

# SMART-CORE HOLDINGS LIMITED 芯智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2166

**GLOBAL  
OFFERING**

Sole Sponsor



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



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## IMPORTANT

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

# SMART-CORE HOLDINGS LIMITED

## 芯智控股有限公司

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

### GLOBAL OFFERING

Number of Offer Shares in the Global Offering	:	125,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	12,500,000 Shares (subject to reallocation)
Number of International Placing Shares	:	112,500,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	:	not more than HK\$2.39 per Offer Share (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, payable in full on application in Hong Kong dollars and subject to refund) and expected to be not less than HK\$1.77 per Offer Share
Nominal Value	:	US\$0.00001 per Share
Stock Code	:	2166

*Sole Sponsor*



*Joint Global Coordinators*



*Joint Bookrunners and Joint Lead Managers*



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, with the documents specified in "Appendix V — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in 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 and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Prior to making an investment decision, prospective investors should carefully consider 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 Offer Price is expected to be determined by agreement between DBS, for itself and on behalf of the Underwriters, and our Company on or around Friday, 30 September 2016 and, in any event, not later than 12:00 noon on Wednesday, 5 October 2016. The Offer Price will be not more than HK\$2.39 and is currently expected to be not less than HK\$1.77 unless otherwise announced. If the Offer Price is not agreed between DBS, for itself and on behalf of the Underwriters, and our Company, the Global Offering will lapse and will not proceed. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and 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 "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offer — Grounds for termination" in this prospectus.

The Joint Global Coordinators, for themselves and on behalf of the Underwriters, may, with our consent, reduce the number of Offer Shares in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, notices of the reduction in the number of Offer Shares in the Global Offering and/or the indicative Offer Price range will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer.

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. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

27 September 2016

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## EXPECTED TIMETABLE<sup>(1)</sup>

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If there is any change in the following expected timetable of the Hong Kong Public Offer, we will issue an announcement in Hong Kong to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese).

**Date<sup>(1)</sup>**

Latest time to complete electronic applications  
under **White Form eIPO** service through the  
designated website [www.eipo.com.hk](http://www.eipo.com.hk)<sup>(2)</sup> . . . . . 11:30 a.m. on Friday, 30 September 2016

Application lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Friday, 30 September 2016

Latest time to complete payment of **White Form  
eIPO** applications by effecting internet banking  
transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on Friday, 30 September 2016

Latest time to give **electronic application  
instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Friday, 30 September 2016

Latest time to lodge **WHITE** and **YELLOW**  
Application Forms . . . . . 12:00 noon on Friday, 30 September 2016

Application lists close<sup>(3)</sup> . . . . . 12:00 noon on Friday, 30 September 2016

Expected Price Determination Date<sup>(5)</sup> . . . . . Friday, 30 September 2016

Announcement of:

- the final Offer Price,
- the indication of levels of interest in the International Placing,
- the basis of allotment and the results of applications  
in the Hong Kong Public Offer to be published in  
the South China Morning Post (in English) and  
the Hong Kong Economic Times (in Chinese) on . . . . . Thursday, 6 October 2016

Announcement of results of allocations in the Hong Kong  
Public Offer (with successful applicants' identification  
document numbers, where appropriate) to be available  
through a variety of channels including our website at  
[www.smart-core.com.hk](http://www.smart-core.com.hk)) and the website of the Stock  
Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) (for further details, please  
see "How to Apply for Hong Kong Offer Shares —  
11. Publication of Results" in this prospectus) from . . . . . Thursday, 6 October 2016

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Results of allocations in the Hong Kong Public Offer will be available at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) with a “search by ID Number/Business Registration Number” function . . . . . Thursday, 6 October 2016

Despatch/Collection of White Form e-Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer on or before<sup>(6), (7)</sup> . . . . . Thursday, 6 October 2016

Despatch/Collection of Share certificates on or before<sup>(6)</sup> . . . . . Thursday, 6 October 2016

Dealings in the Shares on the Stock Exchange expected to commence at . . . . . 9:00 a.m. on Friday, 7 October 2016

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*Notes:*

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section “Structure of the Global Offering” in this prospectus.
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 submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 30 September 2016, the application lists will not open on that day. For details, please see the section “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to apply for 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 around Friday, 30 September 2016. If, for any reason, the Offer Price is not agreed by 12:00 noon on Wednesday, 5 October 2016 between our Company and DBS (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse accordingly.
6. Share certificates for the Offer Shares are expected to be issued on or before Thursday, 6 October 2016 but will only become valid certificates of title at 8:00 a.m. on Friday, 7 October 2016 provided that (a) the Global Offering has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.
7. Refund cheques/e-Refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$2.39.

For details of the structure of the Global Offering, including conditions of the Global Offering, applicants should refer to the section headed “Structure of the Global Offering” in this prospectus.

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### **IMPORTANT NOTICE TO INVESTORS**

*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offer. 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 offer of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit 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 authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering.*

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## SUMMARY

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***This summary aims to give you an overview of the information contained in this prospectus. Since this 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. There are risks associated with any investment. 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 that section carefully before you decide to invest in the Offer Shares.***

### OVERVIEW

We are a leading distributor of IC and other electronic components based in the PRC Region. We have strong capability to provide engineering support, and operate a distinctive e-commerce platform. Through closely co-operating with IC technology vanguards, we deeply consolidate industry resources and adopt an OAO (online and offline) business model to provide high quality core IC and value-added services to a broad base of customers.

We offer a wide range of IC and other electronic components and provide comprehensive value-added services including engineering solutions and field application engineering support to our customers, which help them to shorten their product development time. Our products include a wide range of IC and other electronic components used in applications such as smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory products. In particular, we procured a significant portion of our products from our largest supplier MStar, which amounted to US\$195.2 million, US\$291.9 million, US\$366.1 million and US\$97.6 million for FY2013, FY2014, FY2015 and 1Q2016 respectively, and accounted for not less than 70% of our total cost of sales during the Track Record Period. We have strong product offering of IC used in our key product segments including the smart media display, intelligent broadcasting terminal and memory. Our suppliers include internationally well-known IC companies in the industry such as MStar and we are one of the limited number of authorised distributors or solution providers of our major suppliers in the PRC. Our e-commerce platform is an online customer interaction interface that comprises our sales platform SMC Cloud, and marketing platforms SuperIC Community and SuperIC Navigator.

Since we commenced our business in 2005, we have established a large and diversified customer base, with over 1,300 customers as at 31 March 2016, comprising blue chip customers, which include leading brand-name manufacturers, as well as SME customers. According to the Analysys Report, the PRC Region was the largest semiconductor market in 2015 with approximately 100,000 companies engaged in the distribution and trading of IC and other electronic components. We were the eighth largest electronic component distributor based in the PRC Region, with a market share of approximately 0.13% in 2015; and were the fifth largest electronic component distributor based in the PRC Region that principally distributes IC, with a market share of approximately 0.13% in 2015, in terms of revenue in 2015, according to the Analysys Report.

According to Analysys, (i) the market of smart-TV in the PRC Region, in terms of unit sold, expanded from 8.2 million units in 2013 to 33.4 million units in 2015 and is expected to reach 49.6 million units in 2017; (ii) the market of set-top box in the PRC Region expanded from 285.2 million units in 2013 to 421.6 million units in 2015 and is expected to reach 560.0 million units in 2017; and (iii) the import value of memory products to the PRC Region expanded from US\$49.5 billion in 2013 to US\$59.0 billion in 2015 and is expected to reach US\$89.0 billion in

## SUMMARY

2018. As the market in these three largest product segments of our Group expanded, we experienced significant growth in our business during the Track Record Period. Set out below is our revenue breakdown by product segments for the periods indicated:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
	(unaudited)									
<b>Product type</b>										
Smart media display . . . . .	161,350	57.1	225,743	56.7	281,015	57.9	48,940	60.7	69,876	48.1
Intelligent broadcasting terminal . . . . .	30,700	10.9	55,886	14.0	57,581	11.9	6,487	8.0	31,666	21.8
Mobile terminal . . . . .	27,567	9.7	24,020	6.0	26,283	5.4	6,096	7.6	5,702	3.9
Smart automotive electronics . . . . .	8,747	3.1	10,788	2.7	12,383	2.6	2,356	2.9	2,395	1.6
Memory . . . . .	50,257	17.8	54,615	13.7	75,308	15.5	12,457	15.5	17,776	12.2
Others <sup>(Note)</sup> . . . . .	3,931	1.4	27,464	6.9	32,801	6.7	4,258	5.3	17,894	12.4
<b>Total . . . . .</b>	<b>282,552</b>	<b>100.0</b>	<b>398,516</b>	<b>100.0</b>	<b>485,371</b>	<b>100.0</b>	<b>80,594</b>	<b>100.0</b>	<b>145,309</b>	<b>100.0</b>

*Note:* This segment covers all products not included in smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.

Adoption of an OAO business model allows us to cater better to different needs of our customers. We provide various offline IC-related value added services to our customers covering pre-sale, sale and post-sale stages through our sales and application engineering teams. We develop and provide engineering solutions and field application engineering support to our customers, as value-added services. Our offline services enable us to have more collaborative and consultative discussions with customers, create demand for our products and maintain close business relationship with our customers.

In terms of online services, we launched our online sales platform, SMC Cloud, in February 2015 to allow our customers to take more control of the procurement process by offering access to a user-friendly means to manage their transactions with us through the internet. It also helps us to reach out to SME customers and customers located in geographical regions not covered by our seven sales offices in Shenzhen, Chengdu, Xiamen, Wuhan, Beijing, Nanjing and Shanghai. We continuously improved our e-commerce platform as an online customer interaction interface, and in December 2015, we added our online marketing platforms, SuperIC Community and SuperIC Navigator, which enables us to gather and engage industry professionals and direct them to SMC Cloud. As at the Latest Practicable Date, our B2B sales platform SMC Cloud has attracted over 5,100 registered users and approximately 270 active users.

We strive to expand our market share and achieve sustainable growth. We launched our Smart-Core Planet to capture SMEs and start-up companies as our customers by seeking collaboration opportunities with incubators which are companies that are fostering smart appliance businesses and entities. Through Smart-Core Planet, we co-operate with such incubators to offer our quality products and value-added services to their incubated entities. In February 2016, we entered into a co-operation agreement with an incubator “海峽兩岸無人機暨智能機器人孵化基地” (China and Taiwan Drones and Intelligent Robots Incubator\*) that



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## SUMMARY

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provides entrepreneurial services to entities engaging in the development of drones and robotics technology. As at the Latest Practicable Date, we have entered into collaboration arrangements with three incubators and we will continue to seek more collaboration opportunities with other incubators through our Smart-Core Planet.

Apart from expanding our customer base through Smart-Core Planet, we keep enriching our product portfolio and expanding our supplier base. We have identified a number of strategic product segments which we consider to be fast developing, namely IoT (especially smart-home applications), optical communication, security monitoring, high efficiency power management products, virtual reality, drones and robotics. We have and will continue to expand our product portfolio and invest in our value added engineering support services in relation to such strategic segments.

Leveraging on our in-depth knowledge and experience in the industry, we are dedicated to facilitating our customers' procurement of authentic quality IC and other electronic components efficiently from a strong network of reputable suppliers, with our integrated supply chain services and technical support.

### **OUR BUSINESS MODEL**

We are a distributor of IC and other electronic components in the PRC Region and adopt a buy-and-sell distribution model. We derive revenue principally by procuring IC and other electronic components from brand-name IC companies and selling them to electronics manufacturers in the PRC Region. Our products include a wide range of IC and other electronic components used in applications such as smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory products. We provide comprehensive value-added services to our customers covering pre-sale, sale and post-sale stages, including recommendation of engineering solutions and provision of field application engineering support. We typically do not charge our customers for our value-added services, but such services enable us to attract and retain customers to procure IC and other electronic components from us.

We adopt an OAO business model and operate an e-commerce platform together with a physical sales network of seven sales offices set up in selected areas within the PRC for the distribution of IC and other electronic components. Our e-commerce platform is an online front-end customer interaction interface made up of SMC Cloud, SuperIC Community and SuperIC Navigator. Our sales offices, sales representatives and application engineers represent the offline part of our OAO business model. Under such OAO business model, both the online business and the offline business are essential to our operation and going forward, we intend to focus on both the online and offline business operation equally.

Please refer to page 111 to page 112 for further information on our business model and business process.

### **Our Customers and Sales**

Our top five customers during the Track Record Period include leading brand-name consumer electronic product manufacturing companies, ODMs and OEMs in the electronic product industry in the PRC Region. For FY2013, FY2014, FY2015 and 1Q2016, sales to our five largest customers amounted to approximately US\$144.7 million, US\$217.0 million,

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## SUMMARY

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US\$286.7 million and US\$86.0 million, and accounted for 51.3%, 54.4%, 59.2% and 59.1% of our total revenue respectively. For FY2013, FY2014, FY2015 and 1Q2016, sales to our top two customers were US\$118.5 million, US\$169.7 million, US\$208.5 million and US\$51.9 million, and accounted for 41.9%, 42.6%, 43.0% and 35.7%, respectively.

Our customer base comprises blue chip customers as well as a community of SME customers. For blue chip customers, we typically attain a higher sales volume and set our selling price with a relatively lower profit margin, whereas for SME customers, we typically set our selling price with, and attain, a relatively higher profit margin. Sales to our blue chip customers represented 45.6%, 48.2%, 56.2% and 56.8% of our total revenue and that sales to our SME customers represented 54.4%, 51.8%, 43.8% and 43.2% of our total revenue for FY2013, FY2014, FY2015 and 1Q2016 respectively.

Our business is subject to seasonality. During the Track Record Period, we generally recorded relatively lower revenue in the first half of each year due to the Chinese New Year holiday while a relatively higher demand in the second half of each year due to a higher demand for the electronic products during summer holidays and festivals such as Christmas and New Year. Please refer to page 185 for further information on our seasonality in sales.

Please refer to page 120 to page 127 for further information on our customers.

### **Our Suppliers**

We purchase products from over 150 suppliers principally from Taiwan and the PRC. We enjoy long-term and stable relationship with our major suppliers for up to 10 years. As an authorised distributor, we procure primarily from IC companies. In particular, purchases from our single largest supplier MStar were US\$195.2 million, US\$291.9 million, US\$366.1 million and US\$97.6 million, accounting for 72.1%, 75.7%, 75.2% and 70.0%, respectively, of our total purchases for FY2013, FY2014, FY2015 and 1Q2016. Our operations can be significantly affected by the supply from our largest supplier. If our distributorship rights with our largest supplier is modified in any way adverse to us, our operations may be significantly affected and our business, financial condition and results of operations could be adversely affected. Please see the section headed “Business — Supplies and Procurement — Relationship with our largest supplier MStar” for further information. Please refer to page 130 to page 150 for further information on our suppliers.

### **OUR STRENGTHS**

We believe we possess the following strengths:

- We are an authorised distributor of a number of internationally well-known IC companies in the industry
- We have a loyal and diversified customer base
- Our application engineering support helps us to maintain symbiotic relationship with suppliers and customers
- Our key product segments have strong market demand and potential growth

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## SUMMARY

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- Our e-commerce platform serves the SME market which has high growth potential
- We are led by a management team with substantial experience in the industry

Please refer to page 102 to page 106 for further information on our strengths.

### OUR STRATEGIES

Our goal is to strengthen our leading position as an IC and other electronic components distributor in the PRC and to expand our business to overseas markets. We intend to pursue the following growth strategies to achieve our goal:

- Improve procurement experience of our customers by further enhancing and developing our e-commerce platform
- Achieve continuous growth by nurturing a collaborative eco-system for the electronics industry through our Smart-Core Planet
- Continue to expand our product segments with strong market potential
- Broaden our customer base by bolstering our online and offline sales and marketing initiatives
- Strengthen customer loyalty by continuing to enhance our value-added services
- Expand our business through investment and acquisition

Please refer to page 106 to page 110 for further information on our strategies.

## SUMMARY

### SUMMARY FINANCIAL INFORMATION AND OPERATIONAL DATA

#### Key Income Statement Information

The following table summarises the consolidated statement of profit or loss from the financial statements for the periods indicated, details of which are set out in the accountants' report in Appendix I to this prospectus:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	US\$'000	Percentage of total revenue	US\$'000	Percentage of total revenue	US\$'000	Percentage of total revenue	US\$'000	Percentage of total revenue	US\$'000	Percentage of total revenue
							(unaudited)			
<b>Revenue</b> . . .	282,552	100.0	398,516	100.0	485,371	100.0	80,594	100.0	145,309	100.0
Cost of sales	(269,633)	(95.4)	(377,319)	(94.7)	(463,145)	(95.4)	(76,988)	(95.5)	(138,633)	(95.4)
<b>Gross profit</b>	12,919	4.6	21,197	5.3	22,226	4.6	3,606	4.5	6,676	4.6
Other income	743	0.3	684	0.2	2,001	0.4	214	0.3	122	0.1
Other gains and losses	(70)	(0.0)	(36)	(0.0)	(724)	(0.2)	145	0.2	133	0.1
Research and development expenses . . .	(4,772)	(1.7)	(4,503)	(1.1)	(2,129)	(0.4)	(796)	(1.0)	(592)	(0.4)
Administrative expenses . . .	(3,788)	(1.4)	(4,929)	(1.2)	(6,817)	(1.4)	(1,365)	(1.7)	(1,534)	(1.1)
Selling and marketing expenses . . .	(4,159)	(1.5)	(2,359)	(0.6)	(2,608)	(0.5)	(672)	(0.8)	(799)	(0.5)
Listing expenses . . .	-	-	-	-	(1,157)	(0.2)	-	-	(505)	(0.3)
Finance costs . . .	(365)	(0.1)	(965)	(0.3)	(1,750)	(0.4)	(283)	(0.4)	(671)	(0.5)
<b>Profit before tax</b> . . . . .	508	0.2	9,089	2.3	9,042	1.9	849	1.1	2,830	1.9
Income tax expense . . .	(378)	(0.2)	(1,707)	(0.4)	(2,140)	(0.5)	(182)	(0.2)	(452)	(0.3)
Profit for the year/period.	130	0.0	7,382	1.9	6,902	1.4	667	0.9	2,378	1.6

For FY2013, FY2014, FY2015 and 1Q2016, our total revenue was US\$282.6 million, US\$398.5 million, US\$485.4 million and US\$145.3 million, respectively, and our cost of sales was US\$269.6 million, US\$377.3 million, US\$463.1 million and US\$138.6 million for the respective year/period. Our profit for the year for FY2013, FY2014, FY2015 and 1Q2016 were US\$0.1 million, US\$7.4 million, US\$6.9 million and US\$2.4 million, respectively.

Please refer to pages 191 to 209 for further information.

## SUMMARY

### Key Cashflow Statement Information

The following table summarises, for the periods indicated, our statements of cash flows:

	For the year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Net cash (used in) generated from operating activities . . .	(4,533)	(5,577)	(9,034)	8,483	5,154
Net cash (used in) generated from investing activities . . .	(2,159)	(3,419)	(4,184)	113	(4,926)
Net cash generated from (used in) financing activities . . . . .	7,151	7,943	15,603	(6,911)	751
Net increase (decrease) in cash and cash equivalents . . . . .	459	(1,053)	2,385	1,685	979
Cash and cash equivalents at beginning of year/period . . . . .	2,307	2,782	1,737	1,737	4,137
Effect of foreign exchange rate changes . . . . .	16	8	15	3	(4)
Cash and cash equivalents at end of year/period . . . . .	<u>2,782</u>	<u>1,737</u>	<u>4,137</u>	<u>3,425</u>	<u>5,112</u>

For 1Q2016, we had net cash from operating activities of US\$5.2 million, mainly as a result of the profit before tax of US\$2.8 million generated this period, which was primarily due to decrease in trade and bills receivables of US\$9.7 million mainly due to settlement from our customers for the balances as at 31 December 2015. This was partially offset by the (i) decrease in trade payables of US\$3.8 million mainly due to the payment to our suppliers for balances as at 31 December 2015; and (ii) increase in deposits, prepayments and other receivables of US\$2.2 million mainly as a result of increase in value-added tax recoverable of US\$1.4 million due to our increased purchases of inventories from SMC Technology SZ which are available for future value-added tax deductions; and (iii) increase in inventories of US\$1.1 million due to purchase of inventories to cater for our sales.

For FY2015, we had net cash used in operating activities of US\$9.0 million, mainly as a result of the profit before tax of US\$9.0 million generated in this year, which was primarily due to increase in trade and bills receivables of US\$42.8 million as we allowed certain of our customers with longer credit periods. This was partially offset by the (i) increase in trade and bills payables of US\$21.2 million due to the increase in our purchase during the year to cater increase in expected orders; and (ii) increase in other payables and accrued expenses of

## SUMMARY

US\$4.7 million mainly as a result of an increase in deposits received from our customers of US\$1.4 million which was in line with increased orders and increase in accrued expenses of US\$1.8 million mainly due to increase in accrued bonus to staff.

For FY2014, we had net cash used in operating activities of US\$5.6 million, mainly as a result of the profit before tax of US\$9.1 million generated in this year, which was primarily due to (i) increase in trade and bills receivables of US\$9.8 million mainly as a result of increased revenue near the year end; and (ii) increase in inventories of US\$6.7 million in order to cater for customers' orders.

For FY2013, we had net cash used in operating activities of US\$4.5 million, mainly as a result of the profit before tax of US\$0.5 million generated in this year, which was primarily due to increase in trade and bills receivables of US\$12.5 million mainly as a result of increased revenue near the year end. This was partially offset by the increase in trade payables of US\$7.3 million due to the increase in our purchase during the year to cater for increased orders.

### Key Balance Sheet Information

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Non-current assets .....	3,325	5,703	9,105	11,178
Current assets .....	51,783	67,789	116,253	112,846
Current liabilities .....	42,088	52,911	102,127	98,418
Net current assets .....	9,695	14,878	14,126	14,428
Net assets .....	13,020	20,581	23,231	25,606
Net debts .....	4,708	16,367	32,752	36,586
Total equity .....	13,020	20,581	23,231	25,606

Please refer to page 216 to page 224 for further information.

### Key Financial Ratios

The following table sets forth our key financial ratios for the years or as at the dates indicated:

	For the year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
				(unaudited)	
Gross Profit Margin (%) <sup>(1)</sup> .....	4.6	5.3	4.6	4.5	4.6
Net Profit Margin (%) <sup>(2)</sup> ..	0.05	1.9	1.4	0.8	1.6
Return on equity (%) <sup>(3)</sup> ..	1.0	35.9	29.7	N/A	N/A
Return on total assets (%) <sup>(4)</sup> .....	0.2	10.0	5.5	N/A	N/A
Interest coverage (times) <sup>(5)</sup> .....	2.4	10.4	6.2	4.0	5.2

## SUMMARY

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Current ratio <sup>(6)</sup> . . . . .	1.2	1.3	1.1	1.1
Gearing ratio (%) <sup>(7)</sup> . . . . .	57.5	88.0	158.8	162.8
Net debt to equity ratio (%) <sup>(8)</sup> . .	36.2	79.5	141.0	142.9

**Notes:**

- (1) Gross profit margin for FY2013, FY2014, FY2015 and 1Q2016 was calculated on gross profit divided by turnover for the respective years/periods. See the section headed "Financial Information — Review of Historical Results of Operation" for more details on our gross profit margin.
- (2) Net profit margin for FY2013, FY2014, FY2015 and 1Q2016 was calculated on profit for the year/period divided by turnover for the respective year/period. See the section headed "Financial Information — Review of Historical Results of Operation" for more details on our net profit margins.
- (3) Return on equity for FY2013, FY2014 and FY2015 was calculated based on the profit for the year for the respective years divided by the total equity as at the end of the respective years and multiplied by 100%.
- (4) Return on total assets for FY2013, FY2014 and FY2015 was calculated based on the profit for the respective years divided by the total assets as at the end of the respective years and multiplied by 100%.
- (5) Interest coverage for FY2013, FY2014, FY2015 and 1Q2016 was calculated based on profit before interest and tax for the respective years/periods divided by interest as at the end of the respective years/periods.
- (6) Current ratios as at 31 December 2013, 2014 and 2015 and 31 March 2016 were calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.
- (7) Gearing ratios as at 31 December 2013, 2014 and 2015 and 31 March 2016 were calculated based on the total interest-bearing borrowings as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.
- (8) Net debt to equity ratios as at 31 December 2013, 2014 and 2015 and 31 March 2016 was calculated based on net debts (being total interest-bearing borrowings net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective dates.

For FY2013, FY2014, FY2015 and 1Q2016, our gross profit margin was 4.6%, 5.3%, 4.6% and 4.6%, respectively, which was in line with that of IC and other electronic distributors based in the PRC Region. Our thin gross profit margin was mainly due to keen competition in the PRC Region market and that IC distribution is a B2B business that principally serves loyal customers that purchase in bulk.

Our net profit margin increased from 0.05% for FY2013 to 1.9% for FY2014 which was mainly due to (i) increase in our gross profit margin from 4.6% for FY2013 to 5.3% for FY2014; and (ii) decrease in selling and marketing expenses for FY2014. Our net profit margin decreased from 1.9% for FY2014 to 1.4% for FY2015 mainly due to decrease in our gross profit margin from 5.3% for FY2014 to 4.6% for FY2015 and increase in Listing expenses of US\$1.2 million. The decrease was partially offset by decrease in our research and development expenses as a result of our effort in such cost control. Our net profit margin increased from 0.8% for 1Q2015 to 1.6% for 1Q2016 mainly due to (i) decrease in percentage of our administrative expenses to our revenue from 1.7% for 1Q2015 to 1.1% for 1Q2016 due to our effort in cost control; (ii) the decrease in research and development expenses; and (iii) decrease in effective tax rate despite having incurred Listing expenses for 1Q2016.

The continuous increase in our gearing ratio during the Track Record Period was mainly due to the increase in our total borrowings for our expansion in business. Our bank borrowings increased from US\$7.5 million as at 31 December 2013 to US\$16.0 million as at 31 December 2014, further to US\$36.9 million as at 31 December 2015, US\$41.7 million as at 31 March 2016 and US\$58.4 million as at 31 July 2016. This was primarily due to overall increase in secured import and export loans and collateralised bank borrowings on trade receivables factored with recourse.

## SUMMARY

### Key Operating Indicators

The following table sets forth, for the years/periods indicated, the breakdown of our revenue, the respective quantity sold and the respective average selling price (ASP) by product type during the Track Record Period:

	For the year ended 31 December						For the three months ended 31 March													
	2013		2014		2015		2015		2016		2016									
	Revenue	Quantity	Revenue	Quantity	Revenue	Quantity	Revenue	Quantity	Revenue	Quantity	Revenue	Quantity								
US\$'000	(million units)	US\$'000	(million units)	US\$'000	(million units)	US\$'000	(million units)	US\$'000	(million units)	US\$'000	(million units)	US\$'000	(million units)							
	%	US\$/unit	%	US\$/unit	%	US\$/unit	%	US\$/unit	%	US\$/unit	%	US\$/unit	%							
<b>Product type</b>																				
Smart media display	161,350	57.1	66	2.4	225,743	56.7	85	2.6	281,015	57.9	136	2.1	48,940	60.7	22	2.2	69,876	48.1	30	2.3
Intelligent broadcasting terminal	30,700	10.9	12	2.5	55,886	14.0	28	2.0	57,581	11.9	25	2.3	6,487	8.0	3	2.3	31,666	21.8	15	2.2
Mobile terminal	27,567	9.7	52	0.5	24,020	6.0	62	0.4	26,283	5.4	81	0.3	6,096	7.6	16	0.4	5,702	3.9	19	0.3
Smart automotive electronics	8,747	3.1	6	1.5	10,788	2.7	7	1.6	12,383	2.6	8	1.6	2,356	2.9	1	1.7	2,395	1.6	1	2.0
Memory	50,257	17.8	37	1.4	54,615	13.7	31	1.8	75,308	15.5	43	1.8	12,457	15.5	6	2.0	17,776	12.2	12	1.5
Others <sup>(Note)</sup>	3,931	1.4	9	0.4	27,464	6.9	69	0.4	32,801	6.7	83	0.4	4,258	5.3	16	0.3	17,894	12.4	21	0.8
<b>Total</b>	<b>282,552</b>	<b>100.0</b>	<b>182</b>	<b>1.6</b>	<b>398,516</b>	<b>100.0</b>	<b>282</b>	<b>1.4</b>	<b>485,371</b>	<b>100.0</b>	<b>376</b>	<b>1.3</b>	<b>80,594</b>	<b>100.0</b>	<b>64</b>	<b>1.3</b>	<b>145,309</b>	<b>100.0</b>	<b>98</b>	<b>1.5</b>

*Note:* This segment covers all products not included in the smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.



