjustment for the intangible assets as at October 31, 2014 of US\$2,390,586 as set out in the Accountants' Report in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on Offer Prices of HK\$4.00 per share and HK\$5.75 per share, being the low-end and high-end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and other related expenses estimated to be payable of US\$3,967,202 and US\$4,436,275, respectively, by the Company (excluding listing expenses of US\$456,932 and US\$2,920,957 which have already been charged to profit or loss for the year ended December 31, 2013 and the ten months ended October 31, 2014, respectively and US\$880,643, which Hahn & Company Eye Holdings Co., Ltd. has agreed to bear in its capacity as a shareholder of the Company).  
The estimated net proceeds from the Global Offering does not include any proceeds from the 124,800,000 Shares initially being offered for sale by Hahn & Company Eye Holdings Co., Ltd. at the Offer Price under the Global Offering nor any underwriting fees and other related expenses payable by Hahn & Company Eye Holdings Co., Ltd.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at on the basis of 831,518,800 Shares which comprise 748,318,800 Shares in issue on October 31, 2014 and the 83,200,000 Shares to be issued in connection with the Global Offering.
- (4) For the purposes of the estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets per share, the amounts are converted into HK\$ and US\$ at an exchange rate of HK\$7.76 to US\$1.00, which is the rate as of the Latest Practicable Date. No representation is made that the US\$ amounts have been, could have been or may be converted to HK\$ or vice versa, at that rate.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to October 31, 2014.

**B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

March 19, 2015

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF COWELL E HOLDINGS INC.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Cowell e Holdings Inc. (the "Company") and its subsidiaries (collectively 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 net tangible assets as at October 31, 2014 and related notes as set out in Appendix II to the prospectus dated March 19, 2015 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at October 31, 2014 as if the Global Offering had taken place at October 31, 2014. As part of this process, information about the Group's financial position as at October 31, 2014 has been extracted by the Directors from the Group's historical financial statements included in the Accountants' Report as set out in Appendix I to the Prospectus.

*Directors' Responsibilities for the Pro Forma Financial Information*

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing 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 ("HKICPA").

*Reporting Accountants' Responsibilities*

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 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 (“HKSAE”) 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 comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 pro forma financial information.

The purpose of 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 events or transactions as at October 31, 2014 would have been as presented.

A reasonable assurance engagement to report on whether the 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 pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgement, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company’s shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

*Opinion*

In our opinion:

- a) the 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 pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

*Certified Public Accountants*

Hong Kong

The following is the preliminary financial information of our Group as of and for the year ended December 31, 2014 ("2014 Preliminary Financial Information"), together with comparative financial information as of and for the year ended December 31, 2013 and a discussion of changes in our Group's financial condition and results of operations between the two periods. The 2014 Preliminary Financial Information was not audited. Investors should bear in mind that the 2014 Preliminary Financial Information in this Appendix may be subject to adjustments.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

|   | Note | Year ended December 31, |                   |
|---|------|-------------------------|-------------------|
|   |      | 2013                    | 2014              |
|   |      | US\$                    | US\$              |
| <b>Turnover</b> .....                   | 3    | 813,935,600             | 886,467,162       |
| Cost of sales .....                     |      | (710,688,582)           | (774,364,131)     |
| <b>Gross profit</b> .....               |      | 103,247,018             | 112,103,031       |
| Other revenue .....                     | 4    | 1,314,661               | 1,982,545         |
| Other net income/(loss) .....           | 4    | (1,172,997)             | 229,605           |
| Selling and distribution expenses ..... |      | (5,892,020)             | (6,482,641)       |
| Administrative expenses .....           |      | (28,511,809)            | (37,146,671)      |
| <b>Profit from operations</b> .....     |      | 68,984,853              | 70,685,869        |
| Finance costs .....                     | 5(a) | (5,182,334)             | (3,121,430)       |
| <b>Profit before taxation</b> .....     | 5    | 63,802,519              | 67,564,439        |
| Income tax .....                        | 6    | (13,560,782)            | (14,319,612)      |
| <b>Profit for the year</b> .....        |      | <u>50,241,737</u>       | <u>53,244,827</u> |
| <b>Earnings per share</b> .....         | 7    |                         |                   |
| Basic and diluted .....                 |      | <u>0.067</u>            | <u>0.071</u>      |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|  | Year ended December 31, |                   |
|--|-------------------------|-------------------|
|  | 2013                    | 2014              |
|  | US\$                    | US\$              |
| <b>Profit for the year</b> .....   | 50,241,737              | 53,244,827        |
| <b>Other comprehensive income for the year (after tax adjustments):</b>                    |                         |                   |
| <i>Items that may be reclassified subsequently to profit or loss</i>                       |                         |                   |
| Exchange differences on translation of financial statements of overseas subsidiaries ..... | 3,267,590               | (547,979)         |
| <i>Items that will not be reclassified to profit or loss</i>                               |                         |                   |
| Remeasurement of net defined benefit liability .....                                       | (35,352)                | (127,218)         |
|  | <u>3,232,238</u>        | <u>(675,197)</u>  |
| <b>Total comprehensive income for the year</b> .....                                       | <u>53,473,975</u>       | <u>52,569,630</u> |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  |             | As at December 31, |             |
|--|-------------|--------------------|-------------|
|  |             | 2013               | 2014        |
|  |             | US\$               | US\$        |
| <b>Non-current assets</b>                    | <b>Note</b> |                    |             |
| Fixed assets                                 |             |                    |             |
| — Investment property                        |             | 3,654,990          | 3,427,241   |
| — Property, plant and equipment              |             | 95,944,622         | 103,252,823 |
|  |             | 99,599,612         | 106,680,064 |
| Intangible assets                            |             | 1,442,543          | 2,568,598   |
| Other receivables                            |             | 5,287,713          | 6,822,759   |
|  |             | 106,329,868        | 116,071,421 |
| <b>Current assets</b>                        |             |                    |             |
| Inventories                                  |             | 55,034,171         | 66,002,147  |
| Trade and other receivables                  | 8           | 167,400,739        | 221,001,452 |
| Current tax recoverable                      |             | —                  | 1,426,635   |
| Pledged deposits                             |             | 26,237,518         | 19,125,705  |
| Cash and cash equivalents                    |             | 45,220,376         | 82,223,720  |
|  |             | 293,892,804        | 389,779,659 |
| <b>Current liabilities</b>                   |             |                    |             |
| Trade and other payables                     | 9           | 123,114,666        | 209,746,110 |
| Bank loans                                   |             | 121,808,780        | 91,938,790  |
| Current tax payable                          |             | 12,579,340         | 10,207,380  |
| Loan from a director                         |             | 2,000,000          | —           |
|  |             | 259,502,786        | 311,892,280 |
| <b>Net current assets</b>                    |             | 34,390,018         | 77,887,379  |
| <b>Total assets less current liabilities</b> |             | 140,719,886        | 193,958,800 |
| <b>Non-current liabilities</b>               |             |                    |             |
| Net defined benefit retirement obligation    |             | 534,272            | 788,417     |
| Deferred tax liabilities                     |             | 322,753            | 737,892     |
|  |             | 857,025            | 1,526,309   |
| <b>NET ASSETS</b>                            |             | 139,862,861        | 192,432,491 |
| <b>Capital and reserves</b>                  |             |                    |             |
| Share capital                                |             | 2,993,275          | 2,993,275   |
| Reserves                                     |             | 136,869,586        | 189,439,216 |
| <b>TOTAL EQUITY</b>                          |             | 139,862,861        | 192,432,491 |

**NOTES TO THE 2014 PRELIMINARY FINANCIAL INFORMATION**

(Expressed in United States dollars)

**1 Basis of preparation**

The 2014 Preliminary Financial Information does not constitute the Group's statutory financial statements for the year ended December 31, 2014 but is extracted from the Group's consolidated financial statements for the year ended December 31, 2014.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards ("IASs") and related interpretation, promulgated by the International Accounting Standards Board ("IASB").

The financial statements comprise Cowell e Holdings Inc. (the "Company") and its subsidiaries.

**2 Changes in accounting policies**

The IASB has issued the following amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- IFRIC 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are discussed below:

**Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities**

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the financial statements as the Company does not qualify to be an investment entity.

**Amendments to IAS 32, Offsetting financial assets and financial liabilities**

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the financial statements as they are consistent with the policies already adopted by the Group.

**Amendments to IAS 36, Recoverable amount disclosures for non-financial assets**

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the financial statements as the Group did not have any impaired non-financial assets for the years presented in the financial statements.

**IFRIC 21, Levies**

The interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognized. The amendments do not have an impact on the financial statements as the guidance is consistent with the Group's existing accounting policies.

**3 Turnover and segment reporting****(a) Turnover**

The principal activities of the Group are manufacturing and sale of camera module and optical components. Turnover represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group's customer base includes two customers (2013: two customers), with each of whom transactions have exceeded 10% of the Group's revenues, for the year ended December 31, 2014. Revenues from sales to these customers, during the reporting period are set out below.

|                               | 2013        | 2014        |
|-------------------------------|-------------|-------------|
|                               | \$          | \$          |
| Largest customer .....        | 637,140,225 | 685,395,471 |
| Second largest customer ..... | 102,658,248 | 172,179,903 |

**(b) Segment reporting**

The Group manages its businesses by division, which is organized by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Camera module: this segment is involved in the design, development, manufacture and sale of camera modules for mobile devices and home appliances. These products are either sourced externally or are manufactured in the Group's manufacturing facilities located primarily in the People's Republic of China ("PRC") and sold to customers mainly located in the PRC and the Republic of Korea ("Korea").
- Optical components: this segment is involved in the design, development, manufacture and sale of optical components for optical disk drivers. These products are manufactured in the PRC and sold to customers mainly located in the PRC and Korea.

**(i) Segment results**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

Segment profit is the profit before tax. To arrive at segment profit, the Group's earnings are further adjusted for items not specially attributed to individual segments, such as certain directors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning segment profit, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortization and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended December 31, 2014 is set out below.

|   | <b>Camera module</b>      |              |
|---|---------------------------|--------------|
|   | <b>2013</b>               | <b>2014</b>  |
|   | <b>\$</b>                 | <b>\$</b>    |
| Revenue from external customers .....         | 802,804,942               | 874,363,904  |
| Reportable segment revenue .....              | 802,804,942               | 874,363,904  |
| Segment profit .....                          | 65,402,851                | 70,632,445   |
| Bank interest income .....                    | 583,975                   | 304,858      |
| Finance costs .....                           | (5,111,465)               | (3,080,261)  |
| Depreciation and amortization .....           | (10,035,852)              | (11,756,901) |
| Additions to non-current segment assets ..... | 13,338,779                | 21,251,787   |
|   | <b>Optical components</b> |              |
|   | <b>2013</b>               | <b>2014</b>  |
|   | <b>\$</b>                 | <b>\$</b>    |
| Revenue from external customers .....         | 11,130,658                | 12,103,258   |
| Reportable segment revenue .....              | 11,130,658                | 12,103,258   |
| Segment profit .....                          | 4,143,086                 | 1,982,596    |
| Bank interest income .....                    | 8,097                     | 4,079        |
| Finance costs .....                           | (70,869)                  | (41,169)     |
| Depreciation and amortization .....           | (928,338)                 | (1,361,241)  |
| Additions to non-current segment assets ..... | 3,518,778                 | 1,651,710    |
|   | <b>Total</b>              |              |
|   | <b>2013</b>               | <b>2014</b>  |
|   | <b>\$</b>                 | <b>\$</b>    |
| Revenue from external customers .....         | 813,935,600               | 886,467,162  |
| Reportable segment revenue .....              | 813,935,600               | 886,467,162  |
| Segment profit .....                          | 69,545,937                | 72,615,041   |
| Bank interest income .....                    | 592,072                   | 308,937      |
| Finance costs .....                           | (5,182,334)               | (3,121,430)  |
| Depreciation and amortization .....           | (10,964,190)              | (13,118,142) |
| Additions to non-current segment assets ..... | 16,857,557                | 22,903,497   |



## (ii) Reconciliation of reportable segment revenues and profit or loss

|  | <u>2013</u>        | <u>2014</u>        |
|--|--------------------|--------------------|
|  | \$                 | \$                 |
| <b>Revenue</b>                                       |                    |                    |
| Reportable segment revenue .....                     | <u>813,935,600</u> | <u>886,467,162</u> |
| <b>Profit</b>  |                    |                    |
| Reportable segment profit .....                      | 69,545,937         | 72,615,041         |
| Unallocated head office and corporate expenses ..... | <u>(5,743,418)</u> | <u>(5,050,602)</u> |
| Consolidated profit before taxation .....            | <u>63,802,519</u>  | <u>67,564,439</u>  |