## SUMMARY

The following table sets forth the breakdown of our gross profit and gross profit margin by product type for the years/periods indicated:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
<b>Product type</b>										
Smart media display	6,591	4.1	11,241	5.0	12,106	4.3	2,134	4.4	2,850	4.1
Intelligent broadcasting terminal . . . . .	1,357	4.4	4,188	7.5	3,426	5.9	374	5.8	1,661	5.2
Mobile terminal . . . . .	1,993	7.2	1,582	6.6	1,641	6.2	373	6.1	465	8.2
Smart automotive electronics . . . . .	619	7.1	734	6.8	746	6.0	136	5.8	143	6.0
Memory . . . . .	2,189	4.4	2,172	4.0	2,995	4.0	462	3.7	685	3.9
Others <sup>(Note)</sup> . . . . .	169	4.3	1,279	4.7	1,312	4.0	127	3.0	872	4.9
<b>Total . . . . .</b>	<b>12,919</b>	<b>4.6</b>	<b>21,197</b>	<b>5.3</b>	<b>22,226</b>	<b>4.6</b>	<b>3,606</b>	<b>4.5</b>	<b>6,676</b>	<b>4.6</b>

*Note:* This segment covers all products not included in smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.

Please refer to page 195 to page 196 for further information.

### Listing Expenses

The total Listing expenses (based on the mid-point of the Offer Price range) are estimated to be approximately US\$4.7 million. For FY2015 and 1Q2016, we incurred Listing expenses of approximately US\$1.5 million and US\$0.7 million, respectively, in connection with the Global Offering. By the completion of the Global Offering, we expect to further incur Listing expenses of approximately US\$2.5 million, of which an estimated amount of approximately US\$1.2 million is to be recognised as expenses and the remaining is expected to be charged to equity.

### SHAREHOLDERS' INFORMATION

Upon Listing, Mr. Tian, through his wholly-owned company, Smart IC, will hold 52.5% of our issued share capital (or approximately 50.60% if the Over-allotment Option is exercised in full). As such, each of Mr. Tian and Smart IC will be a Controlling Shareholder of our Company. Also, upon Listing, Mr. Wong, through his wholly-owned company, Insight, will hold 22.5% of our issued share capital (or approximately 21.69% if the Over-allotment Option is exercised in full). As such, each of Mr. Wong and Insight will be a substantial shareholder (within the definition of the Listing Rules) of our Company.

Please see page 178 for further information.

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## SUMMARY

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### RECENT DEVELOPMENTS

Our Directors confirm that, up to the date of this Prospectus, there has been no material adverse change in our financial, operational or trading positions or our prospects since 31 March 2016, and there has been no event since 31 March 2016 that would materially affect the financial information as shown in the “Accountants’ Report” set out in Appendix I and the “Unaudited Pro Forma Financial Information” in Appendix II. Based on our unaudited management accounts and as far as our Directors are aware, there has been no material adverse change in our revenue and gross profit for the four months ended 31 July 2016 as compared to the same period in 2015. Our Directors also confirm that we did not have any material non-recurring income or expenses since 31 March 2016 and up to the date of this Prospectus, save for certain expenses incurred in relation to Listing.

### REASONS FOR LISTING

Our Directors believe that the Listing will assist our Group in implementing its business strategies as set out in the “Business” section. The net proceeds from the Global Offering will provide financial resources to our Group to meet its future business opportunities, achieve its business strategies and expand our Group’s business more rapidly. One of such strategies is to expand our business through, among others, acquisition of, or investment in, business or companies in e-commerce and electronics industry (“**M&A Activities**”). Our Directors believe that investing in IC companies will, among others, allow our Group to gradually expand our supplier base to reduce reliance on our largest supplier. In allocating 30% of the net proceeds on potential M&A Activities, our Directors took into account various considerations including the amount of the net proceeds, the amount of investment or shareholding in potential target for our Group to form meaningful strategic partnership with such targets, sizes of businesses and companies in the industry and funding needs of other business strategies of our Group. As our business continues to grow and upon the Listing, the Directors believe that with the additional financial resources, sizable business scale, stable income from operation of our core product segments and experience of the management of our Group in the industry, our Group is prepared for more rapid business expansion by engaging in M&A Activities. Such business expansion strategy is expected to help our Group to more efficiently implement our growth strategies in, among others, developing e-commerce business and expanding to new product segments.

A public listing status is also expected to enhance our Group’s corporate profile, brand awareness and market position. Our Directors consider that suppliers, particularly brand name IC companies overseas, and customers may prefer to transact with a listed company because of the enhanced credibility and better business reputation associated with public financial disclosures and general regulatory supervision by relevant regulatory bodies which are not applicable to private companies. Our Directors also believe a listing status will help our Group to attract potential investors and business partners and will enable our Group to access capital market for raising funds both at the Listing and in future, which will in turn assist our Group’s future business development. Our Directors are also of the view that the Listing will help our Group to attract and retain employees by granting Awards or Share Options to its employees under its Share Award Scheme and Share Option Scheme by providing incentives or rewards for their continuous contribution to our Group.

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## SUMMARY

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### USE OF PROCEEDS

Assuming an Offer Price of HK\$2.08, being the mid-point of the indicative Offer Price range, we estimate that we will receive net proceeds of approximately HK\$236.2 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering, if the Over-allotment Option is not exercised. We intend to use the net proceeds from the Global Offering for the following purposes over a period of two to three years after Listing:

- (i) approximately 10%, or HK\$23.6 million, will be used for hiring additional staff for sales and marketing and business development, and improvement of warehouse facilities, with the aim of reaching out to more potential customers and potential suppliers, expanding our product portfolio and improving the operational efficiency of the warehouse facilities of our Group to cater for our business growth in future;
- (ii) approximately 20%, or HK\$47.23 million, will be used for advertising and organising marketing activities for the promotion of our e-commerce platform, Smart-Core Planet and our new products, with the aim of enhancing our brand awareness, expanding our SME customer base and cultivating start-up customers for sustainable business growth;
- (iii) approximately 20%, or HK\$47.23 million, will be used for enhancing, further developing and maintaining our e-commerce platform and improving our technology infrastructure;
- (iv) approximately 10%, or HK\$23.6 million, will be used for research and development, including hiring additional application engineers, funding the development of engineering solutions and purchasing equipment, components and materials for research and development needs, with the aim of keeping ourselves and our customers abreast of the latest technology, enhancing customer loyalty and promote new products;
- (v) approximately 30%, or HK\$70.9 million, will be used for funding potential acquisition of, or investment in business or companies in e-commerce industry or electronics industry; and
- (vi) the remaining amount of approximately HK\$23.6 million, representing not more than 10% of the net proceeds, will be used for general working capital of our Group.

Please see page 235 to page 239 for further information.

## SUMMARY

### STATISTICS OF THE GLOBAL OFFERING

The following statement of unaudited pro forma adjusted consolidated net tangible assets of our Group is based on the audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 March 2016 as shown in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share	
	US\$'000 <i>Note 1</i>	US\$'000 <i>Note 2</i>	US\$'000	US\$ <i>Note 3</i>	HK\$ <i>Note 4</i>
Based on a minimum offer price of HK\$1.77 per Share . . . . .	25,606	25,611	51,217	0.10	0.79
Based on a maximum offer price of HK\$2.39 per Share . . . . .	25,606	35,331	60,937	0.12	0.94

**Notes:**

- (1) The amount is based on the audited consolidated net assets of our Group attributable to owners of our Company as at 31 March 2016 of US\$25,606,000 as extracted from the Accountants' Report of our Group set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 125,000,000 Shares to be issued at a minimum offer price of HK\$1.77 or a maximum offer price of HK\$2.39 per Share, respectively, after deduction of the estimated underwriting fees and other related expenses expected to be incurred by our Group subsequent to 31 March 2016 and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased pursuant to our Company's general mandate. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into US\$ at an exchange rate of US\$1.00 to HK\$7.75. No representation is made that the US\$ amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is arrived at on the basis of 500,000,000 Shares in total, assuming that 125,000,000 Shares were issued pursuant to the Global Offering, Corporate Reorganisation and Capitalisation Issue had been completed on 31 March 2016. It is without taking into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option, or any Shares which may be issued or repurchased pursuant to our Company's generate mandate.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is converted from US\$ into Hong Kong dollars at the rate of US\$1.00 to HK\$7.75. No representation is made that the US\$ amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that date or at any other rates or at all.
- (5) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 March 2016.
- (6) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company does not take into account of the final dividend of US\$3,000,000 declared on 1 April 2016. Had both the final dividend of US\$3,000,000 declared on 1 April 2016 and the estimated proceeds from the Global Offering been taken into account of, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2016 would have been further adjusted to US\$48,217,000 and US\$57,937,000 at the offer price of HK\$1.77 and HK\$2.39 per Share, respectively. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share as at 31 March 2016 would have been HK\$0.75 and HK\$0.90, respectively.

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## SUMMARY

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### DIVIDEND

Our Group does not have any dividend policy.

Please refer to page 234 for information on our dividend distribution in the past.

### RISK FACTORS

Our business is subject to numerous risks and there are risks relating to investment in the Offer Shares. We believe that the following are some of the major risks that may have a material adverse effect on us:

- We are dependent on our major suppliers. If our distributorship rights with these major suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial condition and results of operations could be adversely affected.
- We generally do not enter into long-term agreements with our customers, and some of them may cancel, change or postpone their orders. Furthermore, more than 50% of our revenue during the Track Record Period was generated from our top five customers. The concentration of our customers exposes us to risks, and the performance of our major customers may in turn lead to fluctuation or decline in our turnover.
- Fluctuations in our purchase prices of IC and electronic components that we are unable to pass on to our customers could adversely affect our results of operations, profit margins and profitability.
- Our profit margins are slim and therefore our profitability could be adversely affected if our profit margins cannot be sustained.
- We had negative operating cash flows for FY2013, FY2014 and FY2015. Failure to manage our liquidity and cash flows may materially and adversely affect our business, results of operations and financial condition.
- Our sales are affected by seasonality.
- We are dependent on short-term financing. In the event that our lenders cancel these credit facilities or the interest rates at which we could obtain such credit facilities increase, our business operations, turnover and profitability could be adversely affected.
- Evaluating our prospects may be difficult because our e-commerce platform has a short operating history.

Please see the entire "Risk Factors" section starting on page 32 for further information.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meaning.*

“Analysys”	Analysys Consulting Ltd., an independent industry consultant commissioned by our Group to prepare the Analysys Report
“Analysys Report”	the independent research report prepared by Analysys
“APG Assets”	APG Assets Management Limited, a limited liability company incorporated in Hong Kong on 22 April 2005 and wholly owned by Mr. Wong
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s) Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Associations”	the articles of association of our Company conditionally adopted on 19 September 2016 and effective on the Listing Date, as amended, supplemented or otherwise modified from time to time a summary of which is set out in Appendix III to this prospectus
“ASP”	average selling price
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Awards”	the award granted by the Board under the Share Award Scheme, the details of which are set out in the section headed “Appendix IV — Statutory and General Information — D. Employee Incentive Schemes — 1. Share Award Scheme”
“blue chip customer(s)”	company(ies) that our Directors believe are strategically important to our business development, which are generally (i) considered by our Directors to be well-known in the industry; (ii) with revenue of over RMB300 million; and/or (iii) have annual sales of over US\$5 million with us
“Board”	the board of Directors
“Business Day(s)”	any day(s) (excluding Saturday(s), Sunday(s) and public holiday(s) in Hong Kong on which licensed banks in Hong Kong are generally open for banking business throughout their normal business hours
“BVI”	the British Virgin Islands

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## DEFINITIONS

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“CAGR”	compound annual growth rate
“Cayman Companies Law” or “Companies Law”	the Companies Law (2013 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Smart-Core Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 22 October 2015 and formerly known as Smart-Core Cloud Group Limited
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has/have the meaning ascribed to it under the Listing Rules and upon Listing, the Controlling Shareholders of our Company are Mr. Tian and Smart IC
“DBS” or “Sole Sponsor”	DBS Asia Capital Limited, a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, and acting as the Sole Sponsor for the Global Offering

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## DEFINITIONS

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“Deed of Non-competition”	the deed of non-competition dated 19 September 2016 executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Relationship with Controlling Shareholders — Non-Competition Undertaking”
“Director(s)” and “our Directors”	director(s) of our Company
“EIT Law”	Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
“Electronic Application Instruction(s)”	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Hong Kong Offer Shares
“Epart”	Epart Limited, a limited liability company incorporated in the BVI on 15 September 2015 and wholly owned by Mr. Liu
“FY2013”	the year ended 31 December 2013
“FY2014”	the year ended 31 December 2014
“FY2015”	the year ended 31 December 2015
“1Q2015”	the three months ended 31 March 2015
“1Q2016”	the three months ended 31 March 2016
“Global Offering”	the Hong Kong Public Offer and the International Placing
“Greater China Region”	the PRC, Hong Kong and Taiwan collectively
“ <b>Green</b> Application Form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “we”, “our”, “our Group”, “Smart-Core Group” or “us”	our Company and our subsidiaries, and in respect of the period before our Company became the holding company of our subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC



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## DEFINITIONS

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“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Government”	the government of Hong Kong
“Hong Kong Offer Shares”	the 12,500,000 new Shares initially offered by us for subscription under the Hong Kong Public Offer, representing 10% of the initial number of the Offer Shares subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares by our Company for subscription by members of the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) for cash at the Offer Price, payable in full on application, and subject to the terms and conditions stated herein and in the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriter(s)”	the underwriter(s) of the Hong Kong Public Offer listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 26 September 2016 relating to the Hong Kong Public Offer entered into by, amongst others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters, particulars of which are set forth in the section headed “Underwriting” in this prospectus
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is (are) not connected person(s) of our Company
“Insight”	Insight Limited, a limited liability company incorporated in the BVI on 15 September 2015 and wholly owned by Mr. Wong. As at the date of this Prospectus, Insight and Mr. Wong are our controlling shareholders (as defined in the Listing Rules) and they will cease to be our controlling shareholders immediately following the completion of the Global Offering

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## DEFINITIONS

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“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters for and on behalf of our Company outside the United States (including to professional, institutional and other investors in Hong Kong) in reliance on Regulation S at the Offer Price, subject to adjustment and the exercise of the Over-allotment Option as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 112,500,000 new Shares being initially offered by our Company for subscription under the International Placing subject to adjustment and together, where relevant, with any additional Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Placing whose names are set forth in the section headed “Underwriting — International Underwriters” in this prospectus
“International Underwriting Agreement”	the international underwriting agreement expected to be entered into on or about the Price Determination Date, by, amongst others, our Company, our executive Directors, our Controlling Shareholders, the Joint Global Coordinators and the International Underwriters in respect of the International Placing, particulars of which are set forth in the section headed “Underwriting” in this prospectus
“Joint Bookrunners”	DBS, Haitong International Securities Company Limited, GF Securities (Hong Kong) Brokerage Limited, Fortune (HK) Securities Limited and Guotai Junan Securities (Hong Kong) Limited
“Joint Global Coordinators”	DBS and Haitong International Securities Company Limited
“Joint Lead Managers”	DBS, Haitong International Securities Company Limited, GF Securities (Hong Kong) Brokerage Limited, Fortune (HK) Securities Limited and Guotai Junan Securities (Hong Kong) Limited
“Latest Practicable Date” or “LPD”	22 September 2016, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange

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## DEFINITIONS

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“Listing Date”	the date on which dealings in the Shares on the Main Board are expected to commence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on 19 September 2016 and effective on the Listing Date (as amended from time to time), a summary of which is set out in Appendix III to this prospectus
“Mr. Liu”	Mr. Liu Hongbing, an executive Director
“Mr. Tian”	Mr. Tian Weidong, an executive Director and a Controlling Shareholder of our Company
“Mr. Wong”	Mr. Wong Tsz Leung, an executive Director and a Substantial Shareholder of our Company. As at the date of this Prospectus, Mr. Wong and Insight are our controlling shareholders (as defined in the Listing Rules) and they will cease to be our controlling shareholders immediately following the completion of the Global Offering
“Mr. Xie”	Mr. Xie Yi, an executive Director
“MStar”	MStar Semiconductor Inc., our largest supplier during the Track Record Period
“Offer Price”	the final price for each Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% payable thereon) of not more than HK\$2.39 and is expected to be not less than HK\$1.77 at which the Offer Shares are to be offered for subscription pursuant to the Global Offering, such price to be determined in the Price Determination Agreement
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option

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## DEFINITIONS

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“Over-allotment Option”	the option expected to be granted by us to the International Underwriters, exercisable by the Joint Global Coordinators for themselves and on behalf of the other International Underwriters pursuant to the International Placing Agreement at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offer, to require us to issue and allot up to an aggregate of 18,750,000 additional Offer Shares (representing 15% of the Offer Shares initially available under the Global Offering, at the same price per Offer Share under the International Placing to cover, among other things, over-allocations in the International Placing, if any. For the details of which are described in the paragraph headed “Structure of the Global Offering — Over-allotment Option” of this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus only, generally excludes Hong Kong, Macau and Taiwan, unless the context otherwise requires
“PRC government”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and organs thereof or, as the context requires, any of them
“PRC legal counsel”	refers to the legal adviser to our Company as to PRC law, namely Commerce & Finance Law Offices
“PRC Region”	the People’s Republic of China, including Hong Kong and Macau
“Price Determination Agreement”	the agreement to be entered into between our Company and DBS (for itself and on behalf of the Underwriters) on or before the Price Determination Date to fix and record the Offer Price
“Price Determination Date”	the date on which the Offer Price is to be determined by our Company and DBS (for itself and on behalf of the other Underwriters), which is expected to be on or about 30 September 2016 and in any event not later than 12:00 noon on Wednesday, 5 October 2016
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the corporate reorganisation of our Group in preparation for Listing as described under the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Group Structure” in this prospectus
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC

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## DEFINITIONS

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“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Award Scheme”	the share award scheme adopted by our Company on 19 September 2016, a summary of its principal terms is set out in the section headed “Statutory and General Information — D. Employee Incentive Schemes — 1. Share Award Scheme” in Appendix IV to this prospectus
“Share Option Scheme”	the share option scheme conditionally approved and adopted by us on 19 September 2016, a summary of its principal terms is set out in the section headed “Statutory and General Information — D. Employee Incentive Schemes — 2. Share Option Scheme” in Appendix IV to this prospectus
“Share(s)”	ordinary share(s) of US\$0.00001 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Share(s)
“Smart IC”	Smart IC Limited, a limited liability company incorporated in the BVI on 15 September 2015 which is wholly owned by Mr. Tian and is a Controlling Shareholder of our Company
“Smart-Core Planet”	our initiative launched in November 2015 to explore and seek collaboration opportunities with incubators in the electronics industry to provide our products, engineering support and supply chain services to their incubated entities
“SMC Cloud”	our online sales platform at <a href="http://www.superic.com">www.superic.com</a>
“SMC Cloud HK”	Smart-Core Cloud Limited (芯智雲有限公司), a limited liability company incorporated in Hong Kong on 16 June 2014 and wholly owned by our Company
“SMC Cloud SZ”	Shenzhen Smart-Core Cloud Technology Co., Ltd.* (深圳市芯智雲信息技術有限公司), a wholly-foreign-owned enterprise established in the PRC on 4 December 2015 and wholly owned by SMC Cloud HK
“SMC Group”	Smart-Core Group Limited (芯智集團有限公司), a limited liability company incorporated in Hong Kong on 21 January 2014 and wholly owned by SMC Samoa

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## DEFINITIONS

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“SMC Group Japan”	Smart-Core Group Limited Japan Branch* (Smart-Core Group Limited 日本支店), a branch office established in Japan on 1 June 2014 and wholly owned by SMC Group
“SMC Samoa”	Smart-Core Holdings Limited (芯智控股有限公司), a limited liability company incorporated in Samoa on 21 September 2007 and owned as to 60% by Mr. Tian, 30% by APG Assets and 10% by Mr. Liu, respectively
“SMC International HK”	Smart-Core International Company Limited (芯智國際有限公司), a limited liability company incorporated in Hong Kong on 26 April 2005 and wholly owned by our Company
“SMC Investment”	Smart-Core Investment Limited (芯智投資有限公司), a limited liability company incorporated in Samoa on 5 August 2014 and wholly owned by SMC Samoa
“SMC Taiwan”	Smart-Core Technology Co., Ltd. (芯智股份有限公司), a limited liability company incorporated in Taiwan on 29 March 2010 and which is owned as to 90% by Mr. Tian and 10% by Mr. Lin Tsung Ming
“SMC Technology SZ”	Shenzhen Smart-Core Technology Co., Ltd.* (深圳市芯智科技有限公司), a limited liability company established in the PRC on 6 February 2005 and wholly owned by SMC International HK
“sq.ft.”	square feet
“sq.m.” or “m <sup>2</sup> ”	square metres
“Stabilising Manager”	Haitong International Securities Company Limited
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between the Stabilising Manager and Smart IC, pursuant to which the Stabilising Manager may borrow up to 18,750,000 Shares to cover any over-allocation in the International Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Companies Ordinance
“Substantial Shareholder(s)”	has/have the meaning ascribed thereto under the Listing Rules

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## DEFINITIONS

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“SuperIC Community”	“ <a href="http://bbs.superic.com">bbs.superic.com</a> ”, a discussion forum for professionals in the electronics industry to exchange ideas, share technical expertise, discuss innovative technology development and look for technical support, and is a component of the marketing and promotion branch of our e-commerce platform
“SuperIC Navigator”	“ <a href="http://hao.superic.com">hao.superic.com</a> ”, a homepage that systematically presents hyperlinks to websites useful for professionals in the electronics industry, and is a component of the marketing and promotion branch of our e-commerce platform
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Track Record Period”	FY2013, FY2014, FY2015 and 1Q2016
“TWD”	Taiwan dollars, the lawful currency of Taiwan
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.” or “US”	the United States of America, its territories, its possessions, any state of the United States and the District of Columbia and all areas subject to its jurisdiction
“US Securities Act”	the United States Securities Act 1933 and the rules and regulations promulgated thereunder, as amended, supplemented or otherwise modified from time to time
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“ <b>White Form eIPO</b> ”	the application for Hong Kong Offer Shares to be registered in the applicant’s own name by submitting applications online through the designated website of the <b>White Form eIPO</b> Service Provider at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“ <b>White Form eIPO</b> Service Provider”	Computershare Hong Kong Investor Services Limited
“%”	per cent

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## DEFINITIONS

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

- *all data in this prospectus is as at the date of this prospectus.*
- *amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. Where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, and amounts presented as percentages have been rounded to the nearest tenth of a percent. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.*
- *percentage shareholding of our Company upon or after the completion of Global Offering and the Capitalisation Issue represents percentage shareholding calculated on the basis without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option, the options which have been or may be granted under the Share Option Scheme and the awards which have been or may be granted under the Share Award Scheme.*
- *For ease of reference, the names of Chinese laws and regulations, PRC governmental authorities, institutions, natural persons, PRC established companies or entities have been included in this prospectus in both the Chinese and English languages. The name in Chinese language is the official name while that in English language is only an unofficial translation, and in the event of any inconsistency, the Chinese versions shall prevail.*
- \* *denotes an English translation of a Chinese name and is for identification purposes only.*



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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains certain explanations and other terms used in this prospectus in connection with our Group and/or our business. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms.*

“active users”	users that have logged into and browse a website during the prior three months
“B2B”	business to business
“connected TV”	TV with internet connectivity
“drone”	unmanned aircraft which is controlled through its remote control station
“GMV”	gross merchandise value, a commonly used measure for transaction-based e-commerce business as some market participants operate both direct sales model and transaction services model for which the revenue is typically in the form of service fees representing certain percentage of the transaction amount
“HDMI”	high-definition multimedia interface, a proprietary audio/video interface for transferring uncompressed video data and compressed or uncompressed audio data, some of which makes use of optical fibre for such data transfer
“iDTV”	integrated digital TV, refers to a TV set with built-in digital tuner and does not require a set-top box for digital TV signals reception and conversion
“integrated circuit” or “IC”	a miniaturised electronic circuit (consisting mainly of semiconductor devices, as well as passive and interconnecting components) that has been manufactured in the surface of a thin substrate of semiconductor material. Integrated circuits are used in almost all electronic equipment, such as computers, mobile phones, televisions and other digital appliances
“Internet of Things” or “IoT”	a network of physical objects or things embedded with electronics, software, sensors, and network connectivity, which enables these objects to collect and exchange data
“IP camera”	internet protocol camera, a type of digital video camera that can send and receive data via a computer network and the internet

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## GLOSSARY OF TECHNICAL TERMS

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“IP-TV”	internet protocol television, refers to television which uses a system through which television services are delivered using the internet protocol suite
“LCD”	liquid crystal display
“memory”	an electronic component that provides for data storage in electronic products
“microcontroller unit”	a product or device that puts a tiny central processing unit (CPU) on one chip, stores a program of instructions in memory on another, and uses a third to move data in and out of the CPU
“network video recorder”	a software program that records video in a digital format to storage devices such as a disk drive, flash drive or other mass storage devices. It contains no dedicated video capture hardware and its input is from a network rather than a direct connection to a video capturing device
“OAO”	online and offline
“ODM”	original design manufacturer
“OEM”	original equipment manufacturer
“online customers”	online customers are customers who have registered accounts on SMC Cloud and have used SMC Cloud to manage one or more steps in the completion of the procurement process (including browsing and searching, requesting price quote, placing purchase order, tracking order status and reviewing historical purchase orders)
“optical communication”	communication at a distance using light to carry information
“OTT”	over-the-top, refers to the delivery of audio, video, and other media over the internet without the involvement of a multiple-system operator in the control or distribution of the content
“photodiode”	a semiconductor device that converts light into electrical current
“printed circuit board” or “PCB”	a flat plastic or fiber glass board on which interconnected electrical circuits and components are laminated or etched. ICs and other electronic components are mounted on the electrical circuits

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## GLOSSARY OF TECHNICAL TERMS

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“RF”	radio frequency
“semiconductor”	a solid material whose electrical conductivity at room temperature is between that of a conductor and that of an insulator
“sensor”	a device that measures or detects a real-world condition, such as motion, heat or light and converts the condition into an analogue or digital representation
“smart-TV”	a TV with integrated internet connectivity that provides internet TV, online interactive media, over-the-top content as well as on-demand streaming besides traditional functions of TV. Operating system of smart-TV can be pre-loaded into the device, updated or installed on-demand via an application store or application marketplace on the internet
“smart wearable devices”	technological products that can be worn by, and interact with, human and possess capabilities for computation, communication and data storage, examples of which include smart watch, smart wrist-band, smart headset etc.
“SME”	small and medium enterprises
“SoC”	system-on-chip, an IC that integrates all components of an electronic system into a single chip, which may contain analog, digital, mixed-signal and offer RF functions all on a single chip substrate
“TV”	television
“virtual reality”	a technology that makes use of processor to combine multiple information sources in order to generate a simulated environment for its users to submerge in and interact with

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## FORWARD-LOOKING STATEMENT

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This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds” in this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors” in this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and operating plans;
- our capital expenditure and expansion plans;
- our ability to identify and successfully take advantage of new business development opportunities;
- our dividend policy;
- our profit estimate and other prospective financial information; and
- the regulatory environment and industry outlook for the electronics manufacturing and IC and electronic components distribution industry in which we operate.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and Hong Kong relating to any aspect of our business or operations;
- general economic, market and business conditions in the PRC and Hong Kong;
- inflationary pressures or changes or volatility in interest rates, foreign exchange rates or other rates or prices;
- various business opportunities that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

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## **FORWARD-LOOKING STATEMENT**

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Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed "Risk Factors" in this prospectus.

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## RISK FACTORS

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***In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares. Any of the following risks, as well as other risks and uncertainties that are not yet identified or that we currently think are immaterial, may materially and adversely affect our business, financial condition or results of operations, or otherwise cause a decrease in the trading price of the Offer Shares and cause you to lose part or all of the value of your investment in the Offer Shares.***

### RISKS RELATING TO OUR BUSINESS

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

Our success depends on the continued distributorship rights of our major suppliers and our ability to secure new distributorship rights. For FY2013, FY2014, FY2015 and 1Q2016, our purchase from our five largest suppliers for the respective years accounted for 94.4%, 96.6%, 96.4% and 97.5% of our total purchase, respectively, while our purchase from our largest supplier accounted for 72.1%, 75.7%, 75.2% and 70.0%, respectively, of our total purchase for the respective years/periods. Please refer to the subsections “Business — Our Major Suppliers” and “Business — Relationship with our Largest Supplier MStar” for further information on our major suppliers and the principal terms of our supply arrangement.

Our operations are significantly affected by the supply of products from our major suppliers. Our suppliers may not be able to produce or deliver their products to us sufficiently or on time. In those circumstances, our operations may be significantly affected, which may lead to our failure to fulfil the orders from our customers and result in claims by our customers and damage to our reputation. Additionally, prices of products from our suppliers are subject to change from time to time. Given our reliance on our major suppliers, in particular our largest supplier, we may not have sufficient bargaining power against such suppliers to negotiate price terms favourable to us. In the event of increase in purchase price, we may not be able to pass on the increase in purchase cost to our customers. Based on our current estimation, we expect that our reliance on our major suppliers, in particular our largest supplier, is not likely to significantly reduce in the near future.

In the event that our distribution arrangements with these principal suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial condition and results of operations could be adversely affected.

We also rely heavily on the brand awareness, quality and market acceptance of our major supplier’s products. If our major suppliers fail to maintain quality standards, respond to market changes or if there is any decline in demand of their products, our business with our customers, financial position, and results of operations would be materially adversely affected.

Furthermore, in the event that our major suppliers alter their existing business arrangements with us including terminating our engagement as authorised distributor, we cannot assure you that we can successfully put in place alternative arrangements within a short time frame. In such circumstances, we may not be able to source any alternative supplies for our operations, and our business, profitability, performance, financial position and results of operations may be materially adversely affected. Despite our contingency plan and measures

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## RISK FACTORS

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to arrange for alternative suppliers, there is no assurance that we may be able to purchase from other suppliers on similar or favourable terms as we currently do from our largest supplier, such as obtaining supply in priority, and obtaining training or technical support as its authorised distributor. This may have a significant adverse effect on our operations, business and results of operations.

**We generally do not enter into long-term agreements with our customers, and some of them may cancel, change or postpone their orders. Furthermore, more than 50% of our revenue during the Track Record Period was generated from our top five customers. The concentration of our customers exposes us to risks, and the performance of our major customers may in turn lead to fluctuation or decline in our turnover.**

We generally do not enter into long-term agreements with our customers. For FY2013, FY2014, FY2015 and 1Q2016, sales to our top five customers represented 51.3%, 54.4%, 59.2% and 59.1%, respectively, of our total revenue, and sales to our largest customer represented 22.9%, 25.4%, 29.7% and 26.4% of our total revenue for the respective years/periods. For FY2013, FY2014, FY2015 and 1Q2016, sales to our top two customers were US\$118.5 million, US\$169.7 million, US\$208.5 million and US\$51.9 million, and accounted for 41.9%, 42.6%, 43.0% and 35.7%, respectively. As substantial amount of revenue was generated from the top two customers for each respective year/period of the Track Record Period and given that the IC and other electronic components industry changes very rapidly, our Group is exposed to a significant amount of counterparty risk. If we lose any of these customers, in particular our largest customer, or if a significant customer substantially reduces its purchase from us, our business, financial condition and results of operations may be materially and adversely affected. As we typically enter into individual purchase orders with our customers, our customers could change their order levels or stop placing orders altogether with little or no notice. The loss of one or more of our customers, or a substantial reduction in the size of their orders, or our failure to identify additional or replacement customers on a timely basis, could materially and adversely affect our business, financial condition and results of operations. We cannot assure you that we will be able to maintain or strengthen our relationships with our major customers, and we may not be able to sell our products to our customers at the current levels or at all. More than 50% of our revenue during the Track Record Period was generated from our top five customers. Events that are beyond our control may cause decline in our customers' business and hence their purchase from us. Such events include the weakening of demand or purchasing power of the purchasers of our customers' products, or our customers' decision to change the focus of their business or any claims or litigation against our customers causing business disruption or winding up of our customers. These risks result in a lack of predictability about our sales, and any reduction in the order and purchase from our major customers could have material adverse effect on our business and results of operations.

**Fluctuations in our purchase prices of IC and electronic components that we are unable to pass on to our customers could adversely affect our results of operations, profit margins and profitability.**

We purchase IC and other electronic components from our principal suppliers. Any shortage in raw materials or fluctuations in their prices could negatively affect our purchase prices of IC and electronic components. Risks such as fluctuating exchange rates, social and political unrest, and economic volatility in the countries or regions where we import IC and electronic components could also negatively and materially affect our purchase prices. We,

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## RISK FACTORS

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therefore, cannot guarantee that the prices we pay for electronic components will remain stable. Any increase in the prices we are required to pay for such products could result in a need to increase our selling price, which may cause our products to become less competitive, or a decrease in our profit margin. In particular, our ability to pass on part or all of our cost increases to our consumers depends largely on market conditions, including the activities of our competitors. For FY2013, FY2014, FY2015 and 1Q2016, our gross profit margins were approximately 4.6%, 5.3%, 4.6% and 4.6%, respectively, while our net profit margins were approximately 0.05%, 1.9%, 1.4% and 1.6%. If there is any increase in the purchase price for the IC and electronic components that we distribute, our results of operations, profit margins and profitability could be materially and adversely affected.

**Our profit margins are slim and therefore our profitability could be adversely affected if our profit margins cannot be sustained.**

For FY2013, FY2014, FY2015 and 1Q2016, our gross profit margins were approximately 4.6%, 5.3%, 4.6% and 4.6%, respectively, while our net profit margins were approximately 0.05%, 1.9%, 1.4% and 1.6%. The slim profit margin is a result of keen competition in the IC and other electronic distribution industry in the PRC Region. For further information on the competitive landscape of the industry in which we operate, please refer to the paragraph headed “Highly dispersed and complicated distribution channels” and the section headed “Competitive Landscape of the IC and other Electronic Components Distribution Market in the PRC Region” in the “Industry Overview” section of this prospectus.

Because of our slim operating profit margins, our profitability could be adversely affected if our profit margins cannot be sustained. For FY2015, our net profit margin would be nil if our revenue decreased by 1.4% or if our cost of inventories increased by 1.5%, (assuming other variables remaining unchanged). Our thin profit margins may adversely affect our working capital sufficiency and sensitivity to unfavourable changes in selling prices, costs and interest rates. We cannot assure you that we will be able to maintain our gross profit and gross profit margin during the Track Record Period at similar level in the future. Furthermore, we cannot assure you that we will not experience any fluctuations in our gross profit and gross profit margins in the future, which would have an adverse impact on the financial results of our Group.

**We had negative operating cash flows for FY2013, FY2014 and FY2015. Failure to manage our liquidity and cash flows may materially and adversely affect our business, results of operations and financial condition.**

We had negative operating cash-flows of US\$4.5 million, US\$5.6 million and US\$9.0 million for FY2013, FY2014 and FY2015, respectively and net cash generated from operating activities of US\$5.2 million for 1Q2016. A key factor that negatively affected our operating cash flow was the mismatch between credit terms we granted to our customers and the credit terms we were granted by our suppliers. Furthermore, there was an increase in trade and bills receivables of US\$42.8 million from FY2014 to FY2015, mainly because we extended a longer credit period to some of our customers to 60 days after month end and such customers started to place significant orders with us since late 2014. Our ability to generate adequate cash inflows from operating activities in the future will depend in large part on our ability to collect receivables from our customers in a timely manner, the credit terms that we can obtain from



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suppliers and the credit facility we can obtain from our banks. If we are not able to generate sufficient cash flows from our operations or obtain sufficient financing to support our business operation, our growth prospects may be materially and adversely affected.

**Our sales are affected by seasonality.**

Our revenue is subject to seasonal fluctuations during the year. During the Track Record Period, we generally recorded relatively lower revenue in the first half of each year due to the Chinese New Year holiday while a relatively higher demand in the second half of each year due to a higher demand for the electronic products during summer holidays and festivals such as Christmas and New Year. Therefore, we may be exposed to the risks associated with such seasonal factors and the fluctuation of demand of our products. Should there be any adverse change of market condition in the second half of a year, our profitability and financial performance may be adversely affected.

**We are dependent on short-term financing. In the event that our lenders cancel these credit facilities or the interest rates at which we could obtain such credit facilities increase, our business operations, turnover and profitability could be adversely affected.**

The turnover days of our trade receivables were 34 days, 34 days, 47 days and 49 days for FY2013, FY2014, FY2015 and 1Q2016, respectively; while the turnover days of our trade payables were 31 days, 25 days, 28 days and 29 days for FY2013, FY2014, FY2015 and 1Q2016, respectively. As such, we are dependent on our short-term borrowings to finance our credit sales. As at 30 June 2016, our total short-term borrowings amounted to approximately US\$57.1 million. This comprised (i) secured bank borrowings of approximately US\$0.6 million; and (ii) secured import and export loans of approximately US\$18.5 million and collateralised bank borrowings on trade receivables factored with recourse of approximately US\$37.9 million. In the event that the financial institutions concerned cancel these credit facilities, our business operations, turnover and profitability could be adversely affected.

Further, while we have, in the past, been able to obtain competitive interest rates for our borrowings from our banks, we cannot assure you that we will be able to continue to secure such competitive interest rates in the future. In the event of a substantial increase in interest rates for our borrowings in the future, our interest expense will increase and our profitability could be adversely affected.

**Evaluating our prospects may be difficult because our e-commerce platform has a short operating history.**

We commenced the operation of our e-commerce platform since February 2015 and upgraded our e-commerce platform to the current version in December 2015. Prior to the launch of our e-commerce platform, our sales were conducted primarily through traditional sales channels. Accordingly, we have limited history of operating our business in its current form and therefore evaluation the viability and prospects of our business might be difficult. Besides, we may not be able to achieve similar results or growth during the Track Record Period in future.

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You should not rely on our results of operations for any prior periods as an indication of our future performance. It is also difficult to evaluate our prospects, because we may not have sufficient experience to address the risks frequently encountered by companies operating in new and rapidly evolving markets, including the online sales market. We may not be able to successfully address these risks and difficulties, which could pose material risks to our business, financial condition and results of operations.

**The success of our business depends on the quality control system and product quality of our major suppliers. If a product that we distribute has defects or performance problems, our reputation and operation could be adversely affected.**

As a distributor, we do not directly monitor the quality control procedures of our major suppliers. If a product that we distribute has defects or performance problems, our reputation and operation could be adversely affected. In addition, we could be exposed to product liability claims, as consumers may choose to sue us in addition to or instead of suing the manufacturers who incorporate the electronic components we distribute into their end-products when a claim arises. If we are found liable for any such claims, we could be required to pay monetary damages. While we might, in turn, seek compensation or indemnification from the suppliers if the product defects are caused by their fault, we will have to negotiate, claim or commence proceedings against them, and prove their fault and legal liability before we will be compensated for our losses. Further, we may not be fully compensated for our damages and relevant expenses and costs. Even if we successfully defend such claims from customers, we might still incur substantial expenses and expend significant time in defending against such claims for which we may not have any recourse against the suppliers if they are not at fault.

**We are susceptible to the business cycles of the industries in which our customers operate.**

We provide IC, electronic components and engineering solutions to various customers in a wide range of manufacturers including TV, set-top box, automotive electronics, and other applications. The business cycles and growth prospects of each of these segments will have a corresponding effect on the demand for our products and services. Factors that adversely affect such segments or our customers in general could materially and adversely affect our business, financial condition, results of operations and prospects. These factors include, among others:

- a downturn in general economic conditions in PRC Region or major countries and regions that import electronic products from PRC Region;
- a decline in demand for, or negative perception of, or publicity about, Chinese electronic products;
- increasing competition from manufacturers in other countries;
- regulatory restrictions, trade disputes, industry-specific quotas, tariffs, non-tariff barriers and taxes that may have the effect of limiting electronic products exports from PRC Region;
- appreciation in the value of the Renminbi against the currencies of other countries and regions that import electronic products from PRC Region; and

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- rising material and labour costs in PRC Region relating to electronics manufacturing.

We cannot assure you that we would effectively manage the fluctuations in demand for our products. Should there be a prolonged downturn in any of these industries, our business, financial condition and results of operations could be adversely affected.

**Failure to maintain optimal level of inventory could increase our operating costs or results in loss of sales.**

We need to maintain sufficient inventory levels to operate our distribution business successfully as well as meet our customers' demands. We cannot assure you that we can accurately predict sales and avoid over-stocking or under-stocking products in our inventory. Furthermore, demand for products could change significantly within a short period between the time when they are ordered and the time when they are available-for-sale. The purchase of certain types of inventory could also require significant lead-time. As we sell a broad range of IC and electronic components and maintain substantial inventory levels for a substantial portion of the products we sell, we might be unable to sell such inventory in sufficient quantities. Inventory levels in excess of customer demand could result in inventory write-downs, expiration of products or increase in inventory holding costs.

On the contrary, if we underestimate demand or if our suppliers fail to provide products in a timely manner, we might experience inventory shortages, which could in turn result in unfulfilled customer orders, loss of sales and a negative impact on customer relationships. We cannot assure you that we will be able to maintain proper inventory levels, and any such failure could have an adverse effect on our business, financial condition, and results of operations.

**The available-for-sale investments held by our Group may materially and adversely affect our financial condition and results of operations.**

During the Track Record Period, we invested in certain debt securities listed in Hong Kong and unlisted investment funds in the aggregate amount of US\$1.7 million, US\$2.4 million, US\$5.8 million and US\$7.9 million respectively. Our listed debt securities in Hong Kong represented bonds and certificate of deposits listed in Hong Kong which was denominated in US\$ and RMB. Our unlisted investments mainly represented unit trust investments which invest primarily in Asian bonds and other debt securities and unit trust investments which mainly invest in Treasury Bonds and mortgaged-backed securities in the United States, and was denominated in US\$ and HK\$. During the Track Record Period, all the available-for-sale investments were pledged as security for our bank borrowings. According to the accounting policies applicable to our Group, gain or loss on fair value changes in our available-for-sale investments will be recognised in the investment revaluation reserves. Such treatment of gain or loss may cause significant volatility in or materially and adversely affect our period-to-period earnings, financial condition and results of operations. For further details, please refer to the section headed "Description of Certain Items of Consolidated Statements of Financial Position — Available-for-sale Investments" in the "Financial Information" section.

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**We operate in a highly competitive market and increase in the level of competition could result in lower profit margins.**

The distribution businesses for IC and electronic components are highly competitive with no substantial barriers to entry. We experience competition from distributors in the markets in which we operate. Some of our competitors could have more financial and human resources, more competitive pricing strategies or closer relationships with manufacturers of electronic components than we have.

We will face increasing competition from competitors for new customers and retain loyal customers, including:

- pricing our products competitively;
- maintaining the quality of the products we sell;
- maintaining, enhancing and further developing our e-commerce platform;
- sourcing products efficiently;
- anticipating and quickly responding to changing technologies and product trends;
- providing quality customer services; and
- conducting effective marketing activities.

In the event that our competitors offer less expensive alternatives to our products or services, or engage in aggressive pricing in order to increase their market share, or supply products with superior performance, functions or efficiency, we could lose customers to our competitors, and our business, financial condition and results of operations could be adversely affected. Competition could also lead to, among other things, less favourable terms in agreements or arrangements with customers, which could have an adverse impact on our business, financial condition and results of operations and lower our profit margins.

**If the IRD charges a Hong Kong profits tax and/or penalty that substantially exceeds the tax provision we made, it will have a negative impact on our financial condition and results of operations.**

During FY2015, our Directors have identified certain errors in the statutory financial statements of a group entity in Hong Kong for the years ended 31 December 2012 and prior periods and FY2014, and consequently those statutory financial statements were restated and reissued. We then submitted the revised tax computations of the relevant subsidiary to the Inland Revenue Department of Hong Kong (“IRD”) for the years of assessment 2012/2013 and 2014/2015 based on the revised assessable profits calculated based on the reissued statutory financial statements. The additional tax provision for the year ended 31 December 2012 and prior periods, and FY2014 amounted to US\$0.8 million and US\$0.8 million, respectively, was recognised in the Financial Information. As we made an incorrect tax returns or statement to the IRD for the relevant years of assessment, it may be liable for penalty, the amount of which accordingly to the penalty policy of the IRD would be at a maximum of (i) a fine of HK\$10,000 to HK\$50,000 for each offense; (ii) trebling the amount of tax undercharged or would have been

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undercharged; and (iii) imprisonment for 6 months to 3 years. However, the penalty may be less than the maximum level if we can prove to the satisfaction of the Commissioner of the IRD that we do not have any willful intention to omit/understate the profit in question.

In addition to making additional tax provision for the relevant year as discussed above, our Directors have also considered reasonably possible penalty that may be imposed by the IRD on us as at each of the reporting date, if any, arising from omission or understatement of assessment profits for the years of assessment 2012/2013 and 2014/2015 by the relevant group entity. After seeking professional advise, our Directors understand that the reasonably possible penalty, if any, is likely to be at the level of 30% of the amount of tax undercharged and HK\$10,000 (equivalent to US\$1,290) for each offense, that is, US\$0.2 million and US\$0.3 million for the year ended 31 December 2012 and FY2014, respectively, and relevant provision was made and included in administrative expenses in the profit or loss for the relevant years. Our Directors believe that adequate provision has been made against the potential penalty. However, the ultimate penalty may be different from the amounts provided, such difference will be charged to profit or loss in the period during which such a determination is made.

We cannot assure you that the IRD would not charge us additional tax payable which exceeds our provision and/or charge penalty in respect of the submission of late assessment or otherwise. If the IRD requires us to pay the full amount of the Hong Kong profits tax or imposes penalty on us, it could affect our cash flow and could have a material adverse impact on our financial condition and results of operations.

**We have limited insurance coverage and any product liability or other claims not covered by our insurance could adversely affect our business, financial condition and results of operations.**

Any business disruption, litigation or natural disaster could cause us to incur substantial costs which may not be covered by our insurance policy. Any product liability or other claims arising from the products that are not covered by our insurance could adversely affect our business, financial condition and results of operations. Furthermore, we might need to stop selling the products that result in product liability claims, which could negatively affect the range of our product offering and the size of our customer base.

**Our business depends on our ability to retain key management and operational personnel, technical personnel and engineers.**

If we lose the services of any of our key management and operational personnel, technical personnel and engineers without finding suitable replacements in a timely manner, or if we fail to attract and retain qualified personnel, our business, financial condition and results of operations could be adversely affected. Our continued success is dependent to a large extent on our ability to retain the services of our key management and operational personnel. The loss of the services of our key personnel without adequate replacement or the inability to attract and retain qualified personnel could adversely affect our business operations. Apart from our key management and operational personnel, our technical personnel and engineers are also crucial for our business operations. In particular, we depend on our sales personnel, who have a wide array of business relationships and an in-depth understanding of the markets, to serve our customers with their in-depth knowledge of the products we distribute while staying abreast of industry developments and market trends, and on our application engineers and technicians to design and develop engineering solutions that meet our customers' specifications.

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If we lose the services of any of our key management and operational personnel, sales personnel and application engineers and technicians without finding suitable replacements in a timely manner, or if we fail to attract and retain qualified personnel, our business, financial condition and results of operations could be adversely affected.

**If we are unable to attract customers and generate sufficient sales on our e-commerce platform, our revenue and profit could decrease materially.**

Constantly evolving technologies and products in the electronics industry have affected and will continue to affect our customers as well as customers' procurement preferences. We must stay abreast of emerging products and technologies that will appeal to existing and potential customers and be able to provide our customers with engineering solutions, which is one of our core strengths. In addition, our customers who choose to procure IC and other electronic components on our e-commerce platform may choose to shop elsewhere if we cannot match the prices offered by other websites or physical distributors. Accordingly, if we fail to identify products and solutions that our customers would be interested in or if our customers cannot find their desired products on our e-commerce platform at attractive prices, they may lose interest in us, our business, financial condition and results of operations may be materially and adversely affect.

Should there be (i) any reduction in the number of users in our e-commerce platform or any decrease in its popularity; (ii) any failure by us or third parties to make improvements, upgrades or enhancements to our e-commerce platform in a timely manner; (iii) any lasting or prolonged server interruption due to network failures or other factors; or (iv) any other adverse developments specific to our e-commerce platform, our business, financial condition and results of operations could be adversely affected.

**We rely on third-party logistic service providers to deliver our products, and their failure to provide quality courier services to our customers may negatively impact our customers' satisfaction, our reputation and materially and adversely affect our business and results of operations.**

We rely on third-party logistic service providers to deliver products to our customers. Interruptions to or failures in these logistic services could prevent the timely or successful delivery of our products. These interruptions may be due to unforeseen events that are beyond our control or the control of these third-party logistic service providers, such as inclement weather, natural disasters or labour unrest. If our products are not delivered on time or are delivered in a damaged state, customers may refuse to accept our products and have less confidence in our services. Thus, we may lose customers, and our financial condition and market reputation could suffer.

**We may encounter difficulties in protecting our intellectual property rights.**

We regard our patents, trademarks, domain names, trade secrets, proprietary technologies and similar intellectual property as critical to our success. As at the Latest Practicable Date, we had ten registered patents and seven pending applications for additional patents and 17 domain names in the PRC and Hong Kong. We also had eight registered trademarks and pending applications for 34 additional trademarks in the PRC and in Hong Kong. Our pending patent and trademark registration may not be successful, and our patents, trademarks and other intellectual property rights may be invalidated, circumvented, or

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challenged. Trade secrets are difficult to protect, and our trade secrets may be leaked or otherwise become known or be independently discovered by competitors.

The process of seeking patent protection can be lengthy and expensive, and there can be no assurance that any of our pending patent applications, or any patent applications we may make in the future in respect of other products, will mature into issued patents, or that such patents, if issued, will be able to provide us with meaningful protection or commercial advantage. Any patent issued to us may be challenged, invalidated or circumvented. There are a number of factors that could cause our existing patents or other intellectual property to become invalid or unenforceable, including known or unknown prior art, deficiencies in patent applications and lack of originality in the underlying technologies. Furthermore, the patents that we hold are for a finite duration. Following the expiration of the relevant patents, our existing or future competitors may be able to develop and introduce direct substitute products to our key products which may be identical in formulation. If our patent and trademark registration is unsuccessful, or if we are not able to protect our intellectual property rights, our business and operations may be materially and adversely affected.

In addition, it may be difficult to enforce intellectual property rights in the PRC and we may not be able to effectively protect our intellectual property rights or enforce agreements in the PRC. Policing any unauthorised use of our intellectual property is difficult and costly and any steps taken may be inadequate to prevent the misappropriation of our technologies.

**We may become subject to intellectual property infringement claims, which could divert our management's attention, impair our ability to sell our products and expose us to costs and liabilities.**

Our commercial success depends significantly on our ability to operate without infringing the patents and other proprietary rights of third parties. The risk of being subject to intellectual property infringement claims will increase as we continue to expand our product offering. Under the PRC Patent Law (中華人民共和國專利法) promulgated by the Standing Committee of the National People's Congress on 12 March 1984, as amended on 4 September 1992, 25 August 2000 and 27 December 2008, invention applications are maintained in confidence until their publication at the end of 18 months from the filing date (although they may be published earlier at the request of the applicant). The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and the date on which invention applications are filed. However, an invention does not lose its novelty if it is published, for a first time, at specific academic or technological conference. The PRC adopts the first-to-file system under which who first files a patent application (instead of who makes first actual discoveries) will be awarded the patent. Under the first-to-file system, even after reasonable investigation we may be still unable to determine with certainty whether any of our products, processes, technologies, inventions, improvement and other related matters have infringed upon the intellectual property rights of others, because such third party may have filed a patent application without our knowledge while we are still developing that product, and the term of patent protection starts from the date when the patent was filed, instead of the date when it was issued. Therefore, the validity of issued patents, patentability of pending patent applications and applicability of any of them to our programs may be lower in priority than third party patents issued on a later date if the application for such patents were filed prior to ours and the technologies underlying such patents are the same or substantially similar to ours. If any intellectual property claims are asserted against us, our ability to commercialise our products could be adversely affected.

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**Our business depends on our key senior management members; if we lose any of them and are unable to find proper replacements in a timely fashion, our business prospects could be adversely affected.**

We are highly dependent on our senior management to manage our business and operations. In particular, we rely substantially on Mr. Tian to manage our operations. The departure from our Group of any one of them, in particular Mr. Tian, would have a material adverse effect on our business and operations. We compete for qualified personnel with other companies in the industry. The pool of suitable candidates is limited, and we may be unable to locate a suitable replacement for any senior management that we lose. Intense competition for these personnel could cause our compensation costs to increase significantly, which could have a material adverse effect on our results of operations. Our future success and ability to grow our business will depend in part on the continued service of these individuals and our ability to identify, hire and retain additional qualified personnel. If we are unable to attract and retain qualified employees, we may be unable to meet our business and financial goals.

**If we suffer failure or disruption in our information systems, our ability to effectively manage our business operations could be adversely affected.**

We make use of information systems to obtain, process, analyse and manage data and operate our business, in particular our e-commerce platform. We use these systems to, among other things, conduct and monitor the daily operations of our business, maintain operating and financial data, manage our sales operations. Any system malfunction or failure that interrupts data input, retrieval or transmission or increases service time could disrupt our normal operations, in particular our e-commerce platform. There can be no assurance that we will be able to effectively handle a failure of our information systems, or that we will be able to restore our operational capacity in a timely manner to avoid disruption to our business. The occurrence of any of these events could adversely affect our ability to operate our e-commerce platform and effectively manage our other business operations. In addition, if the capacity of our information systems fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained.