## (iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets and intangible assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of the operation to which they are allocated, in the case of intangible assets.

|                 | <b>Revenue from<br/>external customers</b> |                    | <b>Specified non-current assets</b> |                    |
|-----------------|--|--------------------|-------------------------------------|--------------------|
|                 | <u>2013</u>                                | <u>2014</u>        | <u>2013</u>                         | <u>2014</u>        |
|                 | \$   | \$                 | \$                                  | \$                 |
| Hong Kong ..... | 711,134,045                                | 714,280,459        | 20,404                              | 32,211             |
| PRC .....       | —  | —                  | 96,877,569                          | 104,845,899        |
| Korea .....     | <u>102,801,555</u>                         | <u>172,186,703</u> | <u>4,144,182</u>                    | <u>4,370,552</u>   |
|                 | <u>813,935,600</u>                         | <u>886,467,162</u> | <u>101,042,155</u>                  | <u>109,248,662</u> |

**4 Other revenue and other net income/(loss)**

|  | <u>2013</u>      | <u>2014</u>      |
|--|------------------|------------------|
|  | \$               | \$               |
| <b>(a) Other revenue</b>                     |                  |                  |
| Bank interest income . . . . .               | 592,072          | 308,937          |
| Compensation income . . . . .                | —                | 99,904           |
| Rental income                                |                  |                  |
| — Investment property . . . . .              | 252,340          | 141,310          |
| — Other . . . . .                            | —                | 189,493          |
| Government subsidy . . . . .                 | 410,086          | 881,796          |
| Write-off of trade payables (note) . . . . . | —                | 167,581          |
| Others . . . . .                             | 60,163           | 193,524          |
|  | <u>1,314,661</u> | <u>1,982,545</u> |

(note) The Group derecognized aged trade payables which have passed the statute of limitation.

**(b) Other net income/(loss)**

|   |                    |                |
|---|--------------------|----------------|
| Net loss on disposal of plant and equipment . . . . . | (23,235)           | (311,689)      |
| Net foreign exchange gain/(loss) . . . . .            | (1,107,413)        | 685,060        |
| Valuation loss on investment property . . . . .       | (42,349)           | (85,346)       |
| Others . . . . .                                      | —                  | (58,420)       |
|   | <u>(1,172,997)</u> | <u>229,605</u> |

**5 Profit before taxation**

Profit before taxation is arrived at after charging / (crediting):

|  | <u>2013</u>       | <u>2014</u>       |
|--|-------------------|-------------------|
|  | \$                | \$                |
| <b>(a) Finance costs</b>   |                   |                   |
| Interest expense on bank borrowings wholly repayable within five years . . . . . | 5,044,409         | 3,121,430         |
| Interest expense on loan from a director . . . . .                               | 137,925           | —                 |
|  | <u>5,182,334</u>  | <u>3,121,430</u>  |
| <b>(b) Staff costs #</b>   |                   |                   |
| Contributions to defined contribution retirement plan . . . . .                  | 3,455,913         | 2,963,091         |
| Expenses recognized in respect of defined benefit retirement plan . . . . .      | 109,607           | 159,075           |
| Total retirement costs . . . . .   | 3,565,520         | 3,122,166         |
| Salaries, wages and other benefits . . . . .                                     | 69,188,966        | 66,744,760        |
|  | <u>72,754,486</u> | <u>69,866,926</u> |

|  | 2013           | 2014             |
|--|----------------|------------------|
|  | \$             | \$               |
| <b>(c) Other items</b>   |                |                  |
| Amortization .....   | 114,610        | 253,116          |
| Depreciation # .....   | 10,849,580     | 12,865,026       |
| Reversal of impairment of trade receivables .....  | (10,959)       | (8,272)          |
| Auditors' remuneration .....   | 59,562         | 134,843          |
| Operating lease charges: minimum lease payments in respect of<br>property rentals # .....            | 3,886,775      | 3,560,033        |
| Rentals income from investment property less direct outgoings<br>of \$39,633 (2013: \$138,906) ..... | (113,434)      | (101,677)        |
| Cost of inventories # .....  | 710,688,582    | 774,364,131      |
| Listing expenses .....   | <u>456,932</u> | <u>4,470,792</u> |

# Cost of inventories includes \$62,281,947 (2013: \$66,023,945) for the year ended December 31, 2014 relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

## 6 Taxation in the consolidated statement of profit or loss

Taxation in the consolidated statement of profit or loss represents:

|   | 2013              | 2014              |
|---|-------------------|-------------------|
|   | \$                | \$                |
| <b>Current tax – Hong Kong Profits Tax</b>              |                   |                   |
| Provision for the year .....                            | 6,412,578         | 5,078,710         |
| Over-provision in respect of prior years .....          | (155)             | (901,489)         |
|   | <u>6,412,423</u>  | <u>4,177,221</u>  |
| <b>Current tax – Overseas</b>                           |                   |                   |
| Provision for the year .....                            | 6,960,162         | 9,916,943         |
| (Over)/under-provision in respect of prior years .....  | 5,562             | (234,973)         |
|   | <u>6,965,724</u>  | <u>9,681,970</u>  |
| <b>Deferred tax</b>                                     |                   |                   |
| Origination and reversal of temporary differences ..... | <u>182,635</u>    | <u>460,421</u>    |
|   | <u>13,560,782</u> | <u>14,319,612</u> |

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

The Corporate Income Tax ("CIT") rate applicable to the subsidiary registered in the PRC is 25% (2013: 25%) for the year.

Under the tax law in Korea, the statutory corporate tax rate applicable to the subsidiary in Korea is 10% for assessable income below Korean Won (“KRW”) 200 million, 20% for assessable income between KRW200 million and KRW20 billion and 22% for assessable income above KRW20 billion for the years presented.

## 7 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$53,244,827 (2013: \$50,241,737) and the weighted average number of 748,318,800 ordinary shares (2013: 748,318,800) in issue during the year, which has been adjusted retrospectively for the share subdivision on September 19, 2014.

### (b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as the Group did not have dilutive potential ordinary shares (2013: Nil).

## 8 Trade and other receivables

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

|                          | <u>2013</u>        | <u>2014</u>        |
|--------------------------|--------------------|--------------------|
|                          | \$                 | \$                 |
| Within 1 month .....     | 86,211,668         | 134,340,099        |
| Over 1 to 2 months ..... | 69,565,439         | 67,985,914         |
| Over 2 to 3 months ..... | 646,900            | 645,934            |
| Over 3 months .....      | 359,978            | 1,159,490          |
|                          | <u>156,783,985</u> | <u>204,131,437</u> |

Trade receivables are due within 30 to 90 days from the date of billing.

## 9 Trade and other payables

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

|                          | <u>2013</u>        | <u>2014</u>        |
|--------------------------|--------------------|--------------------|
|                          | \$                 | \$                 |
| Within 1 month .....     | 39,973,960         | 86,122,587         |
| Over 1 to 3 months ..... | 66,231,598         | 103,774,263        |
| Over 3 to 6 months ..... | 326,607            | 1,686,119          |
| Over 6 months .....      | 168,883            | —                  |
|                          | <u>106,701,048</u> | <u>191,582,969</u> |

## 10 Dividends

The directors do not recommend the payment of a final dividend for the year ended December 31, 2014 (2013: \$Nil).

## BUSINESS REVIEW

We are a major supplier of camera modules for mobile devices. We primarily engage in the design, development, manufacture and sale of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Major customers for our camera modules include some of the leading mobile device manufacturers in the world, such as Apple, LG Electronics and Samsung Electronics. We also design, develop, manufacture and sell optical components used in a number of consumer electronics products. Major customers for our optical components include Optis (which is a supplier of electronic components to Samsung Electronics and Toshiba) and subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi.

We believe that our state-of-the-art manufacturing facilities, engineering capabilities, technical expertise and accumulated know-how in manufacturing camera modules and optical components, as well as our strong relationships with our customers, will continue to differentiate us as a provider of high-performance and cost-effective camera modules and optical components, and position us to take advantage of attractive growth opportunities. We operate two production facilities at Hengkeng and Huanan in Dongguan, PRC, where we are able to take advantage of a high-quality labor force, extensive infrastructure for our operations, and a strategic location to facilitate the transportation of products to our customers. In 2014, we sold approximately 193.4 million units of camera modules and approximately 256.0 million units of optical components, compared to approximately 197.6 million units of camera modules and approximately 239.0 million units of optical components in 2013. Our turnover amounted to US\$813.9 million in 2013 and US\$886.5 million in 2014. We recorded a profit for the year of US\$50.2 million in 2013 and US\$53.2 million in 2014. We had total assets of US\$505.9 million and total equity of US\$192.4 million as of December 31, 2014, compared to total assets of US\$400.2 million and total equity of US\$139.9 million as of December 31, 2013. During 2014, we began producing a new model of flip-chip camera modules for a major customer, and also commenced commercial production of blue filters, which contributed to our growth.

We intend to continue to provide strong technology and product development expertise, manufacturing execution and customer service in order to strengthen our relationships with our major customers and to grow our business with them. We plan to maximize benefits from key mobile device products introduced by our large customers and aim to expand our share of their demand for camera modules. We are also seeking to increase our penetration of the camera modules market by expanding our product portfolio from primarily fixed-focus camera modules to a variety of high-end camera modules. In addition, we aim to produce higher resolution camera modules, which we believe will help us achieve higher profit margins.

Furthermore, we intend to work with our customers to develop camera module solutions for new product introductions. These new products may be improvements in existing categories which we currently do not serve or enable the creation of new market segments. We also intend to develop and manufacture components which may be used in camera modules, including advanced IR cut filters, and other optical components which provide synergistic value. In addition, we intend to continue to enhance and expand our flip-chip and COB technologies and manufacturing capabilities and production capacity

to align our camera module solutions with expected customer requirements. We also aim to continuously enhance our operational efficiency by improving our manufacturing technologies and processes, which can lead to increased productivity, higher production yields and reduced costs.

Since December 31, 2014, we did not experience any significant change of pricing policy for our products and there was no material change in the unit cost of our components and materials. Furthermore, as far as we are aware, since December 31, 2014, there has been no material adverse change in our business, profitability or financial condition or in market conditions in the camera modules industry.

## RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations.

|  | Year ended   |         | Changes |         |
|--|--------------|---------|---------|---------|
|  | December 31, |         | Amount  | %       |
|  | 2013         | 2014    |         |         |
| <b>(US\$ in millions, except percentages)</b>  |              |         |         |         |
| <b>Turnover</b> .....  | 813.9        | 886.5   | 72.6    | 8.9%    |
| Cost of sales .....  | (710.7)      | (774.4) | 63.7    | 9.0%    |
| <b>Gross profit</b> .....  | 103.2        | 112.1   | 8.9     | 8.6%    |
| Other revenue .....  | 1.3          | 2.0     | 0.7     | 50.8%   |
| Other net (loss)/income .....  | (1.1)        | 0.2     | 1.3     | N.A.*   |
| Selling and distribution expenses .....  | (5.9)        | (6.5)   | 0.6     | 10.0%   |
| Administrative expenses .....  | (28.5)       | (37.2)  | 8.7     | 30.3%   |
| <b>Profit from operations</b> .....  | 69.0         | 70.6    | 1.6     | 2.5%    |
| Finance costs .....  | (5.2)        | (3.1)   | (2.1)   | (39.8)% |
| <b>Profit before taxation</b> .....  | 63.8         | 67.5    | 3.7     | 5.9%    |
| Income tax .....   | (13.6)       | (14.3)  | 0.7     | 5.6%    |
| <b>Profit for the year</b> .....   | 50.2         | 53.2    | 3.0     | 6.0%    |
| <b>Other comprehensive income</b>  |              |         |         |         |
| Exchange difference on translation of financial statements of<br>overseas subsidiaries ..... | 3.3          | (0.5)   | (3.8)   | N.A.*   |
| Remeasurement of net defined benefit liability .....   | 0.0          | (0.1)   | (0.1)   | N.A.*   |
| <b>Total comprehensive income for the year</b> .....   | 53.5         | 52.6    | (0.9)   | (1.7)%  |

\* N.A. means not applicable.

**Turnover**

The following table presents a breakdown of our turnover by product type and changes therein for the periods indicated.

|                          | Year ended<br>December 31, |              | Changes     |      |
|--------------------------|----------------------------|--------------|-------------|------|
|                          | 2013                       | 2014         | Amount      | %    |
| <b>Turnover:</b>         |                            |              |             |      |
| Camera modules           |                            |              |             |      |
| Flip-chip .....          | 588.5                      | 646.8        | 58.3        | 9.9% |
| COB .....                | 214.3                      | 227.6        | 13.3        | 6.2% |
|                          | 802.8                      | 874.4        | 71.6        | 8.9% |
| Optical components ..... | 11.1                       | 12.1         | 1.0         | 9.0% |
| <b>Total</b> .....       | <u>813.9</u>               | <u>886.5</u> | <u>72.6</u> | 8.9% |

(US\$ in millions, except percentages)

Our turnover increased by 8.9% from US\$813.9 million in 2013 to US\$886.5 million in 2014. This increase was primarily due to an increase in turnover of US\$71.6 million from sales of camera modules.

*Camera Modules.* Turnover from sales of camera modules increased by 8.9% from US\$802.8 million in 2013 to US\$874.4 million in 2014, principally as a result of a 9.9% increase in turnover from sales of flip-chip camera modules from US\$588.5 million in 2013 to US\$646.8 million in 2014, due mainly to the commencement of production of new models of flip-chip camera modules with higher average selling prices in the second half of 2014, in line with the launch of a new mobile phone product by a major customer. Such increase was further enhanced by a 6.2% increase in turnover from sales of COB camera modules from US\$214.3 million in 2013 to US\$227.6 million in 2014, mainly due to increases in sales to LG Electronics and Samsung Electronics. The effect of such increases was offset in part by a 2.1% decrease in the volume of camera modules produced, primarily due to a decrease in orders for older models of flip-chip camera modules.

*Optical Components.* Turnover from sales of optical components increased by 9.0% from US\$11.1 million in 2013 to US\$12.1 million in 2014, primarily due to a 7.1% increase in the number of units sold from 239.0 million units in 2013 to 256.0 million units in 2014, mainly reflecting new sales of blue filters, which we commenced producing commercially in April 2014. The average selling price of our optical components remained relatively constant at US\$0.047 during 2013 and 2014.

**Cost of Sales**

The following table presents a breakdown of our cost of sales and changes therein for the periods indicated.

|   | Year ended   |              | Changes     |             |
|---|--------------|--------------|-------------|-------------|
|   | December 31, |              | Amount      | %           |
|   | 2013         | 2014         |             |             |
| <b>Cost of Sales:</b>                   |              |              |             |             |
| Costs of components and materials       |              |              |             |             |
| CMOS image sensors . . . . .            | 239.2        | 294.0        | 54.8        | 22.9%       |
| PCBs . . . . .                          | 124.1        | 117.0        | (7.1)       | (5.7)%      |
| Lenses/lens holders . . . . .           | 122.8        | 139.1        | 16.3        | 13.3%       |
| HTCC boards . . . . .                   | 40.0         | 30.8         | (9.2)       | (23.0)%     |
| Others . . . . .                        | 84.9         | 96.1         | 11.2        | 13.2%       |
|   | 611.0        | 677.0        | 66.0        | 10.8%       |
| Manufacturing costs                     |              |              |             |             |
| Labor costs . . . . .                   | 51.9         | 46.2         | (5.7)       | (11.0)%     |
| Supplies . . . . .                      | 16.8         | 28.4         | 11.6        | 168.7%      |
| Depreciation and amortization . . . . . | 10.6         | 12.6         | 2.0         | 19.1%       |
| Utilities . . . . .                     | 7.1          | 7.5          | 0.4         | 6.5%        |
| Others . . . . .                        | 4.7          | 11.3         | 6.6         | 137.3%      |
|   | 91.1         | 106.0        | 14.9        | 16.2%       |
| Other <sup>(1)</sup> . . . . .          | 8.6          | (8.6)        | (17.2)      | N.A.*       |
| <b>Total</b> . . . . .                  | <b>710.7</b> | <b>774.4</b> | <b>63.7</b> | <b>9.0%</b> |

\* N.A. means not applicable.

(1) includes changes in closing inventory and valuation losses.

Cost of sales increased by 9.0% from US\$710.7 million in 2013 to US\$774.4 million in 2014, primarily as a result of an increase in costs of components and materials. Costs of components and materials increased by 10.8% from US\$611.0 million in 2013 to US\$677.0 million in 2014, primarily as a result of a 22.9% increase in the cost of CMOS image sensors from US\$239.2 million in 2013 to US\$294.0 million in 2014, mainly due to a 26.5% increase in their average unit price, and a 13.3% increase in the cost of lenses and lens holders from US\$122.8 million in 2013 to US\$139.1 million in 2014, mainly due to a 16.6% increase in their average unit price. Such increases in the average unit price of CMOS image sensors and lenses and lens holders used by us resulted mainly from the fact that the new flip-chip camera modules we began producing in the second half of 2014 have specifications for higher quality components. Such increases were partially offset by a 23.0% decrease in the cost of HTCC boards from US\$40.0 million in 2013 to US\$30.8 million in 2014, mainly due to a 20.7% decrease in their average unit price, and a 5.7% decrease in the cost of PCBs from US\$124.1 million in 2013 to US\$117.0 million in 2014, mainly due to a 3.0% decrease their average unit price. Such decreases in the average unit price of HTCC boards and PCBs used by us mainly reflected improved price terms negotiated between our major customers and our suppliers for such components and materials. Cost of sales as a percentage of turnover increased from 87.3% in 2013 to 87.4% in 2014 primarily due to a higher rate of increase in costs of components and materials, compared to the 8.9% increase in turnover.



The higher rate of increase in our costs of components and materials resulted mainly from the short-term decrease in production yields during the period of adjustment typically associated with the implementation of new technology and production processes, which was required for the new flip-chip camera modules we began producing in the second half of 2014.

### **Gross Profit and Gross Margin**

As a result of the cumulative effect of the factors described above, our gross profit increased by 8.6% from US\$103.2 million in 2013 to US\$112.1 million in 2014. Gross margin, which represents gross profit as a percentage of turnover, decreased from 12.7% in 2013 to 12.6% in 2014, as a 9.0% increase in cost of sales outpaced an 8.9% increase in turnover. Such decrease in our gross margin mainly reflected the short-term decrease in production yields during the period of adjustment typically associated with the implementation of new technology and production processes, which was required for the new flip-chip camera modules we began producing in the second half of 2014. We made significant progress in resolving such issues with the implementation of new technology and production processes for the new flip-chip camera modules, and achieved our target production yield for mass production in October 2014.

### **Other Revenue**

Other revenue increased by 50.8% from US\$1.3 million in 2013 to US\$2.0 million in 2014, primarily due to a US\$0.5 million, or a 115.0%, increase in government subsidies, which represents awards we receive occasionally from the local government in recognition of our contribution to the regional economy and are conditioned upon the amount of exports that our PRC subsidiary achieves during the period of award consideration, from US\$0.4 million in 2013 to US\$0.9 million in 2014. Such increase was further enhanced by a write-off of trade payables of US\$0.2 million in 2014, compared to no such write-offs in 2013, as we wrote off certain payables in 2014 whose payment terms had passed the statute of limitations under applicable law, due to reasons such as dissolution of the payee or the payee not requiring payment from us as the payables related to sample production materials for testing.

### **Other Net (Loss)/Income**

We recorded other net loss of US\$1.1 million in 2013, while we recorded other net income of US\$0.2 million in 2014, primarily due to a net foreign exchange loss of US\$1.1 million in 2013, compared to a net foreign exchange gain of US\$0.7 million in 2014. The net foreign exchange gain in 2014 resulted mainly from a general depreciation of the U.S. dollar against Korean Won during such period, while the net foreign exchange loss in 2013 resulted mainly from a general depreciation of the U.S. dollar against the Renminbi during such period. We generally do not use any forward exchange contracts or other derivative instruments to hedge against fluctuations in currency exchange rates applicable to us. Such net foreign exchange gain in 2014 was partially offset by a US\$0.3 million increase in net loss on disposal of plant and equipment from 2013 to 2014, mainly as a result of the sale of certain unnecessary equipment based on our annual review of assets.

### **Selling and Distribution Expenses**

Selling and distribution expenses increased by 10.0% from US\$5.9 million in 2013 to US\$6.5 million in 2014. Such increase was primarily due to a US\$0.6 million, or 25.4%, increase in customs declaration fees from US\$2.3 million in 2013 to US\$2.9 million in 2014, resulting mainly from an increase in local customs declaration fees, which are calculated based on our cost of sales, which also increased from 2013 to 2014.

**Administrative Expenses**

The following table presents a breakdown of our administrative expenses for the periods indicated:

|   | Year ended December 31, |             | Changes    |              |
|---|-------------------------|-------------|------------|--------------|
|   | 2013                    | 2014        | Amount     | %            |
| <b>(US\$ in millions, except percentages)</b>               |                         |             |            |              |
| Salaries, allowance, social insurance and welfare . . . . . | 20.7                    | 23.4        | 2.7        | 13.0%        |
| Handling charges . . . . .                                  | 2.0                     | 5.6         | 3.6        | 180.0%       |
| Supplies . . . . .  | 1.1                     | 0.9         | (0.2)      | (18.2)%      |
| Travel . . . . .  | 1.2                     | 1.6         | 0.4        | 33.3%        |
| Local government tax <sup>(1)</sup> . . . . .               | 0.6                     | 2.7         | 2.1        | 350.0%       |
| Rental . . . . .  | 0.6                     | 0.4         | (0.2)      | (33.3)%      |
| Entertainment . . . . .                                     | 0.3                     | 0.4         | 0.1        | 33.3%        |
| Finance charges . . . . .                                   | 0.1                     | 0.1         | 0.0        | 0.0%         |
| Communications . . . . .                                    | 0.3                     | 0.4         | 0.1        | 33.3%        |
| Water and electricity . . . . .                             | 0.4                     | 0.4         | 0.0        | 0.0%         |
| Depreciation . . . . .                                      | 0.2                     | 0.2         | 0.0        | 0.0%         |
| Amortization . . . . .                                      | 0.1                     | 0.3         | 0.2        | 200.0%       |
| Repairs and maintenance . . . . .                           | 0.4                     | 0.3         | (0.1)      | (25.0)%      |
| Insurance . . . . .   | 0.1                     | 0.0         | (0.1)      | (100.0)%     |
| Others . . . . .  | 0.4                     | 0.5         | 0.1        | 25.0%        |
| <b>Total</b> . . . . .                                      | <b>28.5</b>             | <b>37.2</b> | <b>8.7</b> | <b>30.3%</b> |

(1) Mainly includes provisions for IIT, miscellaneous PRC local taxes (such as city construction tax and education tax), stamp duty and government rent and rates.

Administrative expenses increased by 30.3% from US\$28.5 million in 2013 to US\$37.2 million in 2014. The increase was primarily due to a US\$3.6 million, or 180.0%, increase in handling charges (which primarily include legal, audit and security personnel fees, as well as other expenses relating to our initial public offering) from US\$2.0 million in 2013 to US\$5.6 million in 2014, which resulted mainly from increases in legal, accounting and other professional service fees in preparation of our initial public offering. Such increase was further enhanced by a US\$2.7 million, or 13.0%, increase in labor costs for our administrative staff from US\$20.7 million in 2013 to US\$23.4 million in 2014, which resulted mainly from an increase in our engineering staff and additional staff hired to accommodate our increase in turnover in 2014, in addition to a US\$2.1 million, or 350.0%, increase in local government tax from US\$0.6 million in 2013 to US\$2.7 million in 2014, which resulted mainly from an increase in the applicable rates for PRC local government rent and rates, as well as higher duties assessed by Korean customs authorities on our products.

**Profit from Operations and Operating Margin**

As a result of the cumulative effect of the factors described above, our profit from operations increased by 2.5% from US\$69.0 million in 2013 to US\$70.6 million in 2014. Our operating margin, which represents profit from operations as a percentage of turnover, decreased from 8.5% in 2013 to 8.0% in 2014, as a 9.5% increase in cost of sales, selling and distribution expenses and administrative expenses (net of other revenue and other net income or loss), on an aggregate basis, from US\$744.9 million in 2013 to US\$815.9 million in 2014 outpaced an 8.9% increase in turnover. Such decrease in our operating

margin was primarily due to the decrease in our gross margin and the increase in our administrative expenses as discussed above.