**If we are unable to manage our growth or execute our growth strategies effectively, our business and prospects may be materially and adversely affected.**

We have experienced rapid growth in our revenues and expansion of our customer base that have placed, and continue to place, significant strain on our management and resources. Our growth strategy includes expanding our customer base, and enhancing our product offering to further improve customer loyalty. To accommodate our growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. We will also need to continue to expand, train, manage and motivate our workforce and manage our relationships with customers, suppliers and third-party service providers. Our strategies also include broadening our product offering, which will require us to introduce new product categories and work with different groups of suppliers and address different buyer's needs. Given our relative unfamiliarity with many of these new product offerings, we may incur significant costs in trying to expand our offering into these new product categories or fail to successfully execute the roll-out of these new product offerings. Moreover, we may have to expand our warehouse facilities, logistics centres and fulfilment network to accommodate more customer orders, which will require us to lease suitable facilities at



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commercially acceptable terms, which in turn may put pressure on our managerial, financial, operational and other resources. All of these endeavours involve risks, and will require substantial management effort and significant additional expenditures. We cannot assure you that we will be able to manage our growth or execute our strategies effectively, and any failure to do so may have a material adverse effect on our business and prospects.

**Uncertainties regarding the growth and sustained profitability of e-commerce in the PRC could adversely affect our business, results of operation and prospects.**

The continued growth in our revenue and profit is dependent upon the widespread acceptance and use of the internet as a medium for commerce by businesses. Growth in our customer base is dependent on attracting buyers who have historically used traditional channels of commerce to procure IC and other electronic components. For our Company to be successful, these buyers must accept and adopt new ways of conducting business and exchanging information. In particular, rapid growth in the use of and interest in the internet and other online services is still a relatively recent phenomenon, and we cannot assure you that this trend and use will continue to develop or that a sufficiently broad base of buyers will adopt, and continue to use, the internet as a medium of commerce. A decline in the popularity of purchasing on the internet in general, or any failure by us to adapt our e-commerce platform and improve the procurement experience of our customers in response to trends and consumer requirements, will adversely affect our business, results of operation and prospects.

**Failure to protect confidential information of our customers and our network against security breaches could damage our reputation and brand and substantially harm our business and results of operations.**

A significant challenge to online commerce and communications is the secure transmission of confidential information over public networks. Currently, details of our customers and their product orders are transmitted through our e-commerce platform. Accordingly, maintaining complete security for the confidential information on our e-commerce platform, such as customers' corporate information, key personnel contact information, product development objectives and browsing and purchasing records, is essential to maintain user confidence. We may not be able to prevent third parties, such as hackers or criminal organisations, from misappropriating information provided by our customers to us through our e-commerce platform. Any compromise of our security or third-party service providers' security could have a material adverse effect on our reputation, business, prospects, financial condition and results of operations. In addition, significant capital and other resources may be required to protect against security breaches or to alleviate problems caused by such breaches. The methods used by hackers and others engaged in online criminal activity are increasingly sophisticated and constantly evolving. Even if we are successful in adapting to and preventing new security breaches, any perception by the public that online commerce and transactions, or the privacy of user information, are becoming increasingly unsafe or vulnerable to attack could inhibit the growth of e-commerce and other online services generally, which in turn may reduce the number of orders we receive.

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**We may enter into strategic alliances or undertake investments, acquisitions and partnerships which may not be successful and may have a material adverse effect on our ability to manage our business.**

We may in the future enter into strategic alliances with various third parties. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counter-party, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor their actions. To the extent strategic third parties suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

In addition, although we have no current acquisition targets, if we are presented with appropriate opportunities, we may acquire additional assets or businesses that are complementary to our existing business through investments, acquisitions and partnerships. These plans could require that our management develop expertise in new areas, manage new business relationships and attract new customers. We may also experience difficulties integrating any investments, acquisitions and/or partnerships into our existing business and operations, which would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results we expect and could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortisation expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating such strategic alliances, investment and acquisitions may be significant. We may also have to obtain approvals and licenses from the relevant government authorities in the PRC for strategic alliances, investment and acquisitions and to comply with any applicable PRC laws and regulations, which could result in increased costs and delay.

### **RISKS RELATING TO OUR INDUSTRY**

**We are subject to technological changes in the electronic industry.**

The electronic industry and the development of engineering solutions are subject to rapid technological advances. Our success will depend on our ability to keep abreast of these developments in technology and to adapt our business strategies to effectively deal with, accommodate and embrace these advances. However, we cannot assure you that we can respond promptly and cost effectively to these changes. If we are unable to keep our product offering up-to-date in line with the rapid technological developments, whether due to financial or technical reasons, our business, financial condition and results of operations could be adversely affected.

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### RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

**Adverse changes in the PRC economic, political and social conditions as well as governmental policies could have an adverse effect on overall economic growth, which in turn could adversely affect our business, financial condition and results of operations.**

The economic, political and social conditions in the PRC differ from those in more developed countries in many aspects. Economic conditions differ significantly, including, for example, in respect of the structure of the economy, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. For the past three decades, the PRC government has implemented economic reforms and measures emphasising the utilisation of market forces in the development of the PRC economy. Although we believe these economic reforms and measures will have a positive effect on the PRC's overall and long-term development, we cannot predict whether the resulting changes could have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, allocation of natural resources, production, pricing and management of currency, and we cannot assure you that the PRC government will continue to pursue a policy of economic reforms or that the direction of reforms will continue to be market friendly.

Our ability to successfully expand our business in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. Strict lending policies in the PRC could affect our ability to obtain external financing, which in turn could reduce our ability to implement our expansion strategies. Our current and future business, financial condition and results of operations could be adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures that could be introduced to control inflation or deflation;
- failure to maintain or renew the licenses or permits required for our business;
- changes in the rate or method of taxation; and
- changes in tariff protection policies and other import and export restrictions.

These factors are affected by a number of variables that are beyond our control.

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**The legal system of the PRC may not be fully developed, and there may be inherent uncertainties which may affect the protection afforded to our business and our Shareholders.**

Part of our business and operations are governed by the legal system of the PRC. The PRC legal system is based on written statutes and their interpretations by the Standing Committee of the National People's Congress. Prior court decisions may be used for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations that had the effect of enhancing the protections afforded to corporate organisations and their governance, as well as various forms of foreign investments in the PRC. However, with regards to the current PRC legal system, there are still some grey areas which are not regulated in relevant statutes or other laws/regulations/rules. Thus, the PRC administrative and court authorities usually have significant discretion in interpreting the statutes, and deciding cases according to relevant statutes. Therefore, it is difficult to evaluate the outcome of administrative and court proceedings and the actual level of legal protection we enjoy. Further, we cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-exemption of local regulations by national laws. We cannot therefore assure that we will enjoy the same level of legal protection in the future, nor such new laws and regulations will not affect our operations, causing adverse effects on our financial condition and results.

**Government control of currency conversion and fluctuations in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends.**

The PRC Government imposes controls on the convertibility of RMB 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 SAFE provided that certain procedural requirements are satisfied. However, approval from SAFE or its local counterpart is required where RMB 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. Since part of our future cash flow from operations will be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside the PRC or fund our business activities that are conducted in foreign currencies.

The PRC government authorities have also imposed restrictions on the type of enterprises that can borrow foreign debt and the amount of foreign debt these enterprises could borrow. There are also restrictions on the conversion of the registered capital of a foreign invested enterprise from foreign exchange into RMB. Thus, these could also affect the ability of our subsidiaries in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

The exchange rate of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC Government and changes in the PRC's and international political and economic conditions. Any future exchange rate volatility relating to RMB may give rise to uncertainties in the value of our net assets, earnings and dividends.

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## RISK FACTORS

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An appreciation of RMB may result in increased competition from foreign competitors; a devaluation of RMB may adversely affect the value of our net assets, earnings and dividends in foreign currency terms. Moreover, to the extent that we need to convert the net proceeds from the Global Offering and future financing into the RMB for our operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the RMB amount we would receive from the conversion. On the other hand, because the dividends on the Shares, if any, will be paid in Hong Kong dollars, any devaluation of the RMB against the Hong Kong dollar could adversely affect the amount of any cash dividends on the Shares in Hong Kong dollar terms.

**It may be difficult to effect service of process or to enforce foreign judgments in the PRC.**

A substantial amount of our assets are located in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. A judgment of a court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if the judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, the PRC does not have treaties with Japan, the United Kingdom, the United States and most other countries providing for the reciprocal enforcement of judgments. Also, Hong Kong has no arrangement for reciprocal enforcement of judgments with the United States, causing uncertainties in relation to the enforcement of foreign judgments.

**We rely on dividends paid by our PRC subsidiaries for our cash needs, and limitations on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our business, prospects, financial condition and results of operations.**

We are a holding company incorporated in the Cayman Islands and conduct a substantial part of our operations through our PRC subsidiaries. We will rely on dividends paid by our PRC subsidiaries for our future cash needs that cannot be provided by equity issuance or borrowings outside of the PRC, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. Regulations in the PRC currently permit payment of dividends by a PRC subsidiary only out of accumulated profits as determined in accordance with the PRC generally accepted accounting principles. According to applicable PRC laws and regulations, our PRC subsidiaries are required to set aside at least 10% of its after-tax profit based on the PRC generally accepted accounting principles each year for its statutory reserves until the amount of such reserves reach 50% of its registered capital. These reserves are not distributable as dividends. Contributions to such reserves are made from our PRC subsidiary's net profit after taxation. In addition, if our PRC subsidiaries incur debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. As a result, our PRC subsidiaries are restricted in their ability to transfer their net profit to us in the form of dividends. If our PRC subsidiaries cannot pay dividends due to government policy and regulations or contractual restrictions, or because they cannot generate the requisite cash flow, we may not be able to pay dividends, service our debt or pay our expenses, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

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**PRC regulations relating to loans and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the net proceeds of the Global Offering to contribute additional capital or make loans to our PRC subsidiaries.**

We are an offshore holding company conducting our operations in the PRC through our PRC subsidiaries. In utilising the net proceeds we expect to receive from the Global Offering for the purposes described in the section headed “Future Plans and Use of Proceeds” in this prospectus, we may make loans or additional capital contributions to our PRC subsidiaries. Any loans to any of our PRC operating subsidiaries that are treated as a foreign invested enterprise under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, such loans cannot exceed statutory limits and must be registered with SAFE or its local counterpart. We may also determine to finance our PRC subsidiaries by means of capital contributions. These capital contributions may need be approved by the MOFCOM or its local counterpart. We cannot assure you that we will be able to complete necessary government registrations or obtain necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the net proceeds from the Global Offering to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

**Our global income may be subject to PRC taxation.**

Pursuant to the EIT Law, which became effective on 1 January 2008, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered as “resident enterprises” and will generally be subject to a uniform EIT at a rate of 25% on their global income. Pursuant to the Enterprise Income Tax Implementation Regulations (中華人民共和國企業所得稅法實施條例) (“EITIR”), which also became effective on 1 January 2008, “de facto management bodies” is defined as bodies having material and overall management control over the business, personnel, accounts, properties and other aspects of an enterprise.

Currently, we are conducting business in the PRC through our PRC subsidiaries and some members of our management are still based in the PRC. It is not entirely clear as to whether the tax authorities will deem us as a PRC resident enterprise. Depending on the interpretation, application and enforcement of the EIT Law and the EITIR by the PRC tax authorities, we may be treated as a PRC resident enterprise for EIT purposes, in which case, we may be subject to EIT at a rate of 25% on our worldwide income.

**We face uncertainty with respect to our PRC tax obligations in relation to the transfers of equity interests in PRC resident enterprises during the Reorganisation.**

According to the Notice on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises Equity Transfer (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (“Circular 698”), which was issued by the State Administration of Taxation on 10 December 2009 and became effective retrospectively on 1 January 2008, where a non-resident enterprise transfers its equity interest in a PRC resident enterprise to its related party, and the taxable income is reduced as a result of the transfer price not being in line with the principle of arm’s-length transaction, the tax authorities will have the authority to adjust the amount of taxable income based on the reasonable method.

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Pursuant to the Announcement of the State Administration of Taxation on Several Issues Concerning Enterprise Income Tax on Indirect Transfers of Properties by Non-Resident Enterprises (國家稅務總局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 was promulgated by the State Administration of Taxation and became effective on 3 February 2015, where a non-resident enterprise indirectly transfers equity interests or other assets of a PRC resident enterprise by implementing arrangements that are not for bona fide commercial purposes in order to avoid its obligation to pay EIT, such an indirect transfer shall, in accordance with the EIT Law, be recognised by the competent PRC tax authorities as a direct transfer of equity interests or other assets by the PRC resident enterprise.

According to Circular 7, the indirect transfer of PRC taxable property shall be regarded as having a bona fide commercial purpose if all the following conditions are met: (i) the parties to the transaction are in any of the following equity relationships: (a) the transferor holds, directly or indirectly, more than 80% of the transferee’s equity; (b) the transferee holds, directly or indirectly, more than 80% of the transferor’s equity; or (c) more than 80% of the equity of the transferee and the transferor is held, directly or indirectly, by the same party; (ii) the amount of EIT payable on any subsequent indirect equity transfer will not be less than that payable on the same or similar indirect equity transfer had the subject indirect equity transfer not taken place; and (iii) the transferee pays the entire amount of consideration with its own equity or equity of an enterprise with which it has a controlling shareholding relationship (excluding equity of a listed company). As Circular 7 was newly implemented and only became effective in February 2015, it is uncertain how the PRC tax authorities will interpret, apply and enforce Circular 698, Circular 7, the EIT Law and the relevant implementation regulations in relation to the transfers of shareholding interests during the Reorganisation. For more information on such equity transfers or transfers of other assets, please refer to the section “History, Reorganisation and Group Structure”. If we are ordered to pay a substantial amount of EIT in relation to the transfers of shareholding interests in SMC Technology SZ and SMC Cloud SZ during the Reorganisation, with the amount of taxable income being adjusted by the relevant tax authorities, our financial condition may be materially and adversely affected.

### RISKS RELATING TO THE GLOBAL OFFERING

**There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained.**

Prior to the Global Offering, no public market for our Shares existed. Following the completion of the Global Offering, the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure you that an active trading market for our Shares will develop or be sustained after the Global Offering. In addition, we cannot assure you that our Shares will trade in the public market subsequent to the Global Offering at or above the Offer Price. The Offer Price for the Shares is expected to be fixed by agreement among DBS (for itself and on behalf of the Underwriters) and our Company, and is not indicative of the market price of the Shares following the completion of the Global Offering. If an active trading market for our Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of Shares could be materially and adversely affected.

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**The trading price of our Shares may be volatile, which could result in substantial losses to you.**

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. In particular, the trading price performance of other companies in similar business of IC and other electronic components distribution in the PRC may affect the trading price of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income, cash flow, profits and dividends could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

**Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall when the trading of our Offer Shares begins.**

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be a few business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price or value of our Shares could fall when 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.

**The sale or availability for sale of substantial amounts of our Shares could adversely affect their trading price.**

Sales of substantial amounts of our Shares in the public market after the completion of the Global Offering, or the perception that such sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offering of our Shares.

The Shares owned by our existing Shareholders are subject to certain lock-up periods. There can be no assurance that they will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. We cannot predict what effect, if any, significant future sale will have on the market price of our Shares.

**Because the Offer Price of our Shares is higher than our net tangible book value per Share, purchasers of our Shares in the Global Offering will experience immediate dilution.**

If you purchase our Shares in the Global Offering, you will pay more for your Shares than our net book value on a per Share basis. As a result, investors of our Shares in the Global Offering will experience an immediate dilution in the net tangible asset value and our existing Shareholders will receive an increase in the pro forma adjusted combined net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further



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## RISK FACTORS

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dilution of their interest if the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) exercise the Over-allotment Option or if we obtain additional capital in the future through equity offering.

**We have adopted a Share Award Scheme, which may materially impact our future results of operations.**

We have adopted the Share Award Scheme, which permits the granting of Awards to our Directors, executive officers, senior managers and employees of our Group. Each Award is a conditional right to receive a Share at the end of the vesting period, subject to vesting conditions provided for under the Share Award Scheme. As at the Latest Practicable Date, no Award for Shares have been granted. These Shares (or where applicable the amount equivalent to such Shares) will be held by the Trustee and will be released to beneficiaries upon vesting of the Award under the Share Award Scheme. For details of the Share Award Scheme, please refer to the section headed “Statutory and General Information — D. Employee Incentive Schemes — 1. Share Award Scheme” set out in Appendix IV of this prospectus. If Shares are issued under the Share Award Scheme, we expect to incur significant share-based compensation expenses in the future. The amount of these expenses will be based on the fair value of the share-based awards. We have adopted HKFRS 2 (*Share-based Payment*) for the accounting treatment of the Share Award Scheme. As a result, we will need to account for compensation costs for the Awards using a fair-value based method and recognise expenses in our consolidated statement of comprehensive income in accordance with HKFRS 2, which may have a material adverse effect on our net income. The expenses associated with share-based compensation will decrease our net profit and the additional shares issued will dilute the ownership interests of our Shareholders. On the other hand, if we reduce the amount of Awards or other share-based compensation awards, we may not be able to attract or retain key personnel by offering them incentives linked to the value of our Shares.

**We may need additional capital and may issue additional Shares for such purpose, pursuant to the Share Award Scheme or the exercise of the options granted pursuant to the Share Option Scheme, and could result in additional dilution to our shareholders.**

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the net proceeds from this offering will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources to finance our continued growth or other future developments, including any future investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary depending on factors such as investments in and/or acquisitions of businesses from third parties and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing by issuing additional equity or debt securities or obtaining a credit facility. Further, we have adopted a Share Award Scheme, pursuant to which additional Shares may be issued, and a Share Option Scheme under which additional Shares may be issued pursuant to exercise of the options granted thereunder. The issue of additional Shares or other equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service the debt

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obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

**We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under Hong Kong law, you may have less protection of your shareholder rights than you would under Hong Kong law.**

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Companies Law and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in Hong Kong. In particular, the Cayman Islands may provide less protection to investors.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

**You should only rely on the information included in this prospectus to make your investment decision, and we strongly caution you not to rely on any information contained in press articles or other media coverage relating to us, our Shares or the Global Offering.**

There had been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorised the disclosure of any information concerning the Global Offering in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any forecasts, views or opinions expressed by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. We make no presentation as to the appropriateness, accuracy, completeness or reliability of any such data or publication.

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Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

**You should not place undue reliance on facts, forecasts and other statistics in this prospectus relating to the economy and our industry.**

Certain facts, forecasts and other statistics in this prospectus relating to the economy and the IC and other electronic component distribution industries on an international basis or for the PRC have been collected from materials from government sources or other unofficial sources. While we have exercised reasonable care in compiling and reproducing such information and statistics, we cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisers, nor the Underwriters or any of its affiliates or advisers, have independently verified the accuracy or completeness of such information directly or indirectly derived from these sources. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics may be inaccurate. Statistics, industrial data and other information relating to the economy and the industry derived from sources used in this prospectus may not be consistent with other information available from other sources and therefore, investors should not unduly rely upon such facts, forecasts and statistics while making investment decisions.

**Our financial results are expected to be affected by the expenses in relation to the Global Offering.**

Our financial results will be affected by the expenses in relation to the Global Offering. The total Listing expenses (based on the mid-point of the Offer Price range) are estimated to be approximately US\$4.7 million. For FY2015 and 1Q2016, we incurred Listing expenses of approximately US\$1.5 million and US\$0.7 million, respectively, in connection with the Global Offering. By the completion of the Global Offering, we expect to further incur Listing expenses of approximately US\$2.5 million, of which an estimated amount of approximately US\$1.2 million is to be recognised as expenses and the remaining is expected to be charged to equity. Therefore, our financial results for 2016 will be materially affected by the expenses in relation to the Global Offering.

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

Some of the facts and statistics in the prospectus relating to the industry in which we operate, including those relating to the PRC economy and the ICs distribution industry, are derived from information published by governmental departments or agencies which our Directors believe are reliable. However, our Directors cannot guarantee that the quality or reliability of such materials. Our Directors believe that the sources of the information are appropriate and have taken reasonable care in extracting and reproducing such information. The information in the section "Industry Overview" has been prepared based on the Analysis Report and has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators or the Underwriters, and the assumption made in the Analysis Report may be inaccurate or may not be realised.

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

This prospectus contains certain statements that are “forward-looking” and uses forward looking terminology such as “anticipate”, “estimate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, and “will”. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information. Please see the section “Forward-looking Statement” in this prospectus.

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

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

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Future (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in 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 conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as at any subsequent time.

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 the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

### **UNDERWRITING**

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

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between DBS (for itself and on behalf of the Underwriters) and us. The Global Offering is managed by the Joint Global Coordinators.

If, for any reason, the Offer Price is not agreed, 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.

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

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

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

No action has been taken to permit an offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

### **ELIGIBILITY FOR CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. You should seek the advice of your stockbroker or other professional advisor for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

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

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

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

Save as disclosed in this prospectus, no part of the Shares 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.

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

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### **HONG KONG SHARE REGISTER AND THE STAMP DUTY**

All Shares issued by us pursuant to applications made in the Hong Kong Public Offer will be registered on our Hong Kong register of members to be maintained in Hong Kong. Our Hong Kong register of members will be maintained by Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

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

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

### **STABILISATION AND OVER-ALLOTMENT**

In connection with the Global Offering, the Stabilising Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the Global Offering, we intend to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) within 30 days after the last day for lodging applications under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, we may be required to issue and allot up to an aggregate of 18,750,000 Shares (in aggregate representing 15% of the total number of the Shares initially available under the Global Offering) at the Offer Price to cover over-allocation in the International Placing.

Further details with respect to stabilisation and the Over-allotment Option are set out in the sections headed “Structure of the Global Offering — Over-allotment Option” and “Structure of the Global Offering — Stabilisation” in this prospectus.

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

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### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The application procedure for the Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including their respective conditions, and the Over-allotment Option, are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations of certain amounts denominated in Renminbi or US dollars into Hong Kong dollars at specified rates. You should not construe these translations as representations that the amounts in Renminbi or US dollars could actually be, or have been, converted into Hong Kong dollar amounts (as applicable) at the rates indicated or at all. Unless we indicate otherwise, the amounts denominated in Renminbi have been translated into Hong Kong dollars at the rate of RMB1 = HK\$1.20 and the amounts denominated in US dollars have been translated into Hong Kong dollars at the rate of HK\$7.75 to US\$1.00.

### **ROUNDINGS**

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

### **WEBSITE**

The contents of any website mentioned in this prospectus do not form a part of this prospectus.



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<b><i>Executive Directors</i></b>		
Mr. Tian Weidong (田衛東)	Flat B, 26/F., Harbour One, 458 Des Voeux Road West, Hong Kong	Chinese
Mr. Wong Tsz Leung (黃梓良)	Flat F, 8/F., Tower 1, 388 Chatham Road North, Chatham Gate, Hung Hom, Kowloon, Hong Kong	Chinese
Mr. Liu Hongbing (劉紅兵)	Room 602, Building 8, HaoFang Garden, No. 4040 Nanhai Avenue, Nanshan District, Shenzhen, China	Chinese
Mr. Xie Yi (謝藝)	Flat A, 2/F., Block 2, 12 Leung Tak Street, Venice Gardens, Tuen Mun, New Territories, Hong Kong	Chinese
<b><i>Independent non-executive Directors</i></b>		
Mr. Zheng Gang (鄭鋼)	Flat E, 16/F., Block 10, South Horizons Apleichau, Hong Kong	Chinese
Mr. Tang Ming Je (湯明哲)	15/F., Daxue Village 1 Lin, No. 36 Sec. 3, Xincheng South Road, Da'an District, Taipei City, Taiwan	Taiwanese
Mr. Wong Hon Kit (黃漢傑)	Flat D, 43/F, Block 3 Metro City Phase 3, Tseung Kwan O, New Territories, Hong Kong	Chinese

Please see the section “Directors and Senior Management” for further information on our Directors and members of our senior management.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Sponsor</b>	DBS Asia Capital Limited 17/F, The Center 99 Queen's Road Central Hong Kong
<b>Joint Global Coordinators</b>	DBS Asia Capital Limited 17/F, The Center 99 Queen's Road Central Hong Kong
	Haitong International Securities Company Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
<b>Joint Bookrunners and Joint Lead Managers</b>	DBS Asia Capital Limited 17/F, The Center 99 Queen's Road Central Hong Kong
	Haitong International Securities Company Limited 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	GF Securities (Hong Kong) Brokerage Limited 29–30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	Fortune (HK) Securities Limited 35/F, Office Tower, Convention Plaza No. 1 Harbour Road, Wanchai Hong Kong
	Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Hong Kong Underwriters

DBS Asia Capital Limited  
17/F, The Center  
99 Queen's Road Central  
Hong Kong

Haitong International Securities Company Limited  
22/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

GF Securities (Hong Kong) Brokerage Limited  
29–30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

Fortune (HK) Securities Limited  
35/F, Office Tower, Convention Plaza  
No. 1 Harbour Road, Wanchai  
Hong Kong

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

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### International Underwriters

DBS Asia Capital Limited  
17/F, The Center  
99 Queen's Road Central  
Hong Kong

Haitong International Securities Company Limited  
22/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

GF Securities (Hong Kong) Brokerage Limited  
29–30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

Fortune (HK) Securities Limited  
35/F, Office Tower, Convention Plaza  
No. 1 Harbour Road, Wanchai  
Hong Kong

Guotai Junan Securities (Hong Kong) Limited  
27/F, Low Block  
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181 Queen's Road Central  
Hong Kong

### Legal advisers to our Company

*As to Hong Kong law:*  
DLA Piper Hong Kong  
17th Floor, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law:*  
Commerce & Finance Law Offices  
27C, Shenzhen Te Qu Bao Ye Building  
6008 Shennan Road  
Shenzhen, PRC

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

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Legal advisers to the  
Sole Sponsor and the  
Underwriters**

*As to Hong Kong law:*  
Deacons  
5/F, Alexandra House  
18 Chater Road  
Central, Hong Kong

*As to PRC law:*  
Global Law Office  
Units B/C, 26F, Tower 5  
Dachong International Center  
No. 39 Tonggu Road, Nanshan District  
Shenzhen, PRC

**Auditors and reporting  
accountants**

Deloitte Touche Tohmatsu  
Certified Public Accountants  
35/F, One Pacific Place  
88 Queensway, Hong Kong

**Receiving bank**

Bank of Communications Co., Ltd. Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office in the Cayman Islands</b>	Maples Corporate Services Limited PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
<b>Principal place of business in the PRC</b>	16/F., Finance & Technology Building No. 11 Keyuan Road Nanshan District Shenzhen China
<b>Principal place of business in Hong Kong</b>	30/F., Enterprise Square Two 3 Sheung Yuet Road Kowloon Bay Hong Kong
<b>Company website</b>	<b><u><a href="http://www.smart-core.com.hk">http://www.smart-core.com.hk</a></u></b> (information contained in this website does not form part of this prospectus)
<b>Company secretary</b>	Mr. Lo Kai Cheong CPA Flat D, 6/F, Tower 7 33 Yuen Long Kau Hui Road The Parcville Yuen Long New Territories Hong Kong
<b>Authorised representatives (for the purpose of the Listing Rules)</b>	Mr. Tian Weidong Flat B, 26/F, Harbour One 458 Des Voeux Road West Hong Kong  Mr. Wong Tsz Leung Flat F, 8/F., Tower 1 388 Chatham Road North Chatham Gate, Hung Hom Kowloon Hong Kong
<b>Authorised representative (for the purpose of the Companies Ordinance)</b>	Mr. Wong Tsz Leung

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## CORPORATE INFORMATION

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<b>Audit Committee</b>	Mr. Wong Hon Kit ( <i>Chairman</i> ) Mr. Zheng Gang Mr. Tang Ming Je
<b>Remuneration Committee</b>	Mr. Zheng Gang ( <i>Chairman</i> ) Mr. Tang Ming Je Mr. Wong Hon Kit Mr. Tian Weidong
<b>Nomination Committee</b>	Mr. Tian Weidong ( <i>Chairman</i> ) Mr. Tang Ming Je Mr. Wong Hon Kit
<b>Cayman Islands Share Registrar and Transfer Office</b>	Maples Fund Services (Cayman) Limited PO Box 1093 Boundary Hall Cricket Square Grand Cayman, KY1-1102 Cayman Islands
<b>Hong Kong Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
<b>Compliance Adviser</b>	Fortune Financial Capital Limited 35/F, Office Tower, Convention Plaza No. 1 Harbour Road, Wanchai Hong Kong
<b>Principal Banks</b>	DBS Bank (Hong Kong) Limited 16/F, The Center 99 Queen’s Road Central Hong Kong  The Hongkong and Shanghai Banking Corporation Limited 1 Queen’s Road Central Hong Kong  Standard Chartered Bank (Hong Kong) Limited Standard Chartered Bank Building 4–4A Des Voeux Road Central Hong Kong

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## INDUSTRY OVERVIEW

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*The information contained in this section and elsewhere in this prospectus have been derived from various official government and other publications generally believed to be reliable and the market research report prepared by Analysys which we commissioned.*

*We believe that the sources of such information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Such information has not been independently verified by us or any of the Sole Sponsor, the Joint Global Coordinators, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.*

### SOURCE OF INFORMATION

We commissioned Analysys, an independent market researcher and consultant, to produce a report on the IC and other electronic components industry and its related e-commerce market in the PRC Region (the “**Analysys Report**”) at a fee of RMB380,000. Analysys mainly provides independent services on data collection, industry research, market research and competition research. Analysys is a provider of information products and services in the internet market of the PRC Region which has rich experience in industry research and has provided similar consulting services to various companies in their listing processes.