### **Finance Costs**

Finance costs decreased by 39.8% from US\$5.2 million in 2013 to US\$3.1 million in 2014, primarily as a result of a 38.1% decrease in interest expense on bank borrowings from US\$5.0 million in 2013 to US\$3.1 million in 2014, which mainly reflected repayment of bank loans with available cash in 2014.

### **Income Tax**

Our income tax expense increased by 5.6% from US\$13.6 million in 2013 to US\$14.3 million in 2014, primarily due to an increase in provision for overseas current tax, which was partially offset by a decrease in provision for Hong Kong current tax. Such changes mainly reflected an increase in profits from our PRC subsidiary and a decrease in profits from our Hong Kong subsidiary as a result of our discontinuation since the end of 2013 of our practice of making adjustments to our cost of sales to achieve the targeted profit level in the PRC that decreased the taxable profit of our PRC subsidiary in 2013, as well as an overall increase in our profits before tax in 2014. Such increase was further offset by a US\$0.9 million increase from 2013 to 2014 in over-provisioned amounts of Hong Kong profits tax in respect of prior years. Our effective tax rate decreased from 21.3% in 2013 to 21.2% in 2014, as our profit before taxation increased by 5.9% from US\$63.8 million in 2013 to US\$67.5 million in 2014, while our income tax expense increased by 5.6%.

### **Profit for the Year and Net Margin**

As a result of the cumulative effect of the factors described above, our profit for the year increased by 6.0% from US\$50.2 million in 2013 to US\$53.2 million in 2014. Our net margin, which represents profit for the year as a percentage of turnover, decreased from 6.2% in 2013 to 6.0% in 2014, as a 9.1% increase in cost of sales, selling and distribution expenses, administrative expenses, finance costs and income tax (net of other revenue and other net income or loss), on an aggregate basis, from US\$763.7 million in 2013 to US\$833.3 million in 2014 outpaced an 8.9% increase in turnover. Such decrease in our net margin was primarily due to the decrease in our operating margin.

## FINANCIAL AND LIQUIDITY POSITION

## Key Financial Ratios

|   | Year ended December 31, |        |
|---|-------------------------|--------|
|   | 2013                    | 2014   |
| <b>Profitability ratios</b>                       |                         |        |
| Turnover growth <sup>(1)</sup> . . . . .          | 54.3%                   | 8.9%   |
| Net profit growth <sup>(2)</sup> . . . . .        | 281.1%                  | 6.0%   |
| Gross margin <sup>(3)</sup> . . . . .             | 12.7%                   | 12.6%  |
| Operating margin <sup>(4)</sup> . . . . .         | 8.5%                    | 8.0%   |
| Net margin <sup>(5)</sup> . . . . .               | 6.2%                    | 6.0%   |
| Return on equity <sup>(6)</sup> . . . . .         | 35.9%                   | 27.7%  |
| Return on total assets <sup>(7)</sup> . . . . .   | 12.6%                   | 10.5%  |
| <br>  |                         |        |
|   | As of December 31,      |        |
|   | 2013                    | 2014   |
| <b>Liquidity ratios</b>                           |                         |        |
| Current ratio <sup>(8)</sup> . . . . .            | 113.3%                  | 125.0% |
| Quick ratio <sup>(9)</sup> . . . . .              | 92.0%                   | 103.8% |
| <b>Capital adequacy ratios</b>                    |                         |        |
| Gearing ratio <sup>(10)</sup> . . . . .           | 27.2%                   | (5.1)% |
| Debt to equity ratio <sup>(11)</sup> . . . . .    | 37.4%                   | (4.9)% |
| Interest coverage ratio <sup>(12)</sup> . . . . . | 13.3                    | 22.6   |

- (1) The calculation of turnover growth is based on turnover for the period divided by turnover for the previous period, minus one and multiplied by 100%.
- (2) The calculation of net profit growth is based on profit for the period divided by profit for the previous period, minus one and multiplied by 100%.
- (3) The calculation of gross margin is based on gross profit divided by turnover and multiplied by 100%.
- (4) The calculation of operating margin is based on profit from operations divided by turnover and multiplied by 100%.
- (5) The calculation of net margin is based on profit for the period divided by turnover and multiplied by 100%.
- (6) The calculation of return on equity is based on profit for the period divided by capital and reserves and multiplied by 100%.
- (7) The calculation of return on total assets is based on profit for the period divided by total assets and multiplied by 100%.
- (8) The calculation of current ratio is based on current assets divided by current liabilities and multiplied by 100%.
- (9) The calculation of quick ratio is based on current assets less inventories divided by current liabilities and multiplied by 100%.
- (10) The calculation of gearing ratio is based on net debt (defined as bank loans and overdrafts and loan from a director less cash and cash equivalents and pledged deposits) divided by the sum of net debt and total equity, and multiplied by 100%.
- (11) The calculation of debt to equity ratio is based on net debt divided by total equity and multiplied by 100%.
- (12) The calculation of interest coverage ratio is based on profit before interest and income tax expenses divided by finance costs.

See “Results of Operations” above for a discussion of the factors affecting our turnover growth, net profit growth, gross margin, operating margin and net margin.

**Return on Equity**

Our return on equity decreased from 35.9% in 2013 to 27.7% in 2014, primarily due to an increase in our equity.

**Return on Total Assets**

Our return on total assets decreased from 12.6% in 2013 to 10.5% in 2014, primarily due to an increase in our total assets.

***Current Ratio***

Our current ratio increased from 113.3% in 2013 to 125.0% in 2014, primarily due to increases in our trade and other receivables and cash and cash equivalents and a decrease in our bank loans, which were partially offset by a corresponding increase in our trade and other payables.

***Quick Ratio***

Consistent with the changes in our current ratio, our quick ratio increased from 92.0% in 2013 to 103.8% in 2014, mainly due to increases in our trade and other receivables and cash and cash equivalents and a decrease in our bank loans, which were partially offset by a corresponding increase in our trade and other payables.

***Gearing Ratio***

Our gearing ratio decreased from 27.2% in 2013 to -5.1% in 2014, primarily due to a decrease in our bank loans and an increase in our cash and cash equivalents, which were partially offset by a decrease in our pledged deposits.

***Debt to Equity Ratio***

Consistent with our gearing ratio, our debt to equity ratio decreased from 37.4% in 2013 to -4.9% in 2014, primarily due to a decrease in our bank loans and an increase in our cash and cash equivalents, which were partially offset by a decrease in our pledged deposits.

***Interest Coverage Ratio***

Our interest coverage ratio increased from 13.3 in 2013 to 22.6 in 2014, primarily due to an increase in our profit before interest and income taxes between the two periods, as well as a decrease in our finance costs resulting from a decrease in our bank loans.

**Current Assets and Liabilities**

The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated:

|                                       | <u>As of December 31,</u> |              |
|---------------------------------------|---------------------------|--------------|
|                                       | <u>2013</u>               | <u>2014</u>  |
|                                       | (US\$ in millions)        |              |
| <b>Current assets</b>                 |                           |              |
| Inventories . . . . .                 | 55.0                      | 66.0         |
| Trade and other receivables . . . . . | 167.4                     | 221.0        |
| Current tax recoverable . . . . .     | —                         | 1.5          |
| Pledged deposits . . . . .            | 26.3                      | 19.1         |
| Cash and cash equivalents . . . . .   | 45.2                      | 82.2         |
|                                       | <u>293.9</u>              | <u>389.8</u> |
| <b>Current liabilities</b>            |                           |              |
| Trade and other payables . . . . .    | 123.1                     | 209.8        |
| Bank loans . . . . .                  | 121.8                     | 91.9         |
| Current tax payable . . . . .         | 12.6                      | 10.2         |
| Loans from a director . . . . .       | 2.0                       | —            |
|                                       | <u>259.5</u>              | <u>311.9</u> |
| <b>Net current assets</b> . . . . .   | <u>34.4</u>               | <u>77.9</u>  |

As of December 31, 2014, we had net current assets of US\$77.9 million, compared to net current assets of US\$34.4 million as of December 31, 2013, representing an increase of US\$43.5 million. This change was primarily due to an increase in our trade and other receivables of US\$53.6 million, an increase in our cash and cash equivalents of US\$37.0 million and a decrease in our bank loans of US\$29.9 million, which were offset in part by an increase in trade and other payables of US\$86.7 million. Our trade and other receivables and trade and other payables increased mainly as a result of an increase in our turnover. Our balance of cash and cash equivalents as of December 31, 2014 was unusually large compared to 2013, as we had a large amount of cash on hand from factoring of our trade and other receivables at the end of 2014, before such cash was used to settle trade and other payables and pay off bank loans after the period end.

**Inventories**

Our inventory balance increased by 19.9%, or US\$11.0 million, from US\$55.0 million as of December 31, 2013 to US\$66.0 million as of December 31, 2014 due mainly to an increase in production of camera modules in anticipation of a continuing increase in our sales.

The following table sets forth our average inventory turnover days for the periods indicated:

|  | <u>As of December 31,</u> |             |
|--|---------------------------|-------------|
|  | <u>2013</u>               | <u>2014</u> |
| Inventory turnover days <sup>(1)</sup> ..... | 29.1                      | 28.5        |

(1) Inventory turnover days were calculated based on the average of the opening and closing inventory balances divided by the cost of sales for the relevant period and multiplied by the number of days in the period.

Our average inventory turnover days for the year ended December 31, 2014 were lower as compared to the year ended December 31, 2013 due primarily to our continued disciplined inventory monitoring and more efficient manufacturing processes.

**Trade and Other Receivables**

Trade receivables represent outstanding amounts due from our customers for the purchase of our products. Besides trade receivables, our other receivables and prepayments primarily comprise prepayments on our purchase of components and materials, value-added tax refunds due and guarantee deposits for our leases.

Our trade and other receivables increased by 32.0%, or US\$53.6 million, from US\$167.4 million as of December 31, 2013 to US\$221.0 million as of December 31, 2014, mainly reflecting the commencement of sales of new models of flip-chip camera modules with higher average selling prices in the second half of 2014, which resulted in an increase in turnover as well as trade receivables.

The table below sets forth an aging analysis of our trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, as of the dates indicated:

|                          | <u>As of December 31,</u> |              |
|--------------------------|---------------------------|--------------|
|                          | <u>2013</u>               | <u>2014</u>  |
|                          | <u>(US\$ in millions)</u> |              |
| <b>Trade receivables</b> |                           |              |
| Within 1 month .....     | 86.2                      | 134.3        |
| Over 1 to 2 months ..... | 69.6                      | 68.0         |
| Over 2 to 3 months ..... | 0.6                       | 0.6          |
| Over 3 months .....      | 0.4                       | 1.2          |
| <b>Total</b> .....       | <u>156.8</u>              | <u>204.1</u> |

|                     |   |
|---------------------|---|
| <b>APPENDIX III</b> | <b>PRELIMINARY FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014</b> |
|---------------------|---|

The following table sets forth the turnover days for our trade receivables for the periods indicated:

|  | <b>Year ended December 31,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2013</b>                    | <b>2014</b> |
| Trade receivables turnover days <sup>(1)</sup> ..... | 63.7                           | 74.3        |

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by turnover for the relevant period multiplied by the number of days in the period.

Our average trade receivables turnover days for the year ended December 31, 2014 were higher as compared to the year ended December 31, 2013 due primarily to the significant increase in the balance of our trade receivables as of December 31, 2014, mainly reflecting higher turnover resulting from the commencement of sales of new models of flip chip camera modules with higher average selling prices in the second half of 2014.

### ***Trade and Other Payables***

Trade payables represent outstanding amounts due on our purchases of components and materials and equipment from external suppliers. Besides trade payables, our accrued charges and other payables primarily comprise accrued salaries and other remuneration benefits and interest expenses payable.

Our trade and other payables increased by 70.4%, or US\$86.7 million, from US\$123.1 million as of December 31, 2013 to US\$209.8 million as of December 31, 2014, primarily due to an increase in our purchased components and materials resulting mainly from the commencement of production of new models of flip-chip camera modules in the second half of 2014.

The following table sets forth an aging analysis of our trade payables (which are included in trade and other payables) as of the dates indicated:

|                          | <b>Year ended December 31,</b> |              |
|--------------------------|--------------------------------|--------------|
|                          | <b>2013</b>                    | <b>2014</b>  |
|                          | <b>(US\$ in millions)</b>      |              |
| <b>Trade payables</b>    |                                |              |
| Within 1 month .....     | 40.0                           | 86.1         |
| Over 1 to 3 months ..... | 66.2                           | 103.8        |
| Over 3 to 6 months ..... | 0.3                            | 1.7          |
| Over 6 months .....      | 0.2                            | —            |
| <b>Total</b> .....       | <b>106.7</b>                   | <b>191.6</b> |

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

|   | <b>Year ended December 31,</b> |             |
|---|--------------------------------|-------------|
|   | <b>2013</b>                    | <b>2014</b> |
| Trade payables turnover days <sup>(1)</sup> ..... | 52.0                           | 61.4        |

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by turnover for the relevant period multiplied by the number of days in the period.



Our average trade payables turnover days for the year ended December 31, 2014 were higher as compared to the year ended December 31, 2013 primarily as a result of the high balance of our trade payables as of December 31, 2014, reflecting the increase in our purchases of components and materials for the production of camera modules in the second half of 2014.

### Indebtedness

The table below sets forth our borrowings as of the dates indicated. As of December 31, 2014, except as disclosed below, we did not have any other outstanding debt securities, charges, mortgages or other similar indebtedness, hire purchase and finance lease commitments, or guarantees or other material contingent liabilities.

|   | As of              |             |
|---|--------------------|-------------|
|   | December 31,       |             |
|   | 2013               | 2014        |
|   | (US\$ in millions) |             |
| <b>Current liabilities:</b>                   |                    |             |
| Secured bank loans <sup>(1)</sup> . . . . .   | 121.8              | 91.9        |
| Loan from a director <sup>(2)</sup> . . . . . | 2.0                | —           |
| Total . . . . .                               | <u>123.8</u>       | <u>91.9</u> |

(1) Bank loans are all due within one year or on demand.

(2) The loan from a director was unsecured and payable on demand. Such loan was repaid in full in January 2014.

As of the close of business on December 31, 2014, we had aggregate banking facilities of approximately US\$132.3 million, of which US\$91.9 million were utilized.

### Capital Expenditures and Commitments

Our capital expenditures (equivalent to the cash we spent for payment for purchases of property, plant and equipment) for the year ended December 31, 2014 amounted to US\$21.5 million, compared to US\$15.8 million for the year ended December 31, 2013. The increase in our capital expenditures in 2014 mainly reflected purchases of additional equipment to produce more advanced flip-chip camera modules. We intend to fund our planned future capital expenditures through a combination of cash flow from operating activities, available banking facilities and the net proceeds from the issuance of new Shares in the Global Offering.

Our capital commitments that were contracted but not provided as of December 31, 2014 amounted to US\$10.4 million, compared to US\$7.8 million as of December 31, 2013. Such capital commitments mainly represent our unpaid capital injection into our subsidiary in China, as well as commitments arising out of a contractual relationship where the relevant property, plant and equipment were not provided as of the relevant dates.

We are lessees in respect of a number of properties held under operating leases. These leases are non-cancellable for the remaining period from two to 16 years, with an option to renew the lease upon expiration. None of the leases includes contingent rental. The table below sets forth our operating lease commitments under these non-cancellable operating leases for factory, office, equipment and vehicles, by lease term, as of the dates indicated:

|                                  | As of                 |             |
|----------------------------------|-----------------------|-------------|
|                                  | <u>December 31,</u>   |             |
|                                  | <u>2013</u>           | <u>2014</u> |
|                                  | (US\$ in<br>millions) |             |
| Within one year .....            | 2.4                   | 2.2         |
| Between one and five years ..... | 6.6                   | 6.5         |
| Over five years .....            | <u>20.8</u>           | <u>19.0</u> |
| Total .....                      | <u>29.8</u>           | <u>27.7</u> |

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ON MARKET RISK

See “Financial Information — Quantitative and Qualitative Disclosures on Market Risk” in this prospectus for further information.

### CODE ON CORPORATE GOVERNANCE PRACTICES

As we were not yet listed on the Hong Kong Stock Exchange during the year ended December 31, 2014, the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules (the “Corporate Governance Code”) was not applicable to us during such period under review. After the Listing, we will comply with all the code provisions set forth in the Corporate Governance Code.

### REVIEW OF OUR PRELIMINARY FINANCIAL INFORMATION

We established an audit committee, with effect from the Listing in compliance with the Corporate Governance Code. The proposed members of the audit committee have discussed with our management, and reviewed, the 2014 Preliminary Financial Information as set out in this appendix.

The unaudited financial information of our Group for the year ended December 31, 2014 have been agreed with the Reporting Accountants following their work under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The work performed by the Reporting Accountants in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Reporting Accountants on the 2014 Preliminary Financial Information.

### PURCHASE, SALES OR REDEMPTION OF OUR COMPANY’S SHARES

As we were not yet listed on the Hong Kong Stock Exchange during the year ended December 31, 2014, this disclosure requirement is not applicable to us.

The following discussion is a summary of certain anticipated tax consequences of our operations and of an investment in the Shares under PRC income tax laws and Hong Kong tax laws. The discussion does not address all possible tax consequences relating to the Company's operations or to an investment in the Shares. In particular, the discussion does not address tax consequences under tax laws of jurisdictions other than Hong Kong and PRC. Accordingly, each prospective investor should consult a tax advisor regarding the tax consequences of an investment in the Shares. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change.

## PRC TAXATION

### Enterprise Income Tax

On January 1, 2008, the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法) came into effect pursuant to which resident enterprises shall pay enterprise income tax in relation to their income originating both within and outside PRC and non-resident enterprises that have set up institutions or establishments in PRC shall pay enterprise income tax in relation to income originating from PRC obtained by the established institutions or establishments, and income occurring outside PRC but having an actual connection with the established Institutions or establishments. The enterprise income tax rate in PRC is generally 25%.

### Business Tax

Pursuant to the *Interim Regulations of the PRC on Business Tax* (中華人民共和國營業稅暫行條例) promulgated on December 13, 1993 and amended on November 5, 2008, business tax is imposed on enterprises which provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate from 3% to 20% on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC.

### Value Added Tax

According to the *Interim Regulations of the PRC on Value-added Tax* (中華人民共和國增值稅暫行條例) promulgated on December 13, 1993 and amended on November 5, 2008, VAT is payable on the sale or import and export of goods and the provision of processing and repairing services in the PRC. VAT is generally levied at a rate of 17% in the PRC, however a rate of 13% is applicable to the sale or import of certain categories of goods and a rate of 0% is applicable to the export of goods except as otherwise provided by the State Council.

### Dividends from PRC Operations

According to the *Enterprise Income Tax Law of the PRC* and *Regulation on the Implementation 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) promulgated on December 6, 2007 and effective on January 1, 2008, dividends payable by foreign-invested enterprises established in the PRC to their foreign investors that are regarded as a non-resident enterprise for tax purposes are subject to a withholding tax of 10%, unless otherwise provided in accordance with tax treaties between the jurisdiction of such foreign investor and the PRC.

According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) executed on

August 21, 2006, the dividend withholding tax rate may be reduced to 5%, if a Hong Kong resident enterprise is considered to be a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong resident enterprise is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividends may remain subject to withholding tax at a rate of 10%.

## HONG KONG TAXATION

### Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be chargeable to Hong Kong profits tax.

### Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the Shares. The duty is charged at the *ad valorem* rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares.

In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required). Where a sale or purchase of the Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) will be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee will be liable to pay such duty.

### Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after February 11, 2006.

*This Appendix contains a summary of our Memorandum and Articles of Association. As the information set out below is in a summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection — 2. Documents Available for Inspection" in Appendix VII to this prospectus, a copy of our Memorandum and Articles of Association is available for inspection.*

## **SUMMARY OF THE CONSTITUTION OF THE COMPANY**

### **1 Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted on March 10, 2015 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection — 2. Documents Available for Inspection" in Appendix VII to this prospectus.

### **2 Articles of Association**

The Articles of Association of the Company were conditionally adopted on March 10, 2015 and include provisions to the following effect:

#### **2.1 Classes of Shares**

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$40,000,000 divided into 10,000,000,000 shares of US\$0.004 each.

#### **2.2 Directors**

##### *(a) Power to allot and issue Shares*

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment 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 first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such 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).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
  - (ii) 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 any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any proposal concerning an offer of shares, 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 any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
  - (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
    - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
    - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
  - (v) any contract or arrangement in which the Director or any of his close associates 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.
- (g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.



The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or 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 (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. 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 a second or casting vote.

### 2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

#### 2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied 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 meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

#### 2.5 Alteration of capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman 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.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Cayman Companies Law.

## 2.6 Special resolution — majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths 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 authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association 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 authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

## 2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

## 2.8 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Hong Kong Stock Exchange may authorize) shall elapse between the date of one annual general meeting of the Company and that of the next.

## 2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual

general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

#### 2.10 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) 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 holding not less than 95% in nominal value of the shares giving that right.

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:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

- (f) 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 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

#### 2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Hong Kong Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, 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 of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of the Company; and
- (f) a fee of such maximum as the Hong Kong Stock Exchange may from time to time 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.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Hong Kong Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time

determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

#### 2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

#### 2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

#### 2.14 Dividends and other methods of distribution

Subject to the Cayman Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other moneys payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company 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 Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall 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 of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. 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.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

#### 2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting



for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

#### 2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

#### 2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Hong Kong Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

#### 2.18 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, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney 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.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

#### 2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

#### 2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company 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 of the Company 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. And if in a winding up 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 amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any 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 of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

#### 2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Hong Kong Stock Exchange 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 for an amount equal to such net proceeds.

**SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION****1 Introduction**

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**2 Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 28, 2006 under the Cayman Companies Law. As such, its 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 size of its authorized share capital.

**3 Share Capital**

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman 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 premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia 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 Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (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) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized 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. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors 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 member of the company holding 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.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company 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 to act 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.

#### **4 Dividends and Distributions**

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman 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 3 above for details).

#### **5 Shareholders' Suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class 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 where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

**6 Protection of Minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands 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 Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands 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.

Claims against a company by its shareholders must, as a general rule, 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.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

**7 Disposal of Assets**

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

**8 Accounting and Auditing Requirements**

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) 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.

**9 Register of Members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman 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.

**10 Inspection of Books and Records**

Members of a company will have no general right under the Cayman 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 of association.

**11 Special Resolutions**

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

**12 Subsidiary Owning Shares in Parent**

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**13 Mergers and Consolidations**

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

**14 Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to

the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand 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 and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

## **15 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand 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.

## **16 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 Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## **17 Liquidation**

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

## **18 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.

## **19 Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and



- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (i) on or in respect of the shares, debentures or other obligations of the Company; or
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from December 12, 2006.

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 not party to any double tax treaties that are applicable to any payments made by or to the Company.

## **20 Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

## **21 General**

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection — 2. Documents Available for Inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation of Our Company**

We were incorporated in the Cayman Islands under the Cayman Companies Law as exempted company with limited liability on November 28, 2006. We have established a principal place of business in Hong Kong at Suite 3208-9, 32/F, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on October 9, 2014 under the same address. Ms. Lam Wing Yan has been appointed as our agent for the acceptance of service of process and notices on our behalf in Hong Kong.

As we were incorporated in the Cayman Islands, our operations are subject to the Cayman Companies Law and to our constitution comprising our Memorandum and the Articles of Association. A summary of certain provisions of our constitution and relevant aspects of the Cayman Companies Law is set out in Appendix V to this prospectus.

**2. Changes in Our Share Capital**

Our authorized share capital is US\$40,000,000 divided into 10,000,000,000 Shares of US\$0.004 each. The following sets out the changes in our Company's share capital within the two years immediately preceding the issue of this prospectus:

- 1) Pursuant to the resolutions in writing of our Shareholders passed on September 19, 2014, the 30,000,000 unissued preferred shares of US\$0.10 each were re-designated into 30,000,000 Shares of US\$0.10 each;
- 2) Pursuant to the resolutions in writing of our Shareholders passed on September 19, 2014, each issued and unissued Share of US\$0.10 was subdivided into 25 Shares of US\$0.004 each; and
- 3) Pursuant to the resolutions in writing of our Shareholders passed on September 19, 2014, our authorized share capital was increased from US\$8,000,000 divided into 2,000,000,000 Shares of US\$0.004 each to US\$40,000,000 divided into 10,000,000,000 Shares of US\$0.004 each by the authorization of an additional 8,000,000,000 Shares.