The industry report was issued by Analysys who is engaged in research on IC and other electronic components industry and the e-commerce market in the PRC Region. Information contained in this report was obtained by Analysys from a variety of official industry sources, including using data published by relevant PRC government departments and established PRC industry organisations as well as interviewing various industry participants. Analysys has conducted interviews with market participants in order to support, verify and cross check the consistency of relevant data and estimates.

Analysys’ projections on the electronics manufacturing market size, the IC and other electronic components procurement demand and e-commerce procurement market size take into consideration various factors including (i) historical data of market size and procurement demand; (ii) the public filings of major electronics manufacturers, IC and other components suppliers and other market participants, as well as those companies’ projections of their own prospective results of operation during Analysys’ interviews with them; (iii) industry experts’ projections; and (iv) Analysys’ estimation of industry development.

Our Directors, after taking reasonable care, are of the view that there has been no adverse change in the market information since the date of the Analysys Report which may qualify, contradict or have an impact on the information in this section.



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## INDUSTRY OVERVIEW

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### IC AND OTHER ELECTRONIC COMPONENTS SUPPLY CHAIN IN THE PRC REGION

The following chart illustrates the supply chain of IC and other electronic components in the PRC Region.

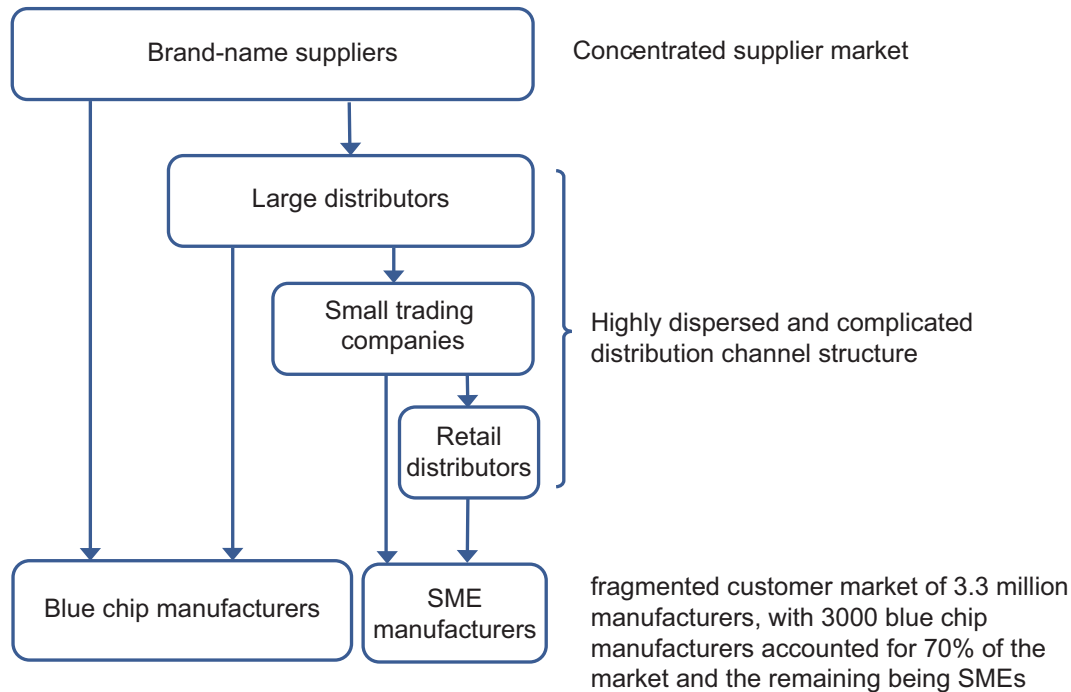


Figure 1: supply chain of IC and other electronic components in the PRC Region

#### Concentrated upstream supplier market

Upstream IC supplier market is a concentrated market with core IC design companies mainly located in the U.S., Europe, Japan, Korea and Taiwan. IC is the core component for manufacturing electronic products. However, brand name IC resources are scarce in the PRC Region. Generally, brand name IC manufacturers only appoint a limited number of authorised distributors in the PRC Region. Timely supply of IC and other electronic components is of utmost importance to electronic product manufacturers because the product cycle of the electronic product is relatively short.

#### Fragmented downstream market with a large group of SME customers

The downstream procurement market of IC and other electronic components is mainly driven by the demand from electronic product manufacturing industry. Demand for IC and other electronic components from each product segment within the electronics manufacturing industry is directly reflected by its production volume and market size. The downstream procurement market in the PRC Region has a long tail distribution with 3000 blue chip electronics manufacturers accounting for 70% of the procurement and 3.3 million SME manufacturers taking up the remaining 30%. Demand from SME manufacturers has been increasing. Over the past 10 years, restructuring among the SMEs resulted in new SME manufacturers and new product segments such as smart wearable devices, smart-home

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## INDUSTRY OVERVIEW

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applications, drones and robotics. Supported by government policy in the PRC and improving supply chain resources, SME manufacturers have been resilient to ongoing market changes and consolidation, and are expected to continue to play an important part in the industry.

SME electronic manufacturers face challenges in procurement of IC and other electronic components. Fake and low quality IC and electronic components are still rampant in the PRC Region, and SME manufacturers' access to high quality brand name ICs and electronic components is limited. In addition, SME manufacturers lack the bargaining power to negotiate competitive prices and small trading companies and retail distributors serving SME manufacturers lack the capability to provide timely supply of IC and associated services. In the coming five years, growth in downstream procurement market for IC and other electronic components will be mainly driven by the increase in procurement size of blue chip manufacturers and the increase in number of SME manufacturers engaging in online IC procurement.

Pricing of IC and other electronic components is affected by supply from upstream market. The effect of downstream market on the IC and other electronic component supply chain is mainly reflected in the demand. New end products drives the demand for relevant IC and other electronic components. The demand from downstream market is decisive to, and an indicative sign of, whether the IC market is in rapid development. Electronics manufacturers require quality services when it comes to IC procurement and generally make repeated purchases from the same supplier if they are satisfied with the performance of the supplier. In general, product cycle of the electronic manufacturing industry is around 6 to 18 months and requires 4 to 10 weeks of product planning. Electronics manufacturers make around 4 to 10 rounds of purchase of IC and other electronic components in average per year.

### **Price fluctuation of IC and other electronic components**

The market price of IC and other electronic components is stable overall but with fluctuation for individual products from time to time. As a technology intensive industry, product cycle of IC and other electronic components is short. When a new IC or other electronic component is first introduced to the market, it enjoys relatively high price premium in comparison to other IC and electronic components in the market, but such price premium decreases quickly together with the availability of comparable products and increasing competition.

### **Highly dispersed and complicated distribution channels**

Distributors are mainly responsible for providing various services to customers including price negotiation, inventory management, timely delivery of orders, information feedback to suppliers and provision of technical support. The IC and other electronic components distribution channel structure in the PRC Region is intensely competitive and highly fragmented. In 2015, there were approximately 100,000 distributors with the top 10 distributors accounted for less than 5% of the total market in the PRC Region. Blue chip manufacturers tend to negotiate supply contracts with the brand-name suppliers directly or through large distributors. SME manufacturers, on the other hand, purchase IC and other electronic components through small trading companies and retail distributors.

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## INDUSTRY OVERVIEW

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The following table sets forth the ranking of IC and other electronic component distributors based in the PRC Region in terms of revenue in 2015:

Ranking	Company	Revenue (RMB100 million)	Market share (%)
1	Competitor A	95	0.39
2	Competitor B	70	0.29
3	Competitor C	65	0.27
4	Competitor D	50	0.21
5	Competitor E	41	0.17
6	Competitor F	40	0.17
7	Competitor G	37	0.15
8	<b>Our Group</b>	<b>32</b>	<b>0.13</b>
9	Competitor H	31	0.13
10	Competitor I	30	0.12

*Note:* The above data are estimates and are consolidated by Analysys from public data from the internet, data from the database of Analysys and interview results with industry players. The market share of each company is calculated as its revenue divided by the IC and other electronic component procurement market in the PRC of RMB2.4 trillion.

*Source:* Analysys

Among the above competitors, Competitor D, Competitor E and Competitor G do not principally distribute IC.

The following table sets forth the ranking in terms of revenue in 2015 of IC and other electronic component distributors based in the PRC Region that principally distribute IC:

Ranking	Company	Revenue (RMB100 million)	Market share (%)
1	Competitor A	95	0.39
2	Competitor B	70	0.29
3	Competitor C	65	0.27
4	Competitor F	40	0.17
5	<b>Our Group</b>	<b>32</b>	<b>0.13</b>
6	Competitor H	31	0.13
7	Competitor I	30	0.12
8	Competitor J	25	0.10
9	Competitor K	20	0.08
10	Competitor L	18	0.07

*Note:* The above data are estimates and are consolidated by Analysys from public data from the internet, data from the database of Analysys and interview results with industry players. The market share of each company is calculated as its revenue divided by the IC and other electronic component procurement market in the PRC of RMB2.4 trillion.

*Source:* Analysys

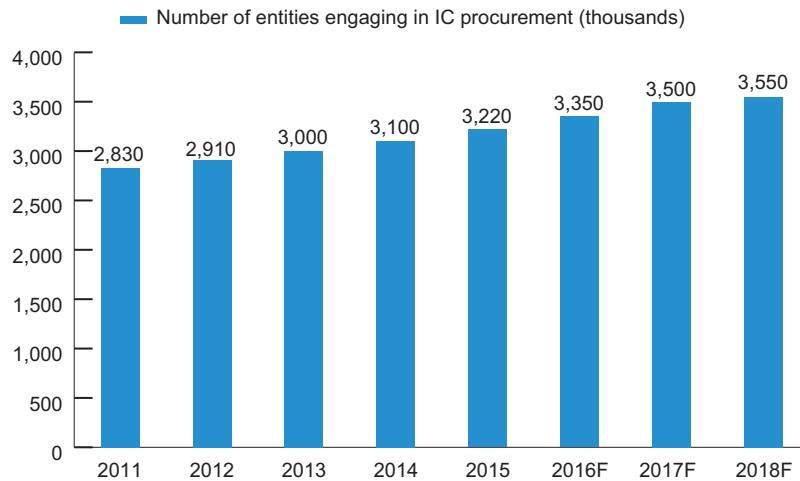
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## INDUSTRY OVERVIEW

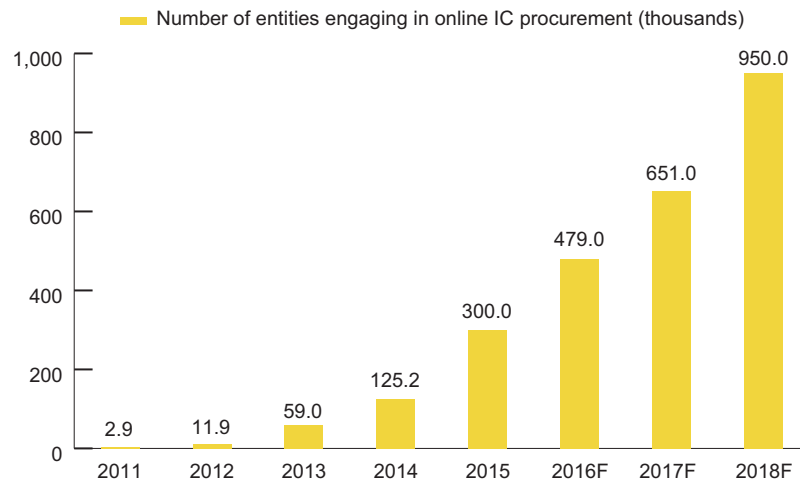
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### Migration to online procurement in IC and other electronic component market

It is projected that the downstream market will gradually migrate to online procurement following the habitual change to making purchases online. The number of entities that has engaged in online IC procurement increased from approximately 11,900 in 2012 to 300,000 in 2015. Although online procurement represented only a small proportion of the RMB2.4 trillion market for IC and other electronic components in 2015, it is expected that its penetration will continue to deepen, with number of entities engaged in online IC procurement reaching 950,000 in 2018. The following figure illustrates the number of entities engaging in IC procurement in the PRC Region from 2011 to 2015 and its projection to 2018.



The following figure illustrates the number of entities engaging in online IC procurement in the PRC Region from 2011 to 2015 and its projection to 2018.

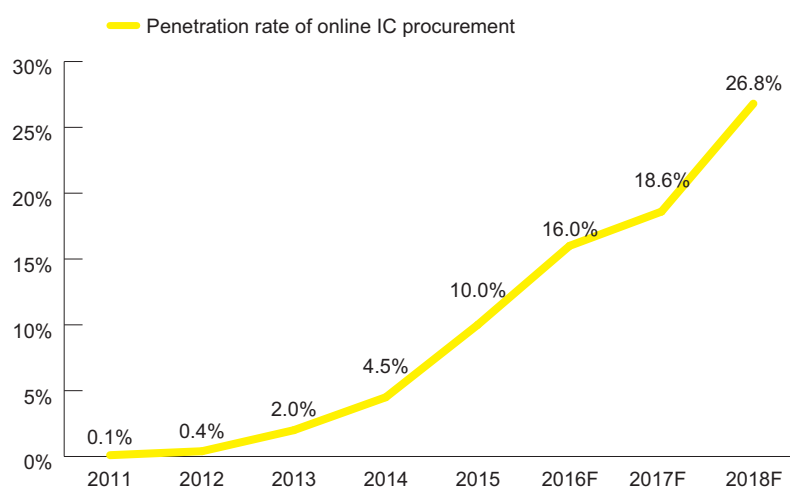


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## INDUSTRY OVERVIEW

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The following figure illustrates the penetration rate of online IC procurement in the PRC Region from 2011 to 2015 and its projection to 2018.



Source: Analysys

### Major business models in the online IC and other electronic components procurement market

There are two major business models in online procurement market: information services model and transaction-based model. Our Group operates a transaction-based e-commerce platform that adopts direct sales model.

Under the information services model, website operates like a business directory to provide suppliers and customers with information for them to connect with each other without holding any inventory. It generates revenue mainly from user membership fees and advertising fees, with membership fees being the primary source of revenue.

In comparison with information service model, the transaction-based e-commerce platform plays a more active role in the supply chain by providing supplier and customer relationship support, IT infrastructure, logistics and warehousing services and as a result, the entry barrier of the transaction-based model is significantly higher. Under the transaction-based model, transaction is carried out on the online platform either in the form of sales by the platform operator directly to customers (direct sales model), or in the form of sales by suppliers other than the platform operator through the online platform to customers (transaction services model). In the direct sales model, the e-commerce platform operators buy IC and other electronic components from the suppliers, hold the inventory and then sell them to customers, earning a profit from the price difference. Direct sales platform operators generally exercise more stringent control over the selection and quality of their products. They are able to provide customers with streamlined services that include product selection, transaction, logistics, and after-sales support. As such, they are better positioned to build brand recognition and industry influence. In the transaction services model, e-commerce platform operators provide services that enable transactions between suppliers and customers to be conducted through its online platform and collect certain percentage of the transaction amount as service fees.

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## INDUSTRY OVERVIEW

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The market size by GMV of transaction-based model in the PRC Region was RMB19.3 billion in 2015. The following table sets out the rankings, GMV and market shares of the top 5 market players in the transaction-based e-commerce platform for IC and other electronic components distribution in the PRC Region in 2015.

Ranking	Company	GMV in 2015 (RMB100 million)	Market share (%)
1	Competitor A	139	72.0
2	Competitor M	14	7.3
3	Competitor N	10.5	5.4
4	Competitor O	10	5.2
5	Competitor P	8.5	4.4

### **OAO is a Better Fitting Business Model for IC and Other Electronic Components Distribution Industry**

OAO (Online And Offline) business model, on one hand, brings offline experiences and consultation to online purchasers, while on the other hand, brings online procurement experience to purchasers that rely on offline comprehensive services. It represents the fusion of both online and offline business models and thereby adding value to each other. Owing to the technology intensive nature of the IC and other electronic components distribution business, its non-standardised products and services and relatively long transaction process, an entirely online transaction-based e-commerce platform currently can hardly serve the diverse demand for various services from customers. An OAO business model that supplements online and offline services with each other therefore better fits the IC and other electronic components distribution industry.

The e-commerce platform acts as an online platform for product and service information display to, as well as transactions with, customers including SMEs and start-up technology companies. At the same time, a comprehensive offline services system increases traffic to the online platform and enable offline customers to enjoy online services such as purchase order tracking and reviewing transaction history online. Offline sales and technical support team enables a distributor to maintain close business relationships with its customer participate in customers' product roadmap and procurement planning. To the IC and other electronic component distribution industry, the online platform and offline services are inseparable and OAO business model is currently the preferred business model of IC and other electronic components distributors.

### **Key growth drivers and constraints for IC and other electronic components procurement market in the PRC**

Apart from the demand for quality IC products from large number of SME, many other factors contribute to the continued growth in the IC and other electronic components procurement market in the PRC. Favourable governmental policies in terms of tax, land, human resources and import of equipment have been introduced to promote the development of technology enterprises. IoT and Manufacturing 4.0 (with a focus to improve and enhance automation in manufacturing) have been adopted as a national strategy in the PRC in 2015, and 1,800 incubators have been established in the PRC Region to foster technological development. Both IoT and Manufacturing 4.0 are strongly associated with IC and electronic

## INDUSTRY OVERVIEW

components and are favourable to the growth of the IC and electronic component industry in the PRC. Favourable factors of the online semiconductor procurement market include rapid penetration of broadband access in the PRC, and enhancement on security for e-commerce transaction.

There are still constraints hindering the development of online IC and other electronic components procurement market in the PRC. The development of e-commerce related laws, regulations and industry standards are yet to catch up with the industry development, resulting in limited protection for privacy and intellectual property or control over publishing of information on the internet. Also, a complete social and commercial credit system for credit checking, which is particularly important for e-commerce, is not available in the PRC yet. Most of the third party payment companies target market of payment by individuals and reliable electronic payment services that suit the needs of B2B e-commerce transactions are still of scarce supply. The PRC also still relies on overseas e-commerce platform system developers.

### IC AND OTHER ELECTRONIC COMPONENTS MARKET IN THE PRC

#### High growth in demand for IC and other electronic components in the PRC driven by rapid development of the electronic product manufacturing industry in the PRC

The driving force for economic growth in the PRC has transformed into driving force for the rapid development of electronic product manufacturing industry in the PRC. The size of electronic product manufacturing market in the PRC Region was approximately RMB15.6 trillion in 2015 and is expected to reach RMB21.5 trillion in 2017. Following the growth in the electronic product manufacturing market, the IC procurement market in the PRC Region has also increased from over RMB1.9 trillion in 2012 to RMB2.4 trillion in 2015, and is expected to reach RMB5.2 trillion in 2018. The following figure illustrates the overall procurement market for IC and other electronic components in the PRC Region from 2008 to 2015 and its projection to 2018.

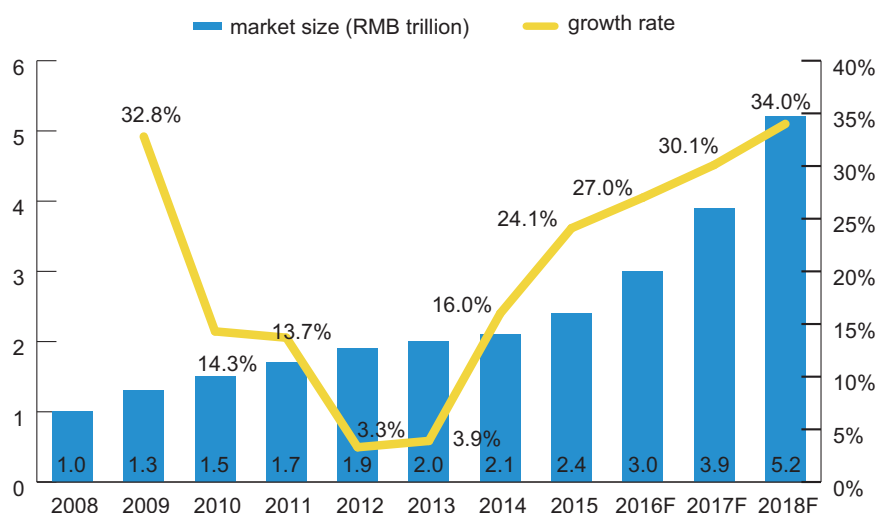


Figure 3: IC and other electronic components procurement market in the PRC Region 2008–2018

Source: Analysys

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## INDUSTRY OVERVIEW

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### Markets of selected electronic product manufacturing segments in the PRC Region

#### Smart-TV

In 2015, sales of smart-TV in the PRC Region was 33.4 million units and represented 25% increase in sales in compare to 26.7 million units in 2014. To cater for consumers' taste for richer content and better product design, the smart-TV market also has frequent product upgrades with short product cycle, which in turn has driven the sales of IC and electronic components for smart-TV applications. The rapid development of smart-TV manufacturers and smart-TV comprehensive services provider also expected to continue to drive the development and upgrade of ICs and other electronic components for smart-TV applications.

With increasing penetration rate, improved computation power and hardware configurations and larger screen size of smart-TV, more game developers are drawn to the develop games for smart-TV platform. It is projected that smart-TV game will add to the content resources of smart-TV. Internet content providers are also collaborating with equipment manufacturers to tap into the market of connected TV and is expected to contribute to driving the development of Smart-TV. It is projected that the sales of smart-TV will reach 49.6 million units in 2017 and translate to significant increase in demand for relevant ICs and electronic components. Figure 4 below shows the smart-TV market in the PRC Region from 2012 to 2015 and its projection to 2017.

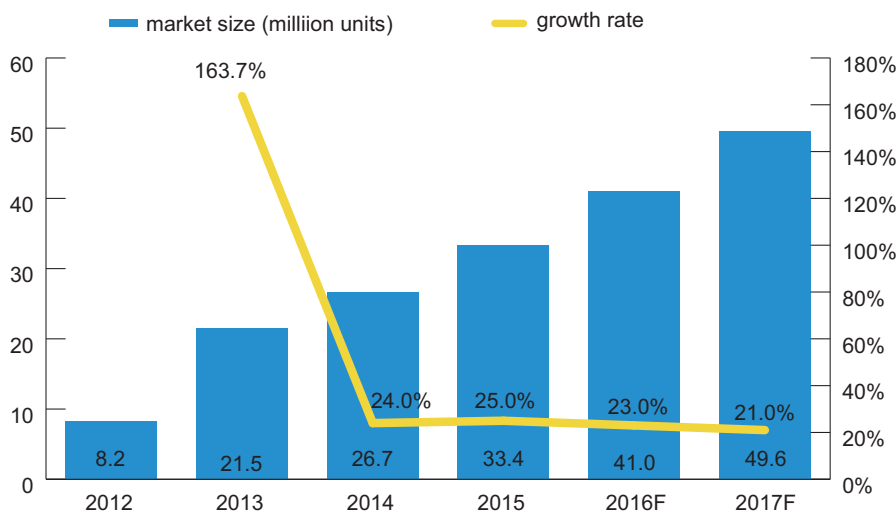


Figure 4: Smart-TV market in the PRC Region 2012–2017

Source: Analysys

#### Set-top boxes

TV broadcasting and audio-visual entertainment industry in the PRC is undergoing diversification and rapid development, with keen competition among different broadcasting means including cable, satellite, OTT and IP-TV.

There were only 90 million units of set-top box in the PRC Region in 2009, which has increased to over 421.6 million units in 2015. It is expected that the demand for set-top box with high definition display standard will grow with relatively high growth rate due to the pursuit



## INDUSTRY OVERVIEW

for higher living standard among young consumers. Entrance of new market players include internet content providers, e-commerce platform operators and telecommunication network operators, and they are expected to bring into the market their respective expertise in terms of content, traffic and telecommunication technology. It is also expected that set-top box will evolved from a broadcasting terminal to the control hubs in smart-home application. The above factors are expected to significantly promote the growth of set-top box market as well as the ICs and other electronic components used therein. It is expected that in 2018, there will be 560 million units of set-top boxes in the PRC Region. Figure 5 below illustrates the number of set-top boxes in the PRC Region from 2012 to 2015 and its projection to 2018.

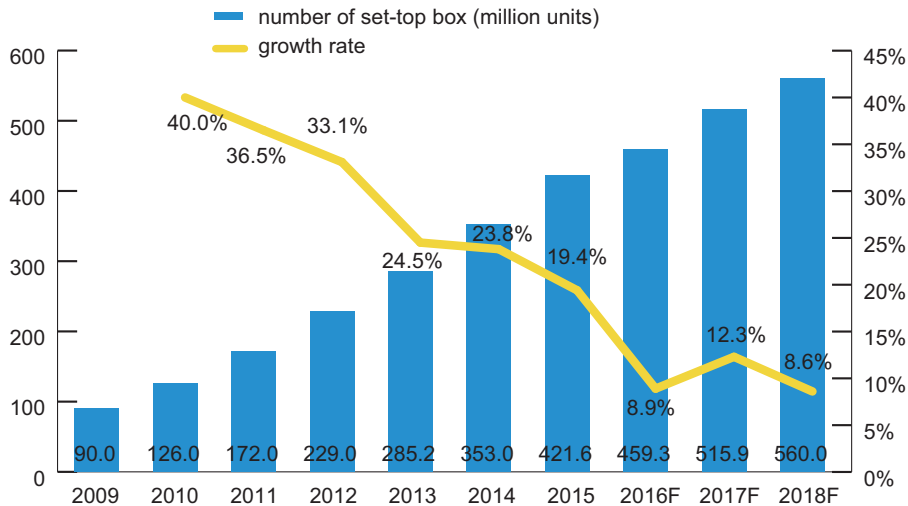


Figure 5: Number of set-top box in the PRC Region 2009–2018

Source: Analysys

### Optical Communications

According to the “Guidelines to faster development of high speed broadband network, improve speed and lower prices of the Internet” (國務院辦公廳關於加快高速寬帶網絡建設推進網絡提速降費的指導意見) published by the office of the State Council of the PRC, the amount of investment in internet infrastructure in 2015 was over RMB430 billion, and the cumulative amount of investment in internet infrastructure from 2016 and 2017 is expected to be over RMB700 billion. Optical communications is growing in the directions of ultra-high speed optical fibre transmission, increased transmission capacity and all-optical networks. Optoelectronic devices are expected to become essential to the future communications network with innovators worldwide devoting themselves to the research and development of quality optoelectronic components. Some of the optoelectronic devices have been commercialised and a sizable optoelectronic components industry has been established and is fast-growing in the PRC.

### Security Monitoring

The market of security monitoring has experienced high growth recently in the PRC, which is driven by the increasing needs for security monitoring in smart city, smart transportation implementation and the increasing number of buildings due to urbanisation of the PRC. It is expected that the development of security monitoring market will in turn drive its system

## INDUSTRY OVERVIEW

integration and relevant equipment market, including the market of memory component. The procurement market of security monitoring segment in the PRC Region has increased from RMB14.6 billion in 2012 to RMB33.1 billion in 2015 and is projected to grow to RMB83.4 billion in 2018. Figure 6 below illustrates the procurement market of security monitoring segment in the PRC Region from 2008 to 2015 and its projection to 2018.

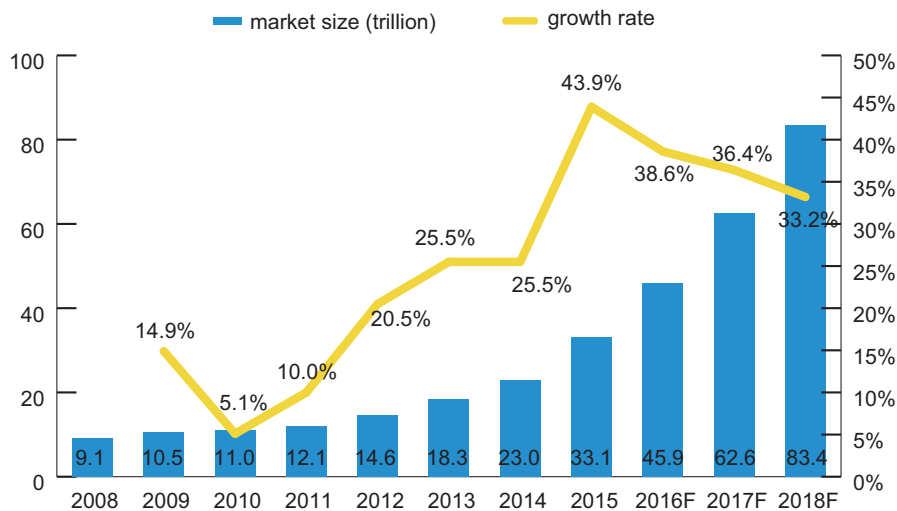


Figure 6: Security monitoring market in the PRC Region 2008–2018

Source: Analysys

### **High-efficiency Power Management**

With technological breakthrough, high-efficiency power management has become a new means to achieve energy-saving and lower emissions. Power management IC and high power-efficiency IC has found more industrial and daily applications such as high-efficiency power supply, wind-power/solar-power inverter and smart charger. The PRC government has also been encouraging technological innovation in high-efficiency power management as a means to a sustainable manufacturing industry. To achieve energy saving, a power supply has to convert power efficiently at a low power consumption for itself. Power management IC and power-efficient electronic components are essential to high-efficiency power management and as such, its market has much room for development.

### **IoT (Internet-of-Things) and Smart-home applications**

Smart-home applications rely on IoT to establish a household technological eco-system comprising hardware such as smart household electrical appliances, smart hardware, security monitoring devices, software system and a cloud computing platform. With maturing technology and a wide market for smart-home applications, corporate giants in the PRC Region have been speeding up their development in this area. In 2015, the market of smart-home applications in the PRC Region was RMB84 billion and it is expected to grow at an annual growth rate of over 20% into a market of RMB173.8 billion in 2018. Figure 7 below depicts the market of smart home applications in the PRC Region from 2014 to 2015 and its projection to 2018.

## INDUSTRY OVERVIEW

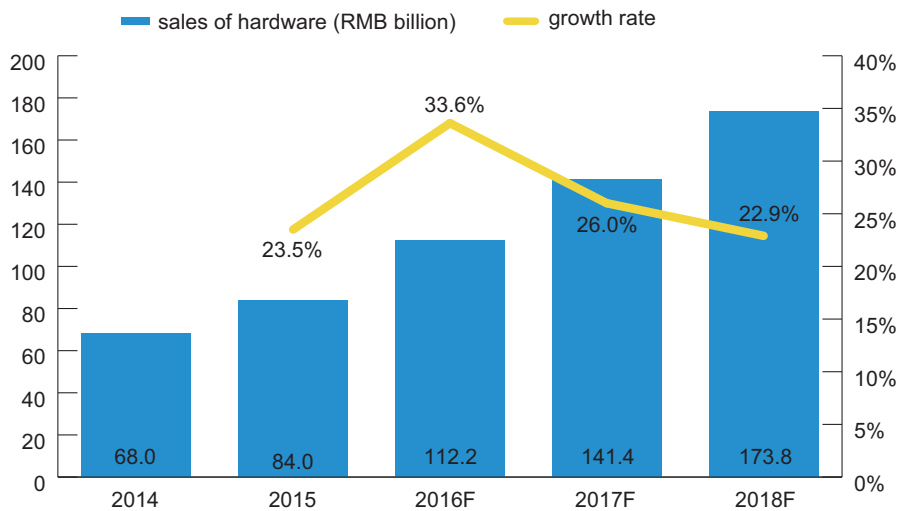


Figure 7: Smart-home applications market in the PRC Region 2014–2018

Source: Analysys

### Smart wearable devices

Examples of smart wearable devices are smart watches, wrist bands, headsets, rings, buttons and running shoes. Many manufacturers entered into the market of smart wearable devices with new products being introduced to the market in 2014. The market of smart wearable devices in the PRC Region in 2014 was RMB2.2 billion, which has increased by 144% to RMB13.6 billion in 2015. It is expected that the market of smart wearable devices will reach RMB45 billion in 2017. Figure 8 below illustrates the market of smart wearable devices in the PRC Region from 2012 to 2015 and its projection to 2018.

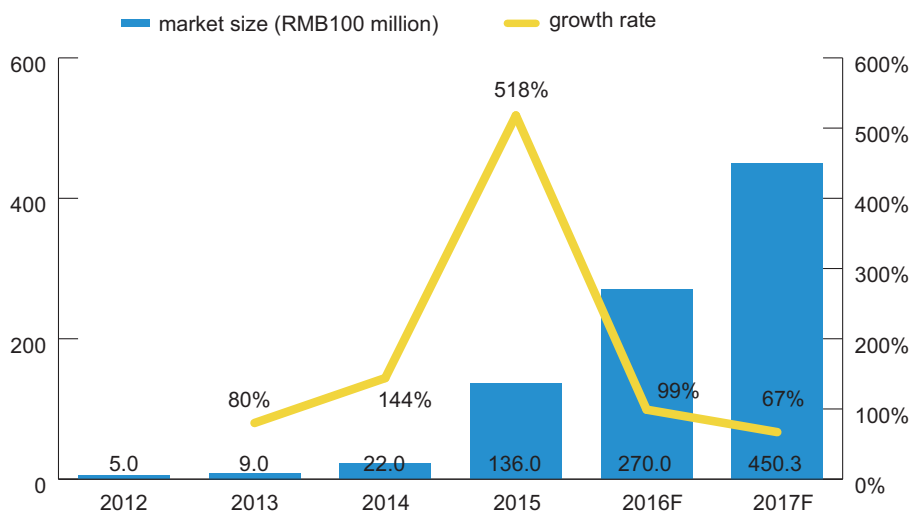


Figure 8: Smart wearable devices market in the PRC Region 2012–2017

Source: Analysys

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## INDUSTRY OVERVIEW

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### Virtual Reality

In 2015, many submerging virtual reality products were introduced to the consumer market by technology giants worldwide and in the PRC Region. It is expected that following the introduction of submerging virtual reality products to the consumer market in 2015 and 2016, its market will expand significantly, and that the ecosystem of submerging virtual reality product will mature in 2017, with an expected market size of RMB2.16 billion. Figure 9 below shows the market of submerging virtual reality products in the PRC Region from 2014 to 2015 and its projection to 2017.

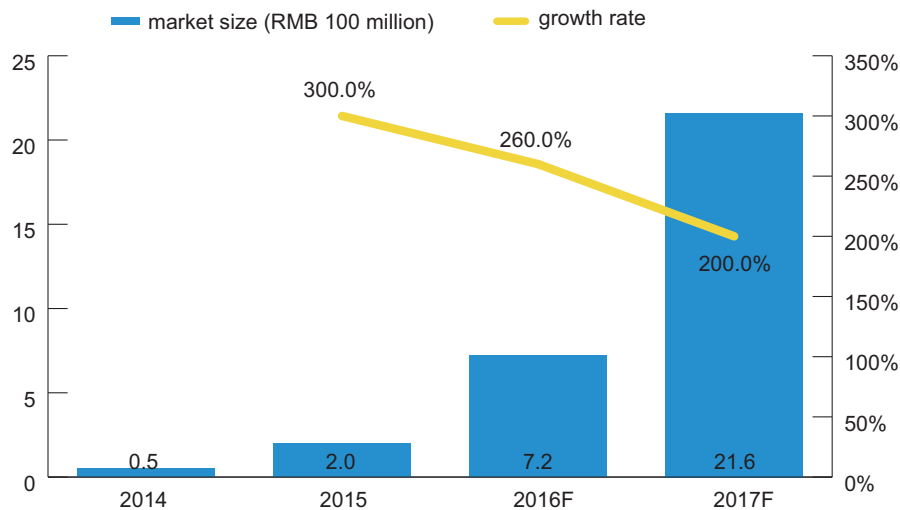


Figure 9: Submerging virtual reality devices market in the PRC Region 2014–2017

Source: Analysys

### Drones and Robotics

In 2011, consumer grade drones were introduced to the market and have been used for delivery in the logistics industry and aerial shooting of TV shows, drawing interest of the public towards this area. The PRC Region is leading the consumer grade drone market with competitive advantages in terms of market share, research and development capabilities and of drone applications. The market of consumer grade drones in the PRC Region was RMB1.5 billion in 2014 and has increased by 60% to RMB2.4 billion in 2015. It is expected that the market of consumer grade drones in the PRC Region will reach RMB11.3 billion in 2018 as shown in figure 10 below.

## INDUSTRY OVERVIEW

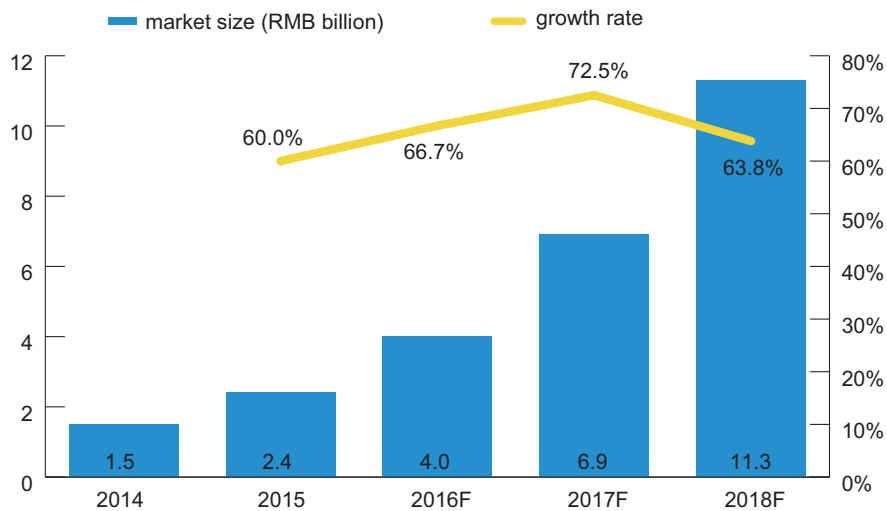


Figure 10: Consumer grade drones market in the PRC Region 2015–2018

Source: Analysys

Following the development of robotic, computer, IoT and cloud computing technologies, robotics technology has also found its household applications. In 2014, 4.7 million household service and personal care robots, including house cleaning robot, entertainment robot and nursing care robot, were sold. In 2015, the market of service robots in the PRC Region was RMB8 billion, and it is expected that the market of service robots in the PRC Region will reach RMB23.5 billion in 2017.

### **Market of Memory Products**

Memory ICs are widely used in various electronic products, with trends of increasing bit unit delivery, lowering of prices of storage components and higher data storage density in new electronic products. The total import value for IC was US\$311 billion in 2015 of which memory products accounted for US\$59 billion. There was significant imbalance between demand and supply for memory products in the PRC Region. The PRC Region does not have domestic memory products supplier and principally depends on importing memory products from overseas to meet such demand. However, there are only limited number of suppliers for memory products worldwide. Our Group is one of the authorised distributors of two brand name memory products suppliers. As memory products are in high demand in the PRC Region and the PRC Region depends on import from the limited number of suppliers to meet such demand while our Group is one of the authorised distributors of overseas memory products suppliers, it is expected that our Group's memory business has much room for development, which in turn is expected to drive our Group's business. Figure 12 below shows the import values of memory products and the overall import values of IC products to the PRC Region from 2010 to 2015 and their projections up to 2018.

## INDUSTRY OVERVIEW

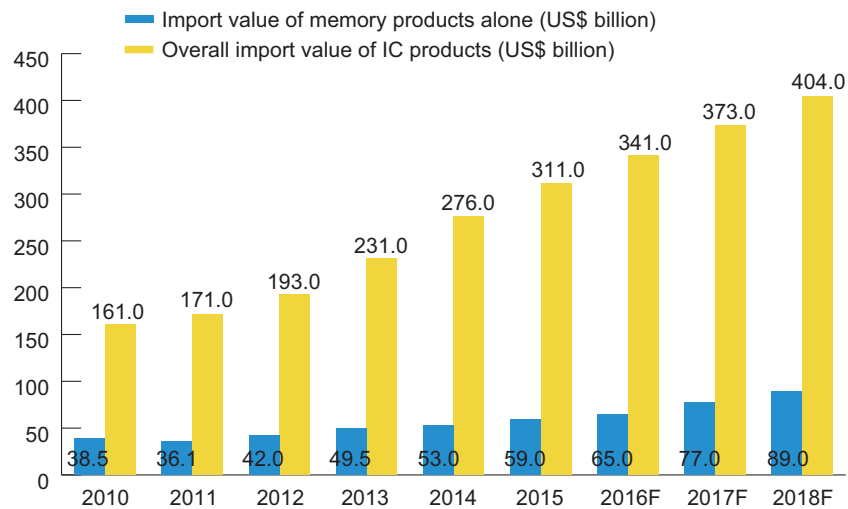


Figure 12: Import value of memory products and overall import value of IC products to the PRC Region 2010–2018

Source: Analysys

### Support from incubators for start-up technology companies

Technology enterprise incubator is a service agent that promotes commercialisation of research technologies and aim to nurture enterprises and entrepreneurs in the area of new advanced technologies by providing entrepreneurial services. In 2015, it has been proposed by the PRC government that innovation and entrepreneurship shall be one of the principal driving forces to the economic development of the PRC. With favourable governmental policies and support of the capital market, there has been strong demand for incubators in the PRC, which has become an important propelling force for innovation. It is expected that with the strong support for innovation and entrepreneurship, there will be more incubators in the future. In 2015, there were over 1,800 incubators, 115 technology parks in universities in the PRC Region with over 80,000 enterprises being supported by these incubators. It is expected that there will be 3,630 incubators in 2020.

### COMPETITIVE LANDSCAPE OF THE IC AND OTHER ELECTRONIC COMPONENTS DISTRIBUTION MARKET IN THE PRC REGION

The IC and other electronic components distribution channels in the PRC Region is intensely competitive and highly fragmented. In 2015, there were approximately 100,000 distributors with the top ten offline distributors accounted for less than 5% of the total IC and other electronic components procurement market in the PRC Region. Due to specific nature of IC, IC manufacturers take into account a distributor's capability to provide value-add services such as provision of technical support, access to latest market information, supply chain management and provision of after-sale support when they are selecting distributors. For IC users in the PRC Region, they have to make selection for IC and other electronic components that is fit for the purpose their products from approximately 2 million types of IC products and 300 million different part numbers. On basis that the distributor offers IC products that fulfil their end product requirements, IC users select distributors based on their supply capability, technical support and the price to performance ratio of the IC products offered.

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## INDUSTRY OVERVIEW

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Competition in IC and other electronic component procurement market in the PRC Region also displays the following characteristics:

**Global and market competition** — Following the entry of multinational IC distributors into the market of the PRC Region, competition in IC and other electronic component distribution market in the PRC Region become global and market competition. Distributors of IC and other electronic components in the PRC Region face competition from both international and Taiwan based distributors.

**Emphasis on service capability** — Logistic service is the principal capability necessary for distributors. As branded IC suppliers are more concentrated in the U.S., Europe and Taiwan, high coordination capability for logistic arrangements covering different geographical regions is necessary for distributors.

**Marketing and brand building capability** — Marketing capability means the ability of a distributor to effectively develop its market, through co-ordination of its internal and external resources to fulfil needs of its target customers, in order to be sustainable and achieve continuous development in the IC procurement market. Brand building capability means the ability of an IC distributor to establish a brand name that is difficult for its competitors to imitate within a short time.

**Relatively high technical support capability** — Distributors also need to be able to provide engineering services and possess design capability to provide technical support to its customers through high application engineer to sales engineer ratio.

**Rapid product upgrade and high information density** — According to Moore's Law, electronic products upgrade every 6 months and this requires changes to the entire electronics industry, including the IC and other electronic components. At the same time, electronic device comprises a wide variety of products from core IC to peripheral components, and distributor has to process and management massive amount of information on their products, inventory and order statuses.

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## REGULATORY OVERVIEW

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### PRC LAWS AND REGULATIONS

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

### REGULATIONS ON FOREIGN INVESTMENT

Wholly foreign-owned enterprise (WFOE) as a form of foreign investment permitted in PRC is primarily governed by (a) Company Law of the PRC (《中華人民共和國公司法》), promulgated in 1993, as amended on 25 December 1999, 28 August 2004, 27 October 2005, and 28 December 2013 respectively; (b) Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), promulgated by the Standing Committee of the National People's Congress (the “**SCNPC**”) on 12 April 1986, subsequently amended by SCNPC on 31 October 2000 and recently amended by the SCNPC on 3 September 2016 which will take effect on 1 October 2016; (c) Detailed Implementing Rules for the “Wholly Foreign-Owned Enterprise Law of the PRC” (《外資企業法實施細則》), promulgated in 1990, amended on 12 April 2001 and 19 February 2014.

A WFOE is a limited liability company, or, subject to approval, may also be other form of liability and its establishment is subject to the approval of the Ministry of Commerce of the PRC (the “**MOFCOM**”) or its authorised local counterpart where such wholly foreign-owned enterprise is located. Approval documents shall be issued following the examination and approval process.

Under the Catalogue for the Guidance of Foreign Investment Industries (Revised in 2015) (《外商投資產業指導目錄》(2015年修訂)) which was promulgated and amended from time to time jointly by the National Development and Reform Commission (the “**NDRC**”) and MOFCOM, the foreign investment industries are categorised as encouraged foreign investment industries, restricted foreign investment industries and prohibited foreign investment industries. Integrated circuit design falls into the encouraged foreign investment industries.

### REGULATIONS ON INDUSTRY

Pursuant to the Guidance Catalogue for Industrial Structure Adjustment (2011 Version) (《產業結構調整指導目錄》(2011年本)), which was promulgated and became effective on 1 June 2011, amended on 16 February 2013, integrated circuit design has been categorised as one of the “encouraged industries”.

On 28 January 2011, the State Council promulgated Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries (Guo Fa [2011] No. 4) (《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展的若干政策的通知》(國發[2011] 4號)) (the “**No. 4 Policy**”), which states that the integrated circuit industry is a strategic emerging industry of the state and an important foundation for national economic and social informationisation. Meanwhile, strong support would continue to be provided for the development of the integrated circuit industry by formulating policies regarding tax, investment and financing, R&D, import and export, human talent, protection of intellectual property rights and market administration.



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On 22 February 2013, the NDRC promulgated Announcement of NDRC [2013] No. 16 — Guiding Catalogue of Key Products and Services in Strategic Emerging Industries (《國家發展和改革委員會公告2013年第16號—戰略性新興產業重點產品和服務指導目錄》), clearly confirming integrated circuit industry as a strategic emerging industry.

### REGULATIONS ON ENVIRONMENT PROTECTION

Various environmental protection laws and regulations have been formulated and implemented by the PRC government, including the Environmental Protection Law of the PRC (the “**Environmental Protection Law**”) (《中華人民共和國環境保護法》), the Law of the PRC on Evaluation of Environmental Effects (《中華人民共和國環境影響評價法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》) and the Regulations on Environmental Protection Management for Construction Projects (the “**Regulations on Construction Projects**”) (《建設項目環境保護管理條例》), etc.

Pursuant to the Environmental Protection Law which was promulgated in 1989, revised on 24 April 2014 and took effect on 1 January 2015, the competent department of environmental protection under the State Council shall supervise and manage environmental protection work throughout the country in a unified manner. The competent departments of environmental protection of the local people’s governments at the county level or above shall supervise and manage environmental protection work within their respective administrative areas in a unified manner.

The competent department of environmental protection under the State Council formulates the national environmental quality standards. The people’s governments of provinces, autonomous regions and municipalities directly under the Central Government may formulate local environmental quality standards for items not specified in the national environmental quality standards; with regard to items already specified in the national standards, they may formulate local standards that are more stringent than the national standards. The local environmental quality standards shall be submitted to the competent department of environmental protection under the State Council for record.

### REGULATIONS ON TAXATION

#### VAT

Pursuant to the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) promulgated in 1993, amended on 5 November 2008 and 6 February 2016, and the Detailed Rules for the Implementation of the Interim Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》) promulgated on 18 December 2008 and revised on 28 October 2011, all entities and individuals in the PRC engaging in sale of goods, processing and repair and replacement services, and import of goods are required to pay value-added tax for the added value derived from the process of manufacture, sale or services. Except for some limited circumstances that the value-added tax rate is 13%, the general rate of value-added tax is 17%. Taxpayers who export goods are subject to zero tax rate. Adjustments to the tax rates shall be decided by the State Council.

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Since May 2013, a nationwide pilot program of replacing business tax with value-added tax has been launched in transportation industry and some of the modern service industries. Notice of the Ministry of Finance and the State Administration of Taxation on Including Railway Transport and Postal Services under the Pilot Program of Replacing Business Tax with Value-Added Tax (the Notice No. 106) (《財政部、國家稅務總局關於將鐵路運輸和郵政業納入營業稅改徵增值稅試點的通知》) was promulgated on 12 December 2013, came into effect on 1 January 2014 and was amended on 29 April 2014, 19 May 2015 and 30 October 2015. Four regulations have been published accordingly, namely, Implementing Measures for the Pilot Program of Replacing Business Tax with Value-Added Tax (the “**Measures for Pilot Program**”) (《營業稅改徵增值稅試點實施辦法》), Provisions on Issues concerning the Pilot Program of Replacing Business Tax with Value-Added Tax (《營業稅改徵增值稅試點有關事項的規定》), Provisions on Transitional Policies concerning the Pilot Program of Replacing Business Tax with Value-Added Tax (《營業稅改征增值稅試點過渡政策的規定》), and Provisions on the Application of Zero-Rated Value-Added Tax and Value-Added Tax Exemption Policies to Taxable Services (《應稅服務適用增值稅零稅率和免稅政策的規定》).

Pursuant to the Measures for Pilot Program, entities and individuals engaged in the provision of transportation services, postal services and some of the modern services (the “**Tax Payable Services**”) shall be considered as value added taxpayers. The Tax Payable Services include land transport services, waterway transport services, air transport services, pipeline transport services, regular postal services, special postal services, other postal services, research and development services, information technology services, culture and creative services, logistic assistance services, rental services of movable tangible assets, assurance and consultation services, as well as radio and television services. The followings are the tax rates for value-added tax: (i) 17% for taxpayers providing rental services of movable tangible assets; (ii) 11% for taxpayers providing transportation and postal services; (iii) 6% for taxpayers providing modern services (excluding the rental services of movable tangible assets); and (iv) 0% for the tax payable services clarified by the Ministry of Finance and State Administration of Taxation.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of Replacing Business Tax with Value Added Tax (《財政部、國家稅務總局關於全面推開營業稅改征增值稅試點的通知》) which was promulgated by the Ministry of Finance and the State Administration of Taxation on 23 March 2016 and became effective on 1 May 2016, since 1 May 2016, the government levies VAT in lieu of business tax on a trial basis within the territory of the PRC, and in industries such as construction industries, real estate industries, financial industries, and living service industries, and the tax rate for the taxpayer providing transportation, postal, telecom, construction, real estate leasing service and selling real estate, transferring land use right is 11%.

### Enterprise Income Tax

The Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) (the “**EIT Law**”), enacted on 16 March 2007 and becoming effective on 1 January 2008, adopts a tax rate of 25% for all enterprises (including foreign-invested enterprises).

Pursuant to the Regulations on the Implementation of Enterprise Income Tax Law of the PRC (the “**Regulations on EIT Law**”) (《中華人民共和國企業所得稅法實施條例》), coming into effect on 1 January 2008, a reduced enterprise income rate of 10% will be applicable to any dividends payable to the non-resident enterprise investors on the incomes derived from the

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PRC. Moreover, under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which became effective on 21 August 2006, the PRC resident enterprise which distributes dividends to its Hong Kong shareholders should be levied enterprise income tax according to the PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds not less than 25% equity of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity of the aforesaid enterprise, the tax levied shall be 10% of the distributed dividends.

On 2 March 2015, the State Administration of Taxation jointly with other three departments promulgated the Circular on Enterprise Income Tax Policies for Further Encouraging the Development of the Integrated Circuit Industry (Cai Shui [2015] No. 6) (《財政部、國家稅務總局、發展改革委、工業和信息化部關於進一步鼓勵集成電路產業發展企業所得稅政策的通知》(財稅[2015]6號)), which became effective on 1 January 2014. Under Cai Shui [2015] No. 6, if a qualified IC packaging or testing enterprise or enterprise producing IC critical and special materials or IC special equipment realises profits before (or in) 2017, enterprise income tax will be exempted from the first and second years from the year of realising profits, and enterprise income tax will be levied at a reduced rate of 50% based on the statutory tax rate of 25% from the third to fifth years up to the expiry of the preferential period. If such enterprise fails to realise profits before 2017, the preferential period will commence from 2017 up to the expiry of the period.