Immediately following the completion of the Global Offering (but not taking into account any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), our issued share capital will be US\$3,326,075.2 divided into 831,518,800 Shares, all fully paid or credited as fully paid and 9,168,481,200 Shares will remain unissued.

Save as disclosed above and as mentioned in the paragraph headed "4. Resolutions in Writing of Our Shareholders Passed on February 4, 2015 and March 10, 2015" below, there has been no alteration in our share capital within the two years immediately preceding the date of this prospectus.

**3. Changes in the Share Capital of Our Subsidiaries**

Our subsidiaries are set out in the Accountants' Report set out in Appendix I to this prospectus. The following alterations in the share capital or registered capital (as the case may be) of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

On November 23, 2012, the registered capital of Cowell China was increased from US\$157,331,900 to US\$185,831,900 by creation of additional registered capital of US\$28,500,000, of

which US\$12,500,000 was required to be contributed in the form of imported manufacturing equipment and US\$16,000,000 in the form of cash by Cowell Hong Kong, respectively. On May 27, 2013, the total registered capital of Cowell China remained US\$185,831,900, but US\$3,800,000 in the registered capital previously required to be contributed in the form of imported manufacturing equipment was required to be contributed in the form of cash and therefore US\$133,922,809.16 of the total registered capital was required to be contributed in the form of imported manufacturing equipment and the remaining US\$51,909,090.84 in the form of cash by Cowell Hong Kong.

On June 6, 2014, the registered capital of Cowell China was decreased from US\$185,831,900 to US\$108,035,988 and the paid-up capital was decreased from US\$179,059,162.75 to US\$101,263,250.75, of which US\$49,354,159.91 was contributed in the form of imported manufacturing equipment and US\$51,909,090.84 in the form of cash by Cowell Hong Kong, respectively.

On June 27, 2014, the registered capital of Cowell China was increased from US\$108,035,988 to US\$129,035,988 by creation of additional registered capital of US\$21,000,000, of which US\$9,000,000 was required to be contributed in the form of imported manufacturing equipment and US\$12,000,000 in the form of cash by Cowell Hong Kong, respectively.

On January 9, 2015, the registered capital of Cowell China was increased from US\$129,035,988 to US\$186,035,988 by creation of additional registered capital of US\$57,000,000 to be contributed in the form of imported manufacturing equipment by Cowell Hong Kong.

Save as disclosed above, there have been no alterations in the share capital of our subsidiaries within two years immediately preceding the date of this prospectus.

#### **4. Resolutions in Writing of Our Shareholders Passed on February 4, 2015 and March 10, 2015**

Pursuant to the written shareholders' resolutions of our Company passed on February 4, 2015 and March 10, 2015, among other things:

- (a) the Memorandum and Articles of Association were approved and adopted conditional upon Listing;
- (b) conditional upon all the conditions set out in the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus being fulfilled:
  - (i) the Global Offering, the Over-allotment Option and the Listing were approved and the Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to make or effect such modifications as it thinks fit;
  - (ii) our Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the Global Offering; and
  - (iii) our Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to agree to the price per Offer Share with the Sole Global Coordinator;
- (c) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures

conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the Global Offering or pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants or any option scheme or similar arrangements pursuant to a specific authority granted by our Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, 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 to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;

- (d) a general unconditional mandate was given to our Directors authorizing them to exercise all the powers of our Company to repurchase, on the Hong Kong Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, 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 to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first;
- (e) it was approved that the general mandate mentioned in paragraph (c) above shall be 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 and issued 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 purchase shares referred to in paragraph (d) above; and
- (f) the Share Option Scheme was approved and adopted and our Directors were authorized 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.

## **5. Repurchases of Our Own Securities**

### **(a) Provisions of the Listing Rules**

The Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the more important of which are summarized below:

- (i) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on February 4, 2015 a general unconditional mandate (the “Repurchase Mandate”) was given to the Directors authorizing any repurchase by us of Shares on the Hong Kong Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme, such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by our Articles of Association or any other applicable laws to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(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 Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time. Under the Cayman Companies Law, the par value of any Shares repurchased by us may be provided for out of our profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be repurchased must be provided for out of our profits or from sums standing to the credit of our share premium account or, if authorised by the Articles of Association and subject to the provisions of the Cayman Islands Companies Law, out of capital.

(iii) Trading restrictions

The total number of Shares which we may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering. We may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Hong Kong Stock Exchange. We are also prohibited from repurchasing Shares on the Hong Kong Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Hong Kong Stock Exchange. We are required to procure that the broker appointed by us to effect a repurchase of Shares discloses to the Hong Kong Stock Exchange such information with respect to the repurchase as the Hong Kong Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Hong Kong Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Hong Kong Stock Exchange.

(iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Hong Kong Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed. Under the Articles of Association, repurchased Shares shall be treated as cancelled and destroyed.

(v) Suspension of repurchase

Pursuant to the Listing Rules, we may not make any repurchases of Shares after inside information has come to our knowledge until the information is made publicly available. In particular, under the

requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
  - (ii) the deadline for us to publish an announcement of our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, we may not repurchase Shares on the Hong Kong Stock Exchange unless the circumstances are exceptional.
- (vi) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Hong Kong Stock Exchange business day following any day on which we may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

- (vii) Connected parties

A company is prohibited from knowingly repurchasing securities on the Hong Kong Stock Exchange from a core connected person and a core connected person shall not knowingly sell its securities to the company on the Hong Kong Stock Exchange.

**(b) Reasons for repurchases**

The Directors believe that it is in the best interests of us and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit us and our Shareholders.

**(c) Funding of repurchases**

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position as disclosed in this prospectus and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or gearing levels which in the opinion of the Directors are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of 831,518,800 Shares in issue immediately following the completion of the Global Offering, could accordingly result in 83,151,880 Shares being repurchased by us during the period prior to (1) the conclusion of our next annual general meeting; (2) the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or (3) the revocation or variation of the purchase mandate by an ordinary resolution of the Shareholders in general meeting, whichever occurs first (the “Relevant Period”).

**(d) General**

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to us or our subsidiaries.

The Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands. We have not repurchased any Shares since our incorporation.

If, as a result of any repurchase of Shares, a shareholder’s proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Hong Kong Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT OUR BUSINESS**

**1. Summary of Material Contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

- (a) the settlement agreement dated April 24, 2013 entered into between Ms. Kim Ki In and our Company regarding the Merger, the details of which are set out in the section headed “Our History, Development and Corporate Structure — Investment by Hahn & Co. Eye and Subsequent Delisting from the KOSDAQ — The Merger” in this prospectus;
- (b) the trademark license agreement dated March 10, 2015 entered into between Cowell Asset and us pursuant to which Cowell Asset agreed to grant us a license to use two trademarks registered in Korea, the details of which are set out in the section headed “Connected Transactions Continuing Connected Transactions — Fully Exempt Continuing Connected Transactions — Trademark License Agreement” in this prospectus;



- (c) the deed of non-competition dated March 10, 2015 entered into between Mr. Kwak, Hahn & Co. Eye and us regarding non-competition undertakings given by Mr. Kwak and Hahn & Co. Eye, the details of which are set out in the section headed “Relationship with the Controlling Shareholder – Non-competition Undertaking” in this prospectus;
- (d) the deed of indemnity dated March 10, 2015 entered into between Mr. Kwak and us pursuant to which Mr. Kwak agreed to give certain indemnities in our favor, the details of which are set out in the paragraph headed “E. Other Information – 2. Indemnities” below;
- (e) the deed of indemnity dated March 10, 2015 entered into between Hahn & Co. Eye and us pursuant to which Hahn & Co. Eye agreed to give certain indemnities in our favor, the details of which are set out in the paragraph headed “E. Other Information – 2. Indemnities” below; and
- (f) the Hong Kong Underwriting Agreement.

## 2. Intellectual Property Rights of our Group



As of the Latest Practicable Date, we have registered the following intellectual property rights which, in the opinion of our Directors, are material to our business.

### (a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which we consider to be material to the business of our Group:

| No. | Trademark   | Registration Number | Name of Registered Proprietor | Class | Place of Registration | Date of Registration | Expiry Date     |
|-----|---|---------------------|-------------------------------|-------|-----------------------|----------------------|-----------------|
| 1   |  | 300934803           | Our Company                   | 9     | Hong Kong             | August 15, 2007      | August 14, 2017 |
| 2   | 高偉光學電子  | 300934812           | Our Company                   | 9     | Hong Kong             | August 15, 2007      | August 14, 2017 |
| 3   |  | 300934795           | Our Company                   | 9     | Hong Kong             | August 15, 2007      | August 14, 2017 |
| 4   | Cowell Optic Electronics Limited  | 6290016             | Cowell China                  | 9     | PRC                   | March 28, 2010       | March 27, 2020  |
| 5   | 高偉光學電子有限公司  | 6290017             | Cowell China                  | 9     | PRC                   | March 28, 2010       | March 27, 2020  |
| 6   | 高伟光学电子有限公司  | 6290018             | Cowell China                  | 9     | PRC                   | March 28, 2010       | March 27, 2020  |

As of the Latest Practicable Date, we have been licensed to use the following registered trademarks for a perpetual term which we consider to be material to the business of our Group:

| No. | Trademark   | Registration Number | Name of Registered Proprietor / Licensor | Class | Place of Registration | Date of Registration | Expiry Date      |
|-----|---|---------------------|--|-------|-----------------------|----------------------|------------------|
| 1   |  | 0571902             | Cowell Asset                             | 9     | Korea                 | January 15, 2004     | January 15, 2024 |
| 2   |  | 0571901             | Cowell Asset                             | 9     | Korea                 | January 15, 2004     | January 15, 2024 |



**(b) Domain Names**

As of the Latest Practicable Date, we have registered the following domain names which we consider to be material to the business of our Group:

| <b>No.</b> | <b>Domain Name</b>   | <b>Registered Owner</b> | <b>Date of Registration</b> | <b>Expiry Date</b> |
|------------|--|-------------------------|-----------------------------|--------------------|
| 1          | <a href="http://cowellholdings.com">cowellholdings.com</a> | Cowell Korea            | October 23, 2010            | October 23, 2015   |
| 2          | <a href="http://cowellchina.com">cowellchina.com</a>       | Cowell Korea            | April 4, 2003               | April 4, 2016      |
| 3          | <a href="http://cowellkorea.com">cowellkorea.com</a>       | Cowell Korea            | March 30, 2004              | March 31, 2016     |

**(c) Patents**

As of the Latest Practicable Date, we have registered the following patents which we consider to be material to the business of our Group:

| <b>No.</b> | <b>Patent Name</b>   | <b>Patent Number</b> | <b>Name of Registered Proprietor</b> |               | <b>Place of Registration</b> | <b>Date of Registration</b> | <b>Expiry Date</b> |
|------------|--|----------------------|--------------------------------------|---------------|------------------------------|-----------------------------|--------------------|
|            |  |                      | <b>Proprietor</b>                    | <b>Type</b>   |                              |                             |                    |
| 1          | A Method and Apparatus for Bonding a Semiconductor Device or Component to a Substrate — Peripheral Groove Invention              | ZL201420109279.2     | Cowell China                         | Utility model | PRC                          | August 13, 2014             | March 11, 2024     |
| 2          | A Method and Apparatus for Bonding a Semiconductor Device or Component to a Substrate — in the same plane                        | ZL201420110001.7     | Cowell China                         | Utility model | PRC                          | August 13, 2014             | March 11, 2024     |
| 3          | A Method and Apparatus for Bonding a Semiconductor Device or Component to a Substrate — planar heat generating element invention | ZL201420109958.X     | Cowell China                         | Utility model | PRC                          | August 13, 2014             | March 11, 2024     |