Under the EIT law, Regulations on EIT Law and the Administrative Measures for the Accreditation of High and new technology Enterprises (《高新技術企業認定管理辦法》) which was promulgated on 14 April 2008 and became effective retrospectively on 1 January 2008 and revised on 1 January 2016, High and new technology Enterprises are conferred with a preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the EIT Law).

### REGULATIONS ON INTELLECTUAL PROPERTY

#### Copyright Law

The Copyright Law of the PRC (《中華人民共和國著作權法》), promulgated in 1990, revised on 27 October 2001 and 26 February 2010, provides that Chinese citizens, legal persons, or other organisations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The copyright owner enjoys various kinds of rights, including right of publication, right of authorship and right of reproduction.

The copyright enjoyed by foreigners or stateless persons in their works in accordance with the agreement between their home country or country of habitual residence and China, or in accordance with an international treaty to which both countries are parties, is protected under the Copyright Law of the PRC. Works of foreigners or stateless persons which are first published in the PRC enjoy copyright under the Copyright Law of the PRC.

Under the Order of the State Council on the Issuance of the Regulations on the Protection of Layout-Designs of Integrated Circuits (《國務院關於公佈〈集成電路布圖設計保護條例〉的命令》), promulgated on 2 April 2001 and coming into force on 1 October 2001, any layout-design

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created by a Chinese natural person, legal person or other organisation shall be eligible for the exclusive right of layout-design in accordance with these Regulations. Any layout-design which is to be protected shall be original in the sense that the layout-design is the result of the creator's own intellectual effort, and it is not commonplace among creators of layout-designs and manufacturers of integrated circuits at the time of its creation. The intellectual property administration department of the State Council is responsible for the relevant administrative work concerning the exclusive right of layout-design in accordance with these Regulations.

### Patent Law

Under the Patent Law of the PRC (the “**Patent Law**”) (《中華人民共和國專利法》), promulgated in 1984, revised in 1992, 2000 and 2008 respectively, the patent administrative department under the State Council is responsible for the administration of patent-related work nationwide. It accepts and examines patent applications in a uniform way and grants patent rights in accordance with the law.

Under the Patent Law, the invention-creations refer to inventions, utility models and designs. Any invention or utility model for which a patent right is to be granted shall possess novelty, creativity and practical applicability. Any design for which a patent right is granted shall not be attributable to any existing design; and no entity or individual shall have filed an application with the patent administrative department under the State Council, with respect to such design before the filing date nor recorded such design on patent documents officially announced after the filing date. The duration of a patent right for inventions shall be 20 years and the duration of a patent right for utility models and designs shall be ten years, both commencing from the filing date.

### Trademark Law

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”), promulgated in 1982, revised in 1993, 2001 and 2013, the administrative department for industry and commerce under the State Council has established a Trademark Office to take charge of matters concerning trademark registration and administration throughout the country. The administrative department for industry and commerce under the State Council has established a Trademark Review and Adjudication Board to be responsible for handling of trademark disputes.

Matters concerning application for trademark registration or other issues in connection with trademarks may be handled independently, or a qualified trademark agency that has been established in accordance with laws may be entrusted. The foreigner or foreign enterprise that needs to apply for the registration of a trademark or handle any other trademark matters in the PRC shall authorise an organisation qualified as a trademark agency.

The trademark applied for registration shall have distinctive characteristics for identification, and shall not conflict with the prior legitimate rights of others. The period of validity of a registered trademark shall be ten years, starting from the day the registration is approved.

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### REGULATIONS ON IMPORT AND EXPORT OF GOODS

Under the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) which was promulgated by the Standing Committee of the National People's Congress (the "SCNPC") on 12 May 1994 and was amended on 6 April 2004 and the Measures for the Record-Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》) promulgated by the MOFCOM on 25 June 2004, foreign trade operators which engage in the import and export of goods shall go through the formalities for record-filing and registration with the MOFCOM or an authority authorised by the MOFCOM, unless laws, administrative regulations and rules of the MOFCOM provide that it is unnecessary to go through such formalities. If foreign trade operators fail to go through the formalities for record-filing and registration in accordance with relevant provisions, the PRC customs authority shall refuse to handle the declaration and clearance formalities of their imports and exports.

Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on 13 March 2014, coming into force on 13 March 2014, a consignor or consignee of imported and exported goods shall go through customs declaration entity registration formalities with the competent customs in accordance with the applicable provisions. A consignee or consignor of imported and exported goods may handle their own customs declarations at customs ports or localities where customs supervisory affairs are concentrated within the customs territory of the PRC.

### Regulations on Product Liability

Products that we manufacture are subject to the laws, rules and regulations in relation to the product quality in the PRC. The Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the "Product Quality Law") which was promulgated by the SCNPC on 22 February 1993 and became effective on 1 September 1993 and amended on 8 July 2000 and 27 August 2009, is the principal law governing the supervision and administration of product quality.

According to the Product Quality Law, manufacturers are liable for the quality of products they produce and sellers must take reasonable actions to ensure the quality of the products they sell.

The manufacturer shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products of the manufacturer unless the manufacturer is able to prove that:

- the products have never been put into circulation;
- the defects causing the damage did not exist at the time when the product was circulated; or
- the state of scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered.

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The seller will be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products it sold if such defect is attributable to the seller. A person who is harmed or whose property is damaged by the defective product may claim such loss against the manufacturer or the seller.

Pursuant to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which was promulgated by the National People's Congress of the PRC on 12 April 1986 and became effective on 1 January 1987 and amended on 27 August 2009, both manufacturers and sellers shall be held jointly liable for losses and damage suffered by the injured parties caused by the defective products they manufactured or sold.

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

### REGULATIONS ON FOREIGN EXCHANGE

#### Control of Foreign Exchange

Foreign currency exchange in PRC is primarily governed by two administrative regulations, namely, the Regulations of the PRC on Foreign Exchange Control (the “**Foreign Exchange Regulations**”) (《中華人民共和國外匯管理條例》), promulgated by the State Council on 29 January 1996, amended on 14 January 1997 and 5 August 2008 respectively, and the Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), promulgated by the People's Bank of China on 20 June 1996. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaged in the settlement or sale of foreign exchange. Overseas institutions or individuals that directly invest in the PRC shall go through registration formalities at foreign exchange control authorities after receiving approval from relevant competent authorities. Domestic institutions or individuals that engage in overseas direct investment shall go through foreign exchange registration formalities.

#### Circular No. 37

On 4 July 2014, the State Administration of Foreign Exchange (the “**SAFE**”) released the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Offshore Investment and Financing and Return Investment via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular No. 37**”). Pursuant to Circular No. 37, a PRC resident should apply to the SAFE for foreign exchange registration of overseas investments before it makes capital contribution to an SPV using his or her legitimate domestic or offshore assets or interests. SPVs mean offshore enterprises directly established or indirectly controlled by domestic residents for the purpose of investment and financing by utilising the domestic or offshore assets or interests they legally hold. Following any significant change in a registered offshore SPV, such as capital increase, reduction, equity transfer or swap, consolidation or division involving domestic resident individuals, the domestic individuals shall amend the registration with the SAFE. Where an SPV intends to repatriate the funds raised after completion of the offshore financing to the PRC, it shall comply with relevant PRC regulations on foreign investment and foreign debt management. A foreign-invested

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## REGULATORY OVERVIEW

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enterprise established through return investment shall complete relevant foreign exchange registration formalities according to the prevailing foreign exchange administration regulations on foreign direct investment and truthfully disclose information on the actual controller of its shareholders.

### REGULATIONS ON LABOUR AND SOCIAL INSURANCE

Under the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labour Contract Law**”) promulgated on 29 June 2007 and amended on 28 December 2012, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labourers. Enterprises and institutions are forbidden to force the labourers to work beyond the time limit and employers shall pay labourers for overtime work in accordance with national regulations. In addition, the requirement of entry into fixed term employment contracts and dismissal of employees is very strict.

Our Company is also subject to the employee welfare rules and regulations set out in the Regulations on Work-Related Injury Insurance (《工傷保險條例》), which was promulgated by State Council on 27 April 2003, came into force on 1 January 2004 and was amended on 20 December 2010. Enterprises shall purchase work-related injury insurance, paying work-related injury insurance premiums for all their employees. Where an employee is injured in an accident or suffers from an occupational disease due to his work and needs treatment, his treatment will be paid for by the insurance company. The employee also enjoys disability subsidy if any injury results in disability.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated by the Standing Committee on 28 October 2010 which became effective on 1 July 2011, the state establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth. Employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance.

Pursuant to the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), becoming effective on 22 January 1999, enterprises with employees shall carry out social insurance registration at the local social insurance agency and participate in social insurance programs. Such participants shall report to the social insurance agency the amount of social insurance premiums payable and pay its social insurance premiums every month within the prescribed time limit upon assessment of the social insurance agency. If a premium paying entity fails to carry out social insurance registration, changes its registration or cancels its registration, or fails to report the amount of social insurance premiums payable, the administrative department of labour and social security can order it to rectify the situation by paying the outstanding premium within the prescribed time limit.

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## REGULATORY OVERVIEW

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### REGULATIONS ON HOUSING PROVIDENT FUND

Enterprises and the employees should pay the house accumulation fund pursuant to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), which was issued by the State Council on 3 April 1999, and the amendment came into force on 24 March 2002. Under this regulation, an employer shall go to the housing provident fund management center to undertake registration of payment and deposit of the housing provident fund and, upon verification by the housing provident fund management center, go to a commissioned bank to go through the formalities of opening housing provident fund accounts on behalf of its staff and workers. When employing new staff or workers, the employers shall undertake housing provident fund payment and deposit registration at a housing provident fund management center within 30 days from the date of the employment, and shall go through the formalities of opening or transferring housing provident fund accounts of staff and workers at a commissioned bank with the verified documents of the housing provident fund management center. The housing accumulation funds deposited by an individual employee and those deposited by the enterprises shall be owned by the employee himself. Housing accumulation funds shall be used by employees to buy or build houses, rebuild or overhaul houses for self-dwelling, and shall not be misappropriated by any entity or individual for any other purpose.

### REGULATIONS ON MERGERS AND ACQUISITIONS OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Pursuant to the Provisions of the Ministry of Commerce on M&A of a Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) jointly issued by the Ministry of Commerce of the PRC, the State-owned Assets Supervision and Administration Commission of the State Council, SAT, the China Securities Regulatory Commission (the “**CSRC**”), the State Administration for Industry & Commerce, the State Administration of Taxation and SAFE on 8 August 2006, effective as at 8 September 2006 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### OVERVIEW

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 22 October 2015. As part of our Reorganisation, our Company became the holding company of our Group. We are a leading distributor of IC and other electronic components based in the PRC Region.

### HISTORY AND DEVELOPMENT

The history of our Group can be traced back to 2005 when Mr. Tian's father, Mr. Tian Yin Kao, together with his business partners established SMC Technology SZ, a limited liability company in the PRC with a registered capital of RMB1 million which was paid with their own financial resources. Through a series of acquisition and transfers between 2009 and 2013, Mr. Tian, through SMC International HK acquired the entire registered capital of SMC Technology SZ. Since its incorporation, Mr. Tian and his family members had expanded our business through the establishment of various subsidiaries in the PRC and Hong Kong.

In order to capitalise on the advanced financial, legal systems and logistics infrastructure of Hong Kong, we incorporated SMC International HK in Hong Kong as a limited liability company in April 2005 with an issued share capital of HK\$6,000 which was paid with our own financial resources. In the same year, we were appointed as one of the few authorised distributors of IC for two brands in the PRC.

Our business continued to expand in 2007 when we were appointed as one of the few authorised distributors of IC for various brands in the PRC. In December 2008, we were awarded the title of "PRC State High New Technology Enterprise" and were among the 395 enterprises in Shenzhen that received the first certificate of "PRC State High New Technology Enterprise".

SMC Cloud HK was incorporated in Hong Kong in June 2014 and SMC Cloud SZ was established in the PRC in December 2015 as a result of our further expansion into the cloud technology business.

For more details on Mr. Tian, please refer to the section headed "Directors and Senior Management — Directors — Executive Directors" in this prospectus.

### BUSINESS MILESTONES

Set out below are the key milestones in our development:

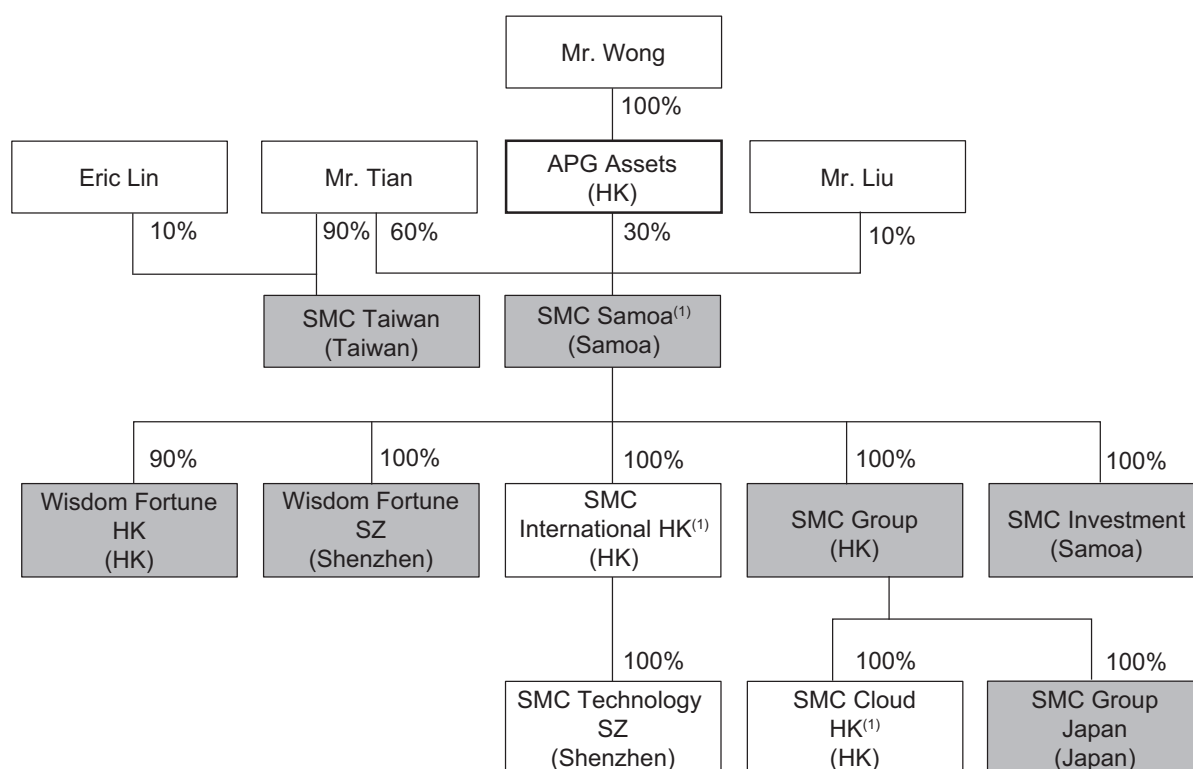
- |      |   |
|------|---|
| 2005 | <ul style="list-style-type: none"><li>• In February, SMC Technology SZ was established in the PRC.</li><li>• In April, we incorporated SMC International HK in Hong Kong.</li></ul>   |
| 2006 | <ul style="list-style-type: none"><li>• In October, we successfully developed the screen rotation technology.</li></ul>   |
| 2007 | <ul style="list-style-type: none"><li>• In June, we obtained the certification for SMC Technology SZ and the registration for our software products (軟件產品及軟件企業雙軟認定).</li></ul>  |
| 2008 | <ul style="list-style-type: none"><li>• In December, we were awarded the title of "PRC State High New Technology Enterprise" and were one of the enterprises in Shenzhen that received the first certificate of "PRC State High New Technology Enterprise".</li></ul> |

## HISTORY, REORGANISATION AND GROUP STRUCTURE

- 2013 • In March, we were awarded Shenzhen Outstanding Software Enterprise of the year 2012 and Shenzhen Outstanding Software Products of the year 2012.
- 2014 • In June, we incorporated SMC Cloud HK in Hong Kong.
- 2015 • In February, we officially launched our e-commerce platform and commenced the provision of e-commerce services to our clients.
  - In December, we successfully launched the current version of our e-commerce platform comprising SMC Cloud (芯智雲城), SuperIC Navigator and SuperIC Community.
  - In December, we established SMC Cloud SZ in the PRC.
  - In December, SMC Cloud commenced the provision of services to incubators and start-up companies.

### STRUCTURE PRIOR TO REORGANISATION

The following diagram illustrates our shareholding structure before the Reorganisation:



Companies that are not injected into our Group as part of Reorganisation

*Note:*

- (1) Mr. Tian and Mr. Wong had agreed to vote unanimously on matters relating to the management and operation of SMC Samoa, SMC International HK and SMC Cloud HK since they became the ultimate shareholders of these companies. Such arrangement shall terminate on or before the completion of the Listing.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### 1. Wisdom Fortune HK

Wisdom Fortune Corporation Limited (“**Wisdom Fortune HK**”) was principally engaged in the business of trading of electronic products. For FY2013 and FY2014, the revenue of Wisdom Fortune HK (prepared in accordance with HKFRS) was approximately US\$1.5 million and US\$3.9 million, respectively. Wisdom Fortune HK recorded a loss of approximately US\$54,500 and US\$173, for FY2013 and FY2014, respectively (prepared in accordance with HKFRS). Wisdom Fortune HK was disposed of on 29 September 2015 and therefore its financial information for FY2015 is not available.

Wisdom Fortune HK was owned as to 90% by SMC Samoa, 5% by Mr. Yam Heung Wah (“**Mr. Yam**”), and 5% by Ms. Yin Suqin (“**Ms. Yin**”), both of whom are Independent Third Parties.

On 29 September 2015, Mr. Yam acquired the remaining 95% shareholding interests in Wisdom Fortune HK from SMC Samoa and Ms. Yin, at the consideration of HK\$9,000,000 and HK\$500,000, respectively, which were determined based on the net asset value of Wisdom Fortune HK.

Our Directors are of the view that, as of the Latest Practicable Date, there were no legal impediments, significant contingencies nor on-going material litigations involving Wisdom Fortune HK which would prevent Wisdom Fortune HK from forming part of our Group.

As at the Latest Practicable Date, none of our Directors or senior management has overlapping positions in our Company and Wisdom Fortune HK.

### 2. Wisdom Fortune SZ

Shenzhen Wisdom Fortune Technology Corporation Limited\* (深圳市志鼎科技有限公司) (“**Wisdom Fortune SZ**”) was principally engaged in the business of trading of electronic products. For FY2013, FY2014, FY2015 and 1Q2016, the revenue of Wisdom Fortune SZ (prepared in accordance with the Accounting Standards for Enterprises — Basic Standards\* (企業會計準則 — 基本準則)) was approximately US\$2.6 million, US\$6.3 million, US\$2.6 million and US\$44,666 (unaudited), respectively. Wisdom Fortune SZ recorded a loss of approximately US\$0.1 million, a profit of approximately US\$0.2 million, US\$79,399 and US\$281,290 (unaudited) for FY2013, FY2014, FY2015 and 1Q2016, respectively (prepared in accordance with the Accounting Standards for Enterprises — Basic Standards\* (企業會計準則 — 基本準則)).

On 1 February 2016, Wisdom Fortune HK entered into a sale and purchase agreement with SMC Samoa (as amended, varied and supplemented by a revised sale and purchase agreement dated 5 May 2016) and acquired the entire shareholding interests in Wisdom Fortune SZ from SMC Samoa for an aggregate consideration of US\$150,000 which was determined based on the valuation of Wisdom Fortune SZ. The consideration of US\$150,000 was paid on 17 June 2016 and the transaction was completed on the same date.

Wisdom Fortune HK and Wisdom Fortune SZ were disposed of by SMC Samoa due to the following reasons:

- the scale of operations of these companies are small compared with our Group;

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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- the electronic products distributed by these companies include LED light bars, wireless system-on-chip, video decoding chip and demodulator, which differ from the product lines of electronic products distributed by our Group;
- each of these companies does not have substantial business operations which overlap with or enhance our core business; and
- we intend to focus on our core business (the details of which are set out in the “Business” section of this prospectus).

Our Directors are of the view that, as of the Latest Practicable Date, there were no legal impediments, significant contingencies nor on-going material litigations involving Wisdom Fortune SZ which would prevent Wisdom Fortune SZ from forming part of our Group.

As at the Latest Practicable Date, none of our Directors or senior management has overlapping positions in our Company and Wisdom Fortune SZ.

### 3. SMC Samoa

SMC Samoa was an investment holding company. During the Track Record Period, the revenue of SMC Samoa was nil and SMC Samoa did not record any profit/loss.

As at the Listing Date, the following Director has overlapping positions in our Company and SMC Samoa:

Name	Position in our Company	Position in SMC Samoa
Mr. Tian	Executive Director, Chairman and Chief Executive Officer	Director

Saved as disclosed above, none of our Directors or senior management has overlapping positions in our Company and SMC Samoa.

Our Directors are of the view that, as of the Latest Practicable Date, there were no legal impediments, significant contingencies nor on-going material litigations involving SMC Samoa which would prevent SMC Samoa from forming part of our Group.

### 4. SMC Taiwan

As at the Latest Practicable Date, SMC Taiwan is owned as to 90% by Mr. Tian (our Controlling Shareholders) and 10% by Mr. Lin Tsung Ming. SMC Taiwan carries on business which is similar to the business of our Group. For further information about the potential competition between SMC Taiwan and our Group, please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus. During the Reorganisation, Mr. Tian had attempted to inject his 90% interests in SMC Taiwan into our Group (“**Acquisition**”) and an application for approval of the Acquisition (“**Application**”) was submitted to the Investment Commission, Ministry of Economic Affairs (“**MOEAIC**”) in or around February 2016. However, the approval procedure requires a long processing time and may not be obtained prior to the Listing Date. As at 31 March 2016, we have not received such approval from MOEAIC and our Directors are unable to advise the maximum processing time required to obtain such approval. As a result of such uncertainty, on 31 March 2016, our Company

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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terminated the Acquisition. Our Company had accordingly withdrawn its Application from MOEAIC on 11 April 2016. To the best of our Directors' knowledge, our Directors are not aware of any other reasons or legal impediment which will result in the approval for the Application not being obtained from MOEAIC. Accordingly, SMC Taiwan was not injected into our Group.

Our Directors are of the view that, as of the Latest Practicable Date, there were no legal impediments, significant contingencies nor on-going litigations involving SMC Taiwan which would prevent SMC Taiwan from forming part of our Group.

### 5. SMC Group, SMC Investment and SMC Group Japan

The remaining companies which were not injected had no substantial business operation or are holding companies.

### REORGANISATION

Each of Mr. Tian, Mr. Wong and Mr. Liu incorporated a wholly-owned company in the BVI, namely, Smart IC, Insight and Epart, respectively, to hold their respective interests in our Company.

In preparation for Listing, we underwent the Reorganisation. Following the completion of the Reorganisation, our Company became the holding company of all our operating subsidiaries. The Reorganisation involves the corporate restructuring steps set out below:

#### Incorporation of our Company

As part of our Reorganisation, we incorporated our Company to hold our subsidiaries through various newly incorporated intermediate holding companies.

Our Company was incorporated in the Cayman Islands on 22 October 2015 with an initial authorised share capital of US\$50,000 divided into 5,000,000,000 Shares. On the date of incorporation of our Company, one Share was allotted and issued to Mapcal Limited (the subscriber) and such Share was transferred to Smart IC at par value on the same date.

On 7 November 2015, our Company issued 5,999 Shares to Smart IC, 3,000 Shares to Insight and 1,000 Shares to Epart for a consideration of US\$0.059, US\$0.03 and US\$0.01, respectively, which was fully paid in cash. Upon completion of the allotment and issue, our Company was held as to 60%, 30% and 10% by Smart IC, Insight and Epart, respectively.

#### Transfer of equity interest in our Company by Epart to Smart IC

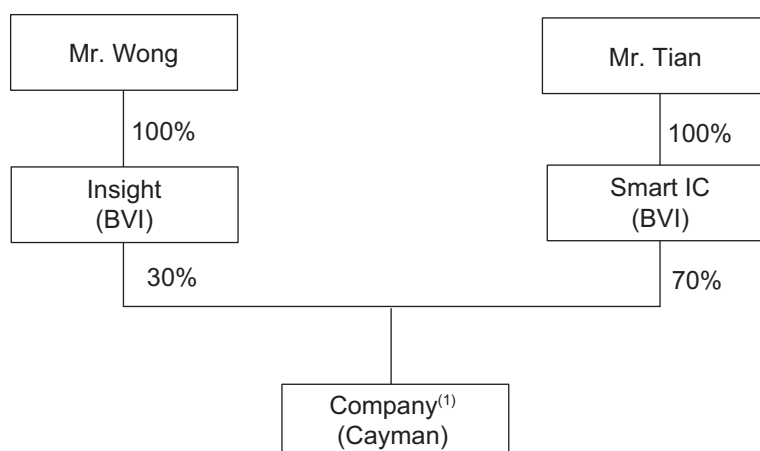
As Mr. Liu wished to divest of his interests in our Company and would like to realise his investments and to invest in other assets, Mr. Liu ceased to be a shareholder of our Company after the Reorganisation through the disposal of all the Shares held by Epart to Mr. Tian. Accordingly, on 1 February 2016, Epart transferred 1,000 Shares (representing all its interests in our Company) ("**Sale Shares**") to Smart IC for a cash consideration of US\$0.01 which was determined based on the par value of the Sale Shares. The consideration was paid on 1 February 2016 and the transfer was completed on the same day. Upon completion of the transfer, our Company was held as to 70% and 30% by Smart IC and Insight, respectively.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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The shareholding and corporate structure of our Group following the above steps is set out below:



*Note:*

(1) Mr. Tian and Mr. Wong had agreed to vote unanimously on matters relating to the management and operation of our Company since the date of incorporation. Such arrangement shall terminate on or before the completion of the Listing.

### Establishment of SMC Cloud SZ

On 4 December 2015, SMC Cloud SZ was established as a wholly-foreign-owned enterprise (“WFOE”) in the PRC with a registered capital of RMB1 million. In compliance with the relevant rules and regulations, the registered capital will be paid after receipt of the PRC governmental approval. It has been wholly owned by SMC Cloud HK since its establishment.

### Acquisition of SMC International HK and SMC Cloud HK

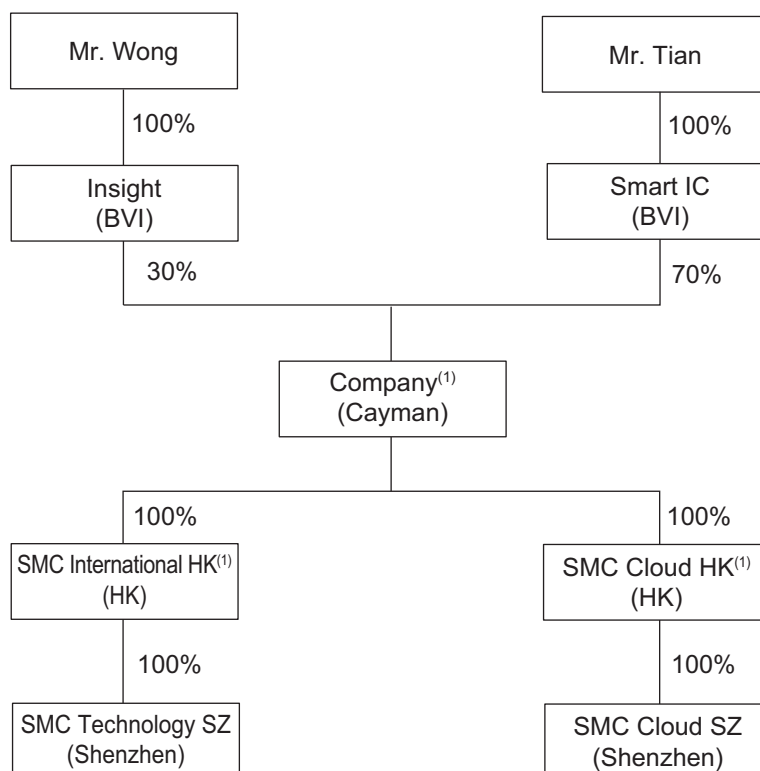
On 24 February 2016, our Company allotted and issued 7,000 Shares to Smart IC and 3,000 Shares to Insight for a consideration of US\$14,359,834.30 and US\$6,154,214.70, respectively, which were fully paid in cash.

On 24 February 2016, our Company acquired the entire issued share capital of SMC International HK from SMC Samoa, for a consideration of US\$20,514,049 which was determined based on the net asset value of SMC International HK. The consideration was paid in cash on 24 February 2016 and the transfer was completed on 24 February 2016.

On 24 February 2016, our Company acquired the entire issued share capital of SMC Cloud HK from SMC Group, for a consideration of US\$1 which was determined based on the net asset value of SMC Cloud HK. The consideration was paid in cash on 24 February 2016 and the transfer was completed on 24 February 2016.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

Our Group structure immediately upon the completion of the above steps is set out below:



*Note:*

- (1) Mr. Tian and Mr. Wong had agreed to vote unanimously on matters relating to the management and operation of our Company, SMC International HK and SMC Cloud HK since they became the ultimate shareholders of these companies. Such arrangement shall terminate on or before the completion of the Listing.

### Compliance with PRC laws and Regulations

Our PRC legal counsel has confirmed that all relevant approvals and permits in relation to the share transfers in respect of the PRC companies in our Group as described above had been obtained and the procedures involved had been carried out in accordance with PRC laws and regulations.

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, SAIC and the SAFE on 8 August 2006, effective as at 8 September 2006 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies. Our PRC legal counsel has confirmed that the M&A Rules do not apply to the Reorganisation of our Group as described above.

### SAFE Registration in the PRC

Under Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》(匯發2014 37號) (the “Circular No. 37”), promulgated by the SAFE on 4 July 2014 and became effective on the same day, registration with the local SAFE branch is required for domestic legal person residents or domestic natural person residents before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle. For details of the SAFE registration requirement, see the section headed “Regulatory Overview — Regulations on Foreign Exchange — Circular No. 37”.

Mr. Tian and Mr. Wong had obtained their Hong Kong Identity Card and Hong Kong Special Administrative Region Passport before the Reorganisation. According to the definition of “domestic natural person resident” of Circular No. 37, Mr. Tian and Mr. Wong are neither Chinese citizen who hold ID cards of Chinese domestic residents, nor overseas individuals who have no legal identity within the territory of China but habitually reside within the territory of China due to reasons of economic interests. As advised by our PRC counsel, Circular No. 37 does not apply to Mr. Tian and Mr. Wong. Their overseas investment, reorganisation and acquisition against the domestic enterprises do not constitute the overseas investment and financing through domestic equities which is regulated by Circular No. 37. Thus Mr. Tian and Mr. Wong are not required to file with the local SAFE foreign exchange registration relating to fund raising by domestic residents through overseas special purpose vehicles and round-trip investment.

### PRINCIPAL BUSINESS OF OUR SUBSIDIARIES

As at the Latest Practicable Date, we conducted our business through four subsidiaries. Details of our subsidiaries are set out below:

No.	Name of our subsidiary	Place of establishment	Issued share capital/ registered capital	Date of establishment	Principal business
1.	SMC International HK	HK	10,000,000 shares	26 April 2005	Trading of electronic products
2.	SMC Cloud HK	HK	1,000,000 shares	16 June 2014	Trading of electronic products
3.	SMC Technology SZ	PRC	RMB8.5 million	6 February 2005	Trading of electronic products
4.	SMC Cloud SZ	PRC	RMB1 million	4 December 2015	Trading of electronic products



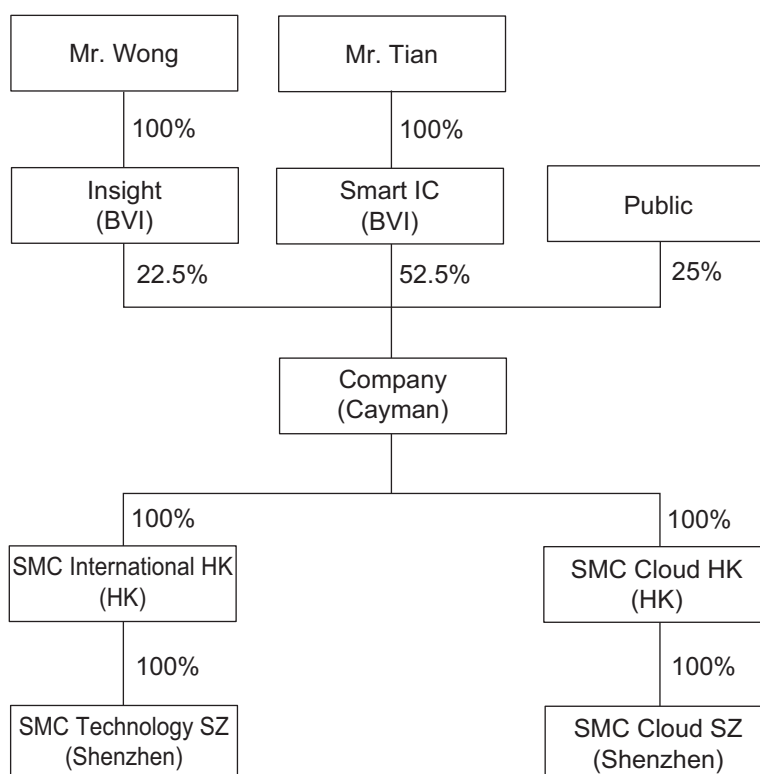
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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### CORPORATE STRUCTURE IMMEDIATELY FOLLOWING COMPLETION OF THE CAPITALISATION ISSUE AND THE GLOBAL OFFERING

The following diagram sets out our shareholding and corporate structure immediately after the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option and the options granted under the Share Option Scheme are not exercised and no Shares are issued pursuant to the grant of the Awards under the Share Award Scheme):



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## BUSINESS

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### OVERVIEW

We are a leading distributor of IC and other electronic components based in the PRC Region. We have strong capability to provide engineering support, and operate a distinctive e-commerce platform. Through closely co-operating with IC technology vanguards, we deeply consolidate industry resources and adopt an OAO (online and offline) business model to provide high quality core IC and value-added services to a broad base of customers.

We offer a wide range of IC and other electronic components and provide comprehensive value-added services including engineering solutions and field application engineering support to our customers, which help them to shorten their product development time. Our products include a wide range of IC and other electronic components used in applications such as smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory products. We have strong product offering in IC used in our key product segments including the smart media display, intelligent broadcasting terminal and memory. Our suppliers include internationally well-known IC companies in the industry such as MStar and we are one of the limited number of authorised distributors or solution providers of our major suppliers in the PRC. Our e-commerce platform is an online customer interaction interface that comprises our sales platform SMC Cloud, and marketing platforms SuperIC Community and SuperIC Navigator.

Since we commenced our business in 2005, we have established a large and diversified customer base, with over 1,300 customers as at 31 March 2016, comprising blue chip customers, which include leading brand-name manufacturers, as well as SME customers. According to the Analysys Report, the PRC Region was the largest semiconductor market in 2015 with approximately 100,000 companies engaged in the distribution and trading of IC and other electronic components. We were the eighth largest electronic component distributor based in the PRC Region, with a market share of approximately 0.13% in 2015; and were the fifth largest electronic component distributor based in the PRC Region that principally distributes IC, with a market share of approximately 0.13% in 2015, in terms of sales revenue in 2015 according to the Analysys Report.

According to Analysys, (1) the market of smart-TV in the PRC Region, in terms of unit sold, expanded from 8.2 million units in 2013 to 33.4 million units in 2015 and is expected to reach 49.6 million units in 2017; (2) the market of set-top box in the PRC Region expanded from 285.2 million units in 2013 to 421.6 million units in 2015 and is expected to reach 560.0 million units in 2017; and (3) the import value of memory products to the PRC Region expanded from US\$49.5 billion in 2013 to US\$59.0 billion in 2015 and is expected to reach US\$89.0 billion in 2018. As the market in these three largest product segments of our Group expanded,

## BUSINESS

we experienced significant growth in our business during the Track Record Period. Set out below is our revenue breakdown by product segments for the periods indicated:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
<b>Product type</b>	(unaudited)									
Smart media display . . . . .	161,350	57.1	225,743	56.7	281,015	57.9	48,940	60.7	69,876	48.1
Intelligent broadcasting terminal . . . . .	30,700	10.9	55,886	14.0	57,581	11.9	6,487	8.0	31,666	21.8
Mobile terminal . . . . .	27,567	9.7	24,020	6.0	26,283	5.4	6,096	7.6	5,702	3.9
Smart automotive electronics . . . . .	8,747	3.1	10,788	2.7	12,383	2.6	2,356	2.9	2,395	1.6
Memory . . . . .	50,257	17.8	54,615	13.7	75,308	15.5	12,457	15.5	17,776	12.2
Others <sup>(Note)</sup> . . . . .	3,931	1.4	27,464	6.9	32,801	6.7	4,258	5.3	17,894	12.4
<b>Total . . . . .</b>	<b>282,552</b>	<b>100.0</b>	<b>398,516</b>	<b>100.0</b>	<b>485,371</b>	<b>100.0</b>	<b>80,594</b>	<b>100.0</b>	<b>145,309</b>	<b>100.0</b>

*Note:* This segment covers all products not included in the smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.

Adoption of an OAO business model allows us to cater better to different needs of our customers. We provide various offline IC-related value added services to our customers covering pre-sale, sale and post-sale stages through our sales and application engineering teams. We develop and provide engineering solutions and field application engineering support to our customers, as value-added services. Our offline services enable us to have more collaborative and consultative discussions with customers, create demand for our products and maintain close business relationship with our customers.

In terms of online services, we initiated our online sales platform, SMC Cloud, in February 2015 to allow our customers to take more control of the procurement process by offering access to a user-friendly means to manage their transactions with us through the internet. It also helps us to reach out to SME customers and customers located in geographical regions not covered by our seven sales offices in the PRC at Shenzhen, Chengdu, Xiamen, Wuhan, Beijing, Shanghai and Nanjing. We continuously improved our e-commerce platform as an online customer interaction interface, and in December 2015, we added our online marketing platforms, SuperIC Community and SuperIC Navigator, which aim to gather and engage industry professionals and direct them to SMC Cloud. As at the Latest Practicable Date, our B2B sales platform SMC Cloud has attracted over 5,100 registered users and approximately 270 active users.

We strive to expand our market share and achieve sustainable growth. We initiated our Smart-Core Planet to capture SMEs and start-up companies as our customers by seeking collaboration opportunities with incubators which are companies that are fostering smart appliances businesses and entities. Through Smart-Core Planet, we co-operate with such incubators to offer our quality products and value-added services to their incubated entities. In February 2016, we entered into a co-operation agreement with an incubator “海峽兩岸無人機暨智能機器人孵化基地” (China and Taiwan Drones and Intelligent Robots Incubator\*) that provides entrepreneurial services to entities engaging in the development of drones and

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robotics technology. As at the Latest Practicable Date, we have entered into collaboration arrangements with three incubators and we will continue to seek more collaboration opportunities with other incubators through our Smart-Core Planet.

Apart from expanding our customer base through Smart-Core Planet, we keep enriching our product portfolio and expanding our supplier base. We have identified a number of strategic product segments which we consider to be fast-growing, namely IoT (especially smart-home applications), optical communication, security monitoring, high efficiency power management products, virtual reality, drones and robotics. We have and will continue to expand our product portfolio and invest in our value-added engineering support services in relation to such strategic segments.

Leveraging on our in-depth knowledge and experience in the industry, we are dedicated to facilitating our customers' procurement of authentic quality IC and electronic components efficiently from a strong network of reputable suppliers, with our integrated supply chain services and technical support.

### OUR STRENGTHS

#### **We are an Authorised Distributor of a Number of Internationally Well-known IC Companies in the Industry**

We have built long-standing business relationships with brand-name suppliers which are international IC companies well-known in the industry. We have been appointed by our major suppliers as one of their selected authorised distributors or solution providers in the PRC Region. According to Analysys, brand-name IC resources are scarce in the PRC Region because brand-name IC companies only appoint a limited number of authorised distributors in the PRC Region. By directly sourcing our ICs from brand-name IC companies, we ensure that our products are authentic and of high quality.

We offer a wide range of products sourced from over 150 suppliers. Our product offering comprises mainly of IC, which are used in manufacturing of a variety of end-products including TV, set-top box, mobile devices, automotive electronics, IoT and others. In particular, our product offering includes the core SoC IC for such end-products which enables us to cross-sell other peripheral products such as memory and power products to customers as a package.

We maintain close business relationships with our major suppliers, which help to ensure our reliable access to their products. As their authorised distributor, we can obtain supply with priority from our suppliers. We believe that our in-depth understanding of our customers' buying habits and needs enables us to promote our suppliers' new products and new technologies through our e-commerce platform and pre-sale application engineering support in an effective and customised manner, thereby adding value to our customers and further strengthening our relationship with our suppliers.

#### **We have a Loyal and Diversified Customer Base**

Since we commenced our business in 2005, we have established a large and diversified customer base, with over 1,300 customers as at 31 March 2016, comprising blue chip customers as well as SME customers. Our customers are engaged in a number of different electronic product segments such as TV, set-top box, mobile terminals, automotive electronics,

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optical communications and security monitoring. Our major customers include leading brand-name manufacturers and ODMs in the PRC. We believe that, on one hand, blue chip customers allow us to gather market intelligence to better predict market trends and keep abreast of the latest technology development, which in turn enables us to maintain a product portfolio and a library of engineering solutions for the latest electronic products. On the other hand, the SME customer community represents a market with significant growth potential that is underserved by, and lack the scale to access authentic brand-name products from, IC companies; it is a market that we are ready to serve with our convenient e-commerce platform and strong value-added application engineering support.

For 2015, we generated approximately 90% of our revenue from return customers, which we define as those who, at the time of a particular transaction, had completed at least one prior transaction with us in the previous two years. Our loyal customer base, including our blue chip customers, enables us to grow in scale and build up brand recognition in the electronics industry to attract new customers. It also facilitates the promotion and the sales of new products from our suppliers, which in turn strengthen our business relationship with our suppliers.

### **Our Application Engineering Support Helps us to Maintain Symbiotic Relationship with Suppliers and Customers**

We believe that our application engineering support promotes the use of our suppliers' products and streamlines our customers' development process at the same time. Both our major suppliers and our major customers value our capability to provide application engineering support in end-product development. As the electronic product industry is subject to short product life cycles, fast-changing product trends and constantly evolving technologies, our customers typically have to develop new products and make purchases frequently. Our capability to shorten their product development lead time with our application engineering support helps us to attract return customers and maintain our symbiotic relationships with both our suppliers and customers. We co-operate with potential customers from their product design stage, by providing them with our engineering solutions and field application engineering support without additional charges, so as to prompt them to use our products in their design.

Since our establishment in 2005, we have accumulated in-depth understanding of the electronics manufacturing supply chain in the PRC and its fast-moving technological product trends, which we believe enable us to add value to both our suppliers and our customers. We invest in research and development of IC-related engineering solutions and has a team of application engineers and technicians with professional knowledge in the electronics industry, which made up approximately 30% of our staff. As an authorised distributor of our brand-name suppliers, we are also provided with training on the application of their products, thereby enabling us to provide better technical support to our customers.

### **Our Key Product Segments have Strong Market Demand and Potential Growth**

#### ***Smart Media Display***

This product segment comprises TV, smart projector and other display products for commercial and educational purposes. According to the Analysys Report, core SoC chip used in flat panel TV distributed by us accounted for approximately 25% of the sales volume in the global market in 2015. Flat panel TV refers to TV such as digital TV, connected TV and

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smart-TV. Major customers of our smart media display products include leading brand-name manufacturer and ODM of smart-TV. According to Analysys Report, for smart-TV products, the market has experienced frequent product upgrade with short product cycle to cater for consumers' taste for richer content and better product design, which drives the sale of ICs and electronic components for smart-TV applications. In 2014, over 26 million smart-TV units were sold in the PRC Region and it is projected that the sale of smart-TV will reach 49 million units in 2017, according to the same report. Revenue from our sales of smart media display products has increased 39.9% from US\$161.4 million in FY2013 to US\$225.7 million in FY2014 and further 24.5% to US\$281.0 million in FY2015. We recorded revenue from sales of smart media display products for 1Q2016 of US\$69.9 million, which was 42.8% higher than that recorded for the corresponding period in 2015.

### ***Intelligent Broadcasting Terminal***

IC and other electronic components used in the intelligent broadcasting terminal is our second or third largest product segment during the Track Record Period with revenue of US\$30.7 million, US\$55.9 million, US\$57.6 million and US\$31.7 million, representing 10.9%, 14.0%, 11.9% and 21.8% of our total revenue for FY2013, FY2014, FY2015 and 1Q2016, respectively. Our intelligent broadcasting terminal product segment covers a wide range of set-top boxes including digital TV signal decoders (including cable, satellite free-to-air), OTT (over-the-top) and IP-TV hubs equipped with internet connectivity to stream ultra-high-definition entertainment on users' demand. Based on the Analysys Report, the number of set-top boxes in the PRC Region rose from 90 million units in 2009 to 421.6 million units in 2015. As leading content providers, e-commerce platform operators and telecommunication network operators in the PRC Region launch their set-top boxes in the market, the set-top box market is expected to continue its growth. Intelligent broadcasting terminals are also expected to undergo further development into control hubs for smart-home electrical appliances capable of connecting, managing and controlling the smart-home appliances. Analysys also expect the demand for core ICs used in these intelligent broadcasting terminal products to significantly benefit from these rapid technology development.

### ***Memory***

Larger storage capacity has been a common trend in most consumer electronics, which, together with the demand for smarter devices and higher display quality, has supported the growth of the memory market in the PRC Region, according to Analysys. It is estimated by Analysys that the size of memory market in the PRC Region was US\$38.5 billion in 2010 and had grown to US\$59 billion in 2015. Our sale of memory products has also increased by 8.7% from US\$50.3 million in FY2013 to US\$54.6 million in FY2014 and further 37.9% to US\$75.3 million in FY2015. We recorded revenue from sales of memory products for 1Q2016 of US\$17.8 million, which was 42.7% higher than that recorded for the corresponding period in 2015. According to Analysys, the memory market is expected to grow into a US\$89 billion market in 2018 and our Directors consider that there is significant room for further expansion of our memory product segment.

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### **Our E-commerce Platform Serves the SME Market which has High Growth Potential**

Our e-commerce platform provides easy access to authentic quality IC and other electronic components for SME customers with a streamlined procurement process. According to Analysys, IC supply market are highly concentrated and brand-name IC companies generally have a limited number of authorised distributors in the PRC Region. In addition, brand-name IC companies and large distributors which source directly from such IC companies mainly target to serve blue chip customers. SMEs are generally served by trading companies and retail distributors. This poses challenge for SME customers to access authentic brand-name ICs and electronic components and efficiently manage their procurement process. We launched our e-commerce platform with the aim to effectively addresses SMEs' concerns by creating an efficient channel for them to access such products together with a library of engineering solutions to support their product development process.

In addition to a reliable supply of quality products, we also offer a library of customisable engineering solutions to SME customers through our e-commerce platform and have an experienced application engineering team to provide online technical support to our SME customers. SME customers can discuss their project needs with our application engineers and obtain technical support through our SuperIC Community, which aims to serve as a platform where technical professionals can gather to exchange ideas, share technical expertise, discuss innovative technology development and look for technical support.

According to Analysys, the number of entities that were engaged in online IC procurement had increased from approximately 11,900 in 2012 to 300,000 in 2015 in the PRC Region. We believe this trend represents a change in procurement habit from offline to online and therefore launched our first e-commerce platform in February 2015. Our e-commerce platform now comprises our SMC Cloud, SuperIC Community and SuperIC Navigator. As at the Latest Practicable Date, our B2B sales platform SMC Cloud has over 5,100 registered users and approximately 270 active users.

### **We are Led by a Management Team with Substantial Experience in the Industry**

We are led by a management team with substantial relevant experience in the industry, which is committed to further our future development. Under their leadership and management, we have selected a combination of product lines that enabled us to achieve success and expanded to our current scale in just over 10 years of operation.

We are committed to streamlining the supply chain of the electronics industry in the PRC. By positioning ourselves to be a value-add distributor that provides engineering solutions and technical support to our customers, we eliminate our customers' needs to engage an independent design house in their product development process. In 2015, we took on the challenge of streamlining the procurement process of SMEs by launching our e-commerce platform that allows SMEs direct access to authentic brand-name products and our value-added engineering support services.

Each of our executive Directors is experienced in his role in our Group. Our founder and chairman, Mr. Tian, has extensive experience in the electronic industry in the PRC. Mr. Tian has been leading our Group for over 10 years and is responsible for overseeing the overall business strategy, development of projects, management and operations. Mr. Liu, our executive Director who is responsible for research and development, has extensive experience

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in electronics industry. Mr. Xie, our executive Director responsible for overseeing the operations of our e-commerce platform, has over 20 years of experience in the electronic technology industry. Mr. Wong, our executive Director who supervises our financial operations, has over 20 years of business management experience prior to joining our Group.

Our senior management team comprises of professional executives with extensive experience in our business operations. Most of our executive Directors and senior management have been with our Group for over five years. We believe that with our management team's collective experience and strong execution capabilities, we are well-positioned to respond to the challenges resulting from the fast-changing electronics industry and capture significant growth opportunities.

### **OUR STRATEGIES**

Our goal is to strengthen our leading position as an IC and other electronic components distributor in the PRC and to expand our business to overseas markets. We intend to pursue the following growth strategies to achieve our goal.

#### **Improve Procurement Experience of our Customers by Further Enhancing and Developing our E-commerce Platform**

Our strategy is to further enhance our e-commerce platform with the aim to improving our customers' online procurement experience with us. In order to cater for the change in procurement habit of the electronics industry from offline to online in the PRC Region, we launched our first e-commerce platform in February 2015. This represents a step change in our online proposition by providing the foundation for a better user experience, making it easier for customers to interact and transact with us and obtain technical support online.

We plan to continue our investment in technologies and infrastructure to support our growing e-commerce platform by acquiring software and equipment to enhance our e-commerce platform and ERP system and expanding our e-commerce platform operation team. We intend to further improve our infrastructure so that our e-commerce platform can fully integrate with our ERP system for better logistics, inventory control operations and sales data analysis. We believe that data on customer behaviour and transactions will provide us with valuable insights to help us and our suppliers improve our product offering and services.

We also consider to enhance and develop our e-commerce platform through possible investment in, acquisition of, and/or formation of strategic co-operation with, companies engaging in e-commerce business. In selecting our targets, we will consider whether the target has software and/or technology that may help us to improve our e-commerce platform. Our Directors consider that e-commerce companies in the PRC to be potential targets as they believe that such companies are more familiar to PRC users' preferences in comparison with overseas companies. As at the Latest Practicable Date, we have not identified any specific target for investment or acquisition but will continue to explore investment opportunities with companies that meet the above selection criteria or such other criteria that our management consider appropriate from time to time.



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### **Achieve Continuous Growth by Nurturing a Collaborative Eco-system for the Electronics Industry through our Smart-Core Planet**

We strive to expand our market share and achieve sustainable growth. One of the strategies we adopt to achieve such goal is by cultivating a customer base of SMEs and start-up companies, and nourishing them by providing them with our products and value-added services to help them grow and develop. According to the Analysys Report, internet enterprises has entered into a hardware innovation era, with 1,800 incubators helping start up entrepreneurs to bring a concept to fruition having been established in the PRC Region in 2015. Instead of setting up our own incubator, we consider that it is more efficient to reach out to SMEs and start-up companies by co-operating with incubators. Therefore, we implemented our Smart-Core Planet, to capture SMEs and start-up companies as our customers by seeking collaboration opportunities with incubators that foster smart appliances businesses.

Through Smart-Core Planet, we co-operate with such incubators to offer our quality authentic products, value-added supply chain services, engineering solutions and technical support to their incubated entities. In February 2016, we entered into a co-operation agreement with an incubator “海峽兩岸無人機暨智能機器人孵化基地” (China and Taiwan Drones and Intelligent Robots Incubator\*) which provides entrepreneurial services to entities engaging in the development of drones and robotics technology. As at the Latest Practicable Date, we have entered into collaboration arrangements with three incubators and we will continue to seek more collaboration opportunities with other incubators through our Smart-Core Planet.

### **Continue to Expand our Product Segments with Strong Market Potential**

We will continue to expand our product and supplier portfolio and optimise our product mix. On top of the product offering of which we are authorised distributors, we have been expanding our product portfolio by including IC and other electronic components required to implement our engineering solutions. We will also continue to seek co-operation opportunities with reputable suppliers, such as suppliers in the United States, Europe and Japan, by being their authorised distributors. We believe that with our customer base, our SME friendly e-commerce platform, experience in the supply chain of electronic industry in the PRC and our excellent application engineering support, we will be able to attract quality new suppliers in the PRC and overseas.

We will also continue to identify product segments that we consider to have significant growth potential and introduce products within such segments to our product offering, particularly those which may have synergies with our existing key product segments. We consider that there is significant growth potential for the segments of IoT (especially smart-home applications), optical communications, security monitoring, high-efficiency power management products, virtual reality applications, drones and robotics products. The end-product applications and our current product offering within such strategic segments are set out below:

<b>Product segment</b>	<b>Example of end-product applications</b>	<b>Our current product offering</b>
IoT (especially smart-home applications)	smart-home electrical appliances, smart wearable devices	microcontroller unit, WiFi, BT, Zigbee, sensors

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Product segment	Example of end-product applications	Our current product offering
Optical communication	optical communication systems	silicon-based laser, photodiodes, optical receiver-end and transmitter-end IC
Security monitoring	IP camera, network video recorder	SoC ICs for IP camera and network video recorder, camera sensors
High-efficiency power management	high-efficiency power supply, wireless electrical charger, renewable energy power inverter	power management IC, high-efficiency power device
Virtual reality products	virtual reality equipment such as headsets for video games and TV	microcontroller unit, sensor, image processor and display ICs
Drones	drones	microcontroller unit, sensor, SoC ICs for digital video recorder, camera sensors
Robotics	robots	microcontroller unit, sensors

We intend to further expand our product offering and we have launched incentive programme and implemented guidelines for selecting and introducing new products to our offering. We also intend to develop more engineering solutions to facilitate the product development process of our customers in these areas when we approach our target customers in these fields by launching our Smart-Core Planet as discussed above.

### **Broaden our Customer Base by Bolstering our Online and Offline Sales and Marketing Initiatives**

We aim to strengthen our market presence by increasing our sales and marketing efforts online and offline. We intend to increase marketing activities including advertising on electronic industry websites and magazines to promote our products and our e-commerce platform, boost the number of registered users of our SMC Cloud and further exploiting social media platforms such as WeChat to disseminate our product information to, and