As of the Latest Practicable Date, we have applied for the registration of the following patents which we consider to be material to the business of our Group:

| <b>No.</b> | <b>Patent Name</b>  | <b>Applicant</b> | <b>Type</b> | <b>Application Date</b> | <b>Place of Application</b> | <b>Application Number</b> |
|------------|---|------------------|-------------|-------------------------|-----------------------------|---------------------------|
| 1          | A Method and Apparatus for Bonding a Semiconductor Device or Component to a Substrate — Peripheral Groove Invention | Cowell China     | Invention   | March 11, 2014          | PRC                         | 201410088377.7            |
| 2          | A Method and Apparatus for Bonding a Semiconductor Device or Component to a Substrate — in the same plane Invention | Cowell China     | Invention   | March 11, 2014          | PRC                         | 201410088851.6            |

| No. | Patent Name  | Applicant    | Type          | Application Date | Place of Application | Application Number |
|-----|--|--------------|---------------|------------------|----------------------|--------------------|
| 3   | A Method and Apparatus for Bonding a Semiconductor Device or Component to a Substrate — planar heat generating element Invention | Cowell China | Invention     | March 11, 2014   | PRC                  | 201410088886.X     |
| 4   | A Method and Apparatus for Bonding a Semiconductor Device or Component to a Substrate  | Cowell China | Invention     | March 15, 2014   | United States        | 14/214,855         |
| 5   | Cleaning Apparatus and Process for Cleaning Electronic Components — Atmospheric Plasma Invention                                 | Cowell China | Invention     | March 13, 2014   | PRC                  | 201410095479.1     |
| 6   | Cleaning Apparatus and Process for Cleaning Electronic Components — Atmospheric Plasma Invention                                 | Cowell China | Utility model | March 13, 2014   | PRC                  | 201420117113.5     |
| 7   | Cleaning Apparatus and Process for Cleaning Electronic Components — different processing times Invention                         | Cowell China | Invention     | March 13, 2014   | PRC                  | 201410093758.4     |
| 8   | Cleaning Apparatus and Process for Cleaning Electronic Components — different processing times Invention                         | Cowell China | Utility model | March 13, 2014   | PRC                  | 201420114267.9     |
| 9   | Cleaning Apparatus and Process for Cleaning Electronic Components  | Cowell China | Invention     | March 15, 2014   | United States        | 14/214,869         |

**C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS****1. Disclosure of Interests****(a) Interests and short positions of the Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations**

Immediately following the completion of the Global Offering (without taking into account the Shares to be sold upon the exercise of the Over-allotment Option and the Shares to be issued upon the exercise of the options that may be granted under the Share Option Scheme), the interests or short positions of our Directors or chief executives in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), once the Shares are listed will be as follows:

*Interest in Shares or Underlying Shares of our Company*

| Name of Director              | Nature of interest  | Number of Shares<br>or underlying<br>Shares | Approximate<br>percentage of<br>shareholding<br>interest |
|-------------------------------|---------------------|---|--|
| Mr. Kwak Joung Hwan . . . . . | Beneficial interest | 374,159,400                                 | 45.00%   |

**(b) Interests and short positions of the Substantial Shareholders in the Shares and Underlying Shares of our Company**

Save as disclosed in the section headed "Substantial Shareholders" in this prospectus, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any an interest or short position in the Shares and underlying Shares of our Company which, once the Shares are listed, would fall to be disclosed to our Company 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 our Company.

**(c) Interests of the Substantial Shareholders of Any Member of Our Group (Other than Our Company)**

So far as the Directors are aware, immediately following the completion of the Global Offering, no persons will, directly or indirectly, be interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than us).

## 2. Particulars of Service Contracts

### (a) *Executive Directors*

Each of the executive Directors has entered into a service contract with us under which they agreed to act as executive Directors for an initial term of three years commencing from March 10, 2015, which may be terminated by not less than three months' notice in writing served by either the executive Director or us.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

### (b) *Non-executive Director and Independent Non-executive Directors*

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with us with effect from March 10, 2015 or their respective date of appointment until three years after the Listing Date. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while the non-executive directors are not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

### (c) *Others*

- (i) Save as disclosed above, none of the Directors has entered into any service contract 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).
- (ii) During the year ended December 31, 2013 and the ten months ended October 31, 2014, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately US\$5,261,205 and US\$1,149,559 respectively. Details of the Directors' remuneration are also set out in note 7 of the Accountant's Report set out in Appendix I to this prospectus. Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the year ended December 31, 2013 and the ten months ended October 31, 2014 by us to the Directors.
- (iii) The aggregate of the remuneration and benefits in kind payable to the Directors for the year ending December 31, 2015 is estimated to be approximately US\$2,700,000.
- (iv) None of the Directors or any past Directors of any members of our Group has been paid any sum of money for the three years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014 (i) as an inducement to join or upon joining us or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014.
- (vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, us, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of the Company.

### 3. Fees or commissions received

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed under the paragraph headed “E. Other Information — 8. Consents of Experts” below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

### 4. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executives has any interests and short positions in the Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Hong Kong Stock Exchange, in each case once our Shares are listed on the Hong Kong Stock Exchange;
- (b) so far as is known to any of our Directors or chief executives, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or 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 the Group;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “E. Other Information — 7. Qualification of Experts” below is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;
- (d) save as disclosed in this prospectus or in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the paragraph headed “E. Other Information — 7. Qualification of Experts” below 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;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “E. Other Information — 7. Qualification of Experts” below: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) none of our Directors or their respective close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

**D. SHARE OPTION SCHEME****1. Summary of Terms**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written resolution passed by our Shareholders on February 4, 2015. The terms of the Share Option Scheme comply with the provisions of Chapter 17 of the Listing Rules.

**(a) Purpose of the Share Option Scheme**

The purpose of the Share Option Scheme is to provide an incentive for the Qualified Participants (as defined in paragraph (b) below) to work with commitment towards enhancing the value of the Company and its Shares for the benefit of its shareholders, and to maintain or attract business relationship with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

The Board is of the view that the Share Option Scheme may provide the Qualified Participants with the opportunity of participating in the growth of the Group by acquiring Shares in the Company which may in turn assist in the attraction and retention of the Qualified Participants. To ensure the achievement of the purpose of the Share Option Scheme, its rules do not specify any minimum holding period and/or performance targets as a condition for the exercise of an option but subject to the determination of the Board. The Board is given the authority under the Share Option Scheme rules to determine and state in the offer letter of grant any minimum holding period and/or performance targets as conditions for exercise of an option. In addition, the Board has the authority under the Share Option Scheme rules to determine the basis of eligibility of any Qualified Participant and the grant of an option on a case by case basis as the Board in its sole discretion considers appropriate. Hence, the Board believes that the rules of the Share Option Scheme will serve to achieve its purpose as well as protect the value of the Company.

**(b) Who may join**

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to:

- (i) any executive director, or employee (whether full time or part time) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest;
- (ii) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (together with (i) above, "Eligible Employee");
- (iii) any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent or service provider of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest who is an individual; or
- (iv) any full-time employee of any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent, customer or service provider of the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest,

who the Board considers, in its sole discretion, has contributed or will contribute to the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (collectively, the “Qualified Participant”).

**(c) Maximum number of Shares in respect of which options may be granted**

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed the number of Shares that shall represent 5% of the total number of Shares in issue as at the Listing Date (the “Scheme Mandate”), excluding for this purpose options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company, provided that:

- (i) the Company may seek approval by the Shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company under the Scheme Mandate as refreshed must not exceed 5% of the total number of Shares in issue as at the date of such shareholder approval. For these purposes, options previously granted under the Share Option Scheme and any other share option schemes of the Company, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted. The Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules;
- (ii) the Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Qualified Participants who are specifically identified before such approval is sought. A circular will be sent by the Company to the Shareholders in accordance with the Listing Rules; and
- (iii) the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed such number of Shares as shall represent 30 per cent of the Shares in issue from time to time. No options may be granted if such grant will result in this 30 per cent 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 the Company shall certify in writing to the Board to be fair and reasonable in the event of any alteration to the capital structure of the Company whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, subdivision or reduction of the share capital of the Company but shall not in any event exceed the limits imposed by the Listing Rules.

**(d) Maximum entitlement of each Qualified Participant**

Unless approved by shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that grantee on exercise of his options (including both exercised and outstanding options) during any 12 month period exceeding 1% of the total Shares then in issue.

**(e) Grant of options to connected persons**

Any grant of options to a Director, chief executive or substantial Shareholder of the Company or any of their respective associates under the Share Option Scheme must be approved by all the independent non-executive Directors (excluding any independent non-executive Director who is also a grantee of the options).

Any grant of options to a substantial Shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting if the Shares issued and to be issued upon exercise of all options already granted and proposed to be granted to him (whether exercised, cancelled or outstanding) in the 12 month period up to and including the proposed date of grant:

- (i) would represent in aggregate more than 0.1 per cent of the Shares then in issue; and
- (ii) would have an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000 (or such other amount as shall be permissible under the Listing Rules from time to time).

At the general meeting to approve such proposed grant of options, the grantee, his associates and all core connected persons of the Company must abstain from voting unless they intend to vote against the proposed grant and that intention has been stated in the circular to be dispatched to Shareholders in accordance with the Listing Rules. At such general meeting, the vote to approve the grant of such options must be taken on a poll in accordance with the relevant provisions of the Listing Rules. The Company shall send to the Shareholders a circular containing the details and information required under Chapter 17 of the Listing Rules.

**(f) Acceptance of an offer of options**

An offer of the grant of an option shall be made to a Qualified Participant by letter in such form as the Board may from time to time determine, requiring the Qualified Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The offer shall remain open for such period (not exceeding 30 days, inclusive of, and from, the date of offer) as the Board may determine and notify to the Qualified Participant.

An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favor of the Company of HK\$1 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Qualified Participant.

**(g) Subscription price**

The subscription price shall be a price determined by the Board but in any event shall be at least the highest of:

- (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of offer;



- (ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and
- (iii) the nominal value of the Shares.

**(h) Duration of the Share Option Scheme**

The Share Option Scheme shall be valid and effective from the date on which the last of the conditions (as set out in paragraph (x) below) is fulfilled (the "Adoption Date") until the end of the period of ten years commencing on the Adoption Date (the "Scheme Period"), after which time no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of the Scheme Period shall continue to be valid and exercisable after the end of the Scheme Period in accordance with the terms of the Share Option Scheme.

**(i) Performance target and minimum holding period**

There is no minimum period for which any option must be held before it can be exercised and no performance target which need to be achieved by a grantee before the option can be exercised unless the Board otherwise determined and stated in the offer letter of the grant of options.

**(j) Restriction on the time of grant of options**

The Company may not grant any option after inside information has come to its knowledge until it has announced the information. In particular, it may not grant any option during the period commencing one month immediately before the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange under the Listing Rules) for approving the Company's results for any year, half-year or quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. Without prejudice to the foregoing, no option shall be granted during the period specified in the Listing Rules as being a period during which no option may be granted.

No grant of options shall be made to a Qualified Participant who is a Director during a period in which the Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or the Company's own equivalent code.

**(k) Ranking of the Shares**

The Shares to be allotted upon exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* with the fully paid Shares in issue on the date of allotment. Accordingly the Shares will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment provided that the record date for the dividend or distribution is a date after the date of allotment.

***(l) Rights are personal to the grantee***

An option is personal to the grantee and shall not be transferable or assignable (except for the transmission of an option on the death of any grantee to a person who of succession is entitled to the option). No grantee shall sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt to do so (except that the grantee may nominate a nominee, of which the grantee is the sole beneficial owner, in whose name the Shares issued pursuant to the Share Option Scheme may be registered provided that evidence of such trust arrangement between the grantee and the nominee has been provided to the satisfaction of the Board).

***(m) Rights on ceasing employment/death***

If the grantee who is an Eligible Employee ceases to be so engaged by reason other than his death or the termination of his employment on one or more of the grounds under subparagraph (s)(v) below or retirement in accordance with the terms of his contract of employment or by virtue of any statutory requirement, the grantee shall be entitled to exercise the option up to his entitlement at the date of cessation (to the extent exercisable but not already exercised) within a period of 1 month from the date of such cessation, which date shall be the last day on which the grantee was at work with the Company, the relevant subsidiary or any entity in which the Company or any subsidiary holds any equity interest (whether salary is paid in lieu of notice or not) (or within such longer period as the Board may determine).

In the event of death of the grantee (being an individual) before exercising the option in full, and none of the events which would be a ground for termination of his employment under subparagraph (s)(v) below has arisen in case such grantee is an Eligible Employee, his legal personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within the period of 12 months following his death or such longer period as the Board may determine.

***(n) Rights on retirement***

If the grantee being an Eligible Employee ceases to be so engaged by reason of retirement in accordance with the terms of his contract of employment or by virtue of any statutory requirement and none of the events which would be a ground for termination of his employment as specified in subparagraph (s)(v) below has arisen, the grantee shall be entitled within a period of 12 months from the date of retirement (or such longer period as the Board may determine) to exercise the option up to the grantee's entitlement (to the extent exercisable but not already exercised).

***(o) Rights on termination of business relationship with the Group***

In the event that the grantee being a non-Eligible Employee in the absolute opinion of the Board ceases to be qualified as a Qualified Participant by reason of termination of its business relation with the relevant member of the Group or otherwise, such grantee shall be entitled within a period of 1 month from the date of termination (or such other period as the Board may determine) to exercise the option up to its entitlement (to the extent exercisable but not already exercised).

***(p) Rights on take-over***

If a general offer (whether by way of takeover offer, scheme of arrangement or otherwise) is made to all the Shareholders (or all Shareholders other than the offeror and its concert parties and

persons controlled by the offeror) and the offer becomes or is declared unconditional during the option period of an outstanding option, the grantee (or his legal personal representatives) shall be entitled to exercise the option (to the extent not already exercised but whether vested or not) at any time before the expiry of the period of 10 business days following the date on which the offer becomes or is declared unconditional.

**(q) *Rights on winding-up***

If an effective resolution is passed for the voluntary winding-up of the Company or an order of court is made for the winding-up of the Company, a grantee may in respect of outstanding options by notice in writing to the Company within 15 business days after the date of such resolution, elect to be treated as if the option (to the extent not already exercised but whether vested or not) had been exercised immediately before the passing of the resolution. The notice must state the number of Shares in respect of which the election is made and be accompanied by a remittance for the full amount of the subscription price for the relevant Shares. Immediately upon receipt of the notice by the Company, the grantee will become entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares that are the subject of the election.

**(r) *Rights on company reconstructions***

If a compromise or arrangement between the Company and its Shareholders or creditors is proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice to all grantees on the same day as it gives notice of the meeting to its Shareholders or creditors to consider the compromise or arrangement. Upon receipt of the notice, the grantee may, during the period commencing on the date of the notice and ending on the earlier of:

- (i) the date 2 calendar months thereafter; and
- (ii) the date on which such compromise or arrangement is sanctioned by the court;

exercise the option (to the extent not already exercised but whether vested or not)(whether in full or in part), conditional upon the compromise or arrangement being sanctioned by the court and becoming effective. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. The Company may require the grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to the compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms present to the court or upon any other terms as may be approved by such court) the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

**(s) Lapse of option**

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the option period which must expire not more than 10 years from the date of grant;
- (ii) the expiry of the periods referred to in paragraphs (m), (n), (o), (p), (q) or (r) above;
- (iii) the date of the commencement of the winding-up of the Company in respect of the situation contemplated in paragraph (q) above;
- (iv) the date the scheme or compromise referred to in paragraph (r) above becomes effective;
- (v) the date on which the grantee being an Eligible Employee ceases to be a Qualified Participant by reason of the termination of his employment on the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made an arrangement or composition with creditors generally, or has been convicted of a criminal offense involving his integrity or honesty, or on any other ground on which an employer would be entitled to terminate his employment forthwith pursuant to applicable laws or under the grantee's employment contract;
- (vi) the date on which the grantee commits a breach of paragraph (l) above;
- (vii) if an option was granted subject to certain conditions, restrictions or limitation, the date on which the Board resolves that the grantee has failed to satisfy or comply with such conditions, restrictions or limitation;
- (viii) in respect of the grantee being a consultant or adviser (whether individual or corporation), the date on which the Board resolves that the consultant or adviser fails to comply with any provisions of the relevant contracts, or breaches its fiduciary duty under the common law; and
- (ix) the occurrence of such event or expiry of such period as may have been specifically provided for in the offer letter, if any.

**(t) Alteration of capital**

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), the Board shall make (and shall notify to the grantee) such corresponding alterations (if any) in (i) the number of Shares subject to any option so far as such option remains unexercised; (ii) the subscription price; (iii) the method of exercise of the option; and/or (iv) the number of Shares subject to the Share Option Scheme, as the auditors of the Company shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any adjustment shall be made on the basis that are required to give each grantee the same proportion of the share capital as that to which the grantee was previously entitled, but not so that the effect would be to enable any Share to be issued to a grantee at less than its nominal value.

**(u) Cancellation of options**

Unless the grantee agrees, the Board may only cancel an option (which has been granted but no yet exercised) if, at the election of the Board, either:

- (i) the Company pays to the grantee an amount equal to the fair market value of the option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors of our Company or an independent financial advisor appointed by the Board;
- (ii) the Board offers to grant to the grantee replacement options (or options under any other share option scheme) provided that such replacement options are granted under a scheme with available unissued options (excluding the cancelled options) within the limit mentioned in paragraph (c) above, or makes such arrangements as the grantee may agree to compensate him for the loss of the option; or
- (iii) the Board makes such arrangements as the grantee may agree to compensate him for the cancellation of the option.

**(v) Termination of the Share Option Scheme**

The Company may at any time terminate the operation of the Share Option Scheme by resolution of the Board or resolution of the Shareholders in general meeting and in such event no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects. In particular, all options granted and accepted prior to the termination and yet to be exercised shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

**(w) Alteration of the Share Option Scheme**

The Board may by resolution amend any of the provisions of the Share Option Scheme except the following, which shall be approved by the Shareholders in general meeting:

- (i) any material alteration to its terms and conditions or any change to the terms of options granted (except where the alterations take effect under the existing terms of the Share Option Scheme);
- (ii) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantee;
- (iii) any change to the authority of the Board or the scheme administrator;
- (iv) any amendments to the terms of options granted to a grantee who is a substantial Shareholder of the Company or an independent non-executive Director, or any of their respective associates. The resolution to approve the amendment must be taken on a poll and the grantee, his associates and all core connected persons of the Company must abstain from voting on the resolution to approve such amendment, except that such persons may vote against such resolution; and
- (v) any change to the Scheme rules governing the amendment of the rules of the Share Option Scheme;

provided that any amendments of the Scheme provisions or terms of the options shall comply with the requirements of the Listing Rules.

**(x) Conditions of the Share Option Scheme**

The adoption of the Share Option Scheme is conditional upon:

- (i) the approval of the Shareholders for the adoption of the Share Option Scheme; and
- (ii) the approval by the Hong Kong Stock Exchange of the listing of and permission to deal in any Shares to be allotted and issued pursuant to the exercise of options under the Share Option Scheme.

If the permission referred to in subparagraph (ii) is not granted within six months after the date of the Share Option Scheme was conditionally adopted:

- (iii) the Share Option Scheme will forthwith determine;
- (iv) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect;
- (v) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option; and
- (vi) the Board may further discuss and devise another share option scheme that is applicable to a private company for adoption by the Company.

**2. Present status of the Share Option Scheme**

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in the Shares which fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

**E. OTHER INFORMATION****1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands, PRC or Korea.

**2. Indemnities**

Each of our Controlling Shareholders has entered into a deed of indemnity with our Company in favor of us (being the contracts referred to in items (d) and (e) of the paragraph headed "B. Further Information about Our Business — 1. Summary of Material Contracts" above) to provide the indemnities in respect of, among other things, taxation resulting from income, profits or gains earned, accrued or received as well as any claims, penalties, fines, damages, losses, fees and expenses and liabilities relating to the non-compliance incidents and property title defects of any of our Group which may be subject and payable on or before the date when the Global Offering becomes unconditional.

Each of our Controlling Shareholders will, however, not be liable under the deed of indemnity for taxation where, among other things, (a) specific provision has been made for such taxation in the audited

accounts of our Company; (b) the taxation falling on us in respect of any accounting period commencing on or after November 1, 2014 unless liability for such taxation would not have arisen but for some event entered into by our Controlling Shareholders or us otherwise than in the course of normal day to day trading operations on or before the Listing Date; and (c) the taxation arises or is incurred as a consequence of any change in law or the interpretation thereof or practice by the relevant tax authority having retrospective effect coming into force after the Listing Date or to the extent that the taxation arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect. Furthermore, Hahn & Co. Eye will only incur liability under the deed of indemnity to the extent that the claim in question is caused by any decisions approved by the Board (excluding any decisions made by the senior management of the Company but not the Board) on or after October 24, 2011.

### **3. Litigation**

As of the Latest Practicable Date, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

### **4. Sole Sponsor**

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued or sold as mentioned in this prospectus (including any Shares which may be sold by the Selling Shareholder pursuant to the exercise of the Over-allotment Option and the Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme). The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The fees payable to the Sole Sponsor in respect of its services as sponsor for the Listing are approximately US\$500,000 and are payable by us.

### **5. Preliminary expenses**

The preliminary expenses incurred by us in relation to our incorporation were approximately US\$10,300 and were paid by us.

### **6. Promoter**

We have no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

## 7. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

|  |   |
|--|---|
| Jingtian & Gongcheng .....                                       | PRC legal advisor   |
| KPMG .....   | Certified Public Accountants, Hong Kong   |
| Morgan Stanley Asia Limited .....                                | Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance), and type 9 (asset management) of the regulated activities |
| Maples and Calder .....  | Cayman Islands legal advisor  |
| Dongguan Zhengheng Tax Agency Co. Ltd<br>(東莞市正衡稅務師事務所有限公司) ..... | PRC Tax Consultant  |

## 8. Consents of Experts

Each of Jingtian & Gongcheng, KPMG, Morgan Stanley Asia Limited, Maples and Calder and Dongguan Zhengheng Tax Agency Co. Ltd has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included in this prospectus in the form and context in which it is respectively included.

## 9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, 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 insofar as applicable.

## 10. Particulars of the Selling Shareholder

Hahn & Co. Eye, a company incorporated in Korea on July 15, 2011 whose registered office is at 21F Ferrum Tower, 19 Eulji-ro 5-gil, Jung-Gu, Seoul, Korea, 100-210. The Sale Shares being an aggregate of 124,800,000 Shares, are offered by Hahn & Co. Eye for sale under the International Offering. Hahn & Co. Eye may be required by the Sole Global Coordinator to sell up to an aggregate of 31,200,000 Shares upon the exercise of the Over-allotment Option, as a result of which Hahn & Co. Eye may sell up to an aggregate of 156,000,000 Shares pursuant to the Global Offering (assuming the Over-allotment Option is exercised in full).

## 11. Reserves available for distribution

As at October 31, 2014, we have reserves of US\$9.3 million available for distribution to our Shareholders.



**F. 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 the 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 the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no founders or management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
  - (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 the Company or any of its subsidiaries; and
  - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries.
- (b) Save as disclosed in this prospectus, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.
- (c) Our Directors confirm that:
- (i) there has been no material adverse change in the financial or trading position or prospects of the Group since October 31, 2014 (being the date to which the latest audited consolidated financial statements of the Group were prepared); and
  - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
  - (iii) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus.
- (d) Our principal register of members will be maintained by our principal registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands.
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.

- (g) The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to the section headed “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix VI to this prospectus;
- (c) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 8. Consents of Experts” in Appendix VI to this prospectus; and
- (d) a statement of the name, description and address of the Selling Shareholder referred to in the section headed “Statutory and General Information — E. Other Information — 10. Particulars of the Selling Shareholder” in Appendix VI to this prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Cleary Gottlieb Steen & Hamilton (Hong Kong) at 37/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountants’ Report for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014 issued by KPMG, and the report on the unaudited pro forma financial information prepared by KPMG, the texts of which are set out in Appendix I and Appendix II of this prospectus, respectively;
- (c) the audited consolidated financial statements of our Company for the years ended December 31, 2011, 2012 and 2013 and the ten months ended October 31, 2014 and the unaudited consolidated financial statements of our Company for the ten months ended October 31, 2013;
- (d) the transfer pricing report issued by Dongguan Zhengheng Tax Agency Co. Ltd, the PRC Tax Consultant, in respect of the review of the assumptions underlying the pricing of our intra-Group transactions;
- (e) the legal opinions issued by Jingtian & Gongcheng, our PRC legal advisor, in respect of certain aspects of the Group and the property interests of the Group;
- (f) the letter of advice issued by Maples and Calder, our Cayman legal advisor, in respect of certain aspects of the Cayman Companies Law referred to in Appendix V to this prospectus;
- (g) the Cayman Companies Law;

- (h) the material contracts referred to the section headed “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix VI to this prospectus;
- (i) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 8. Consents of Experts” in Appendix VI to this prospectus;
- (j) service contracts and letters of appointment entered into between the Company and each of the Directors;
- (k) the rules of the Share Option Scheme; and
- (l) statement of particulars of the Selling Shareholder.



**COWELL**

**Cowell e Holdings Inc.**  
**高偉電子控股有限公司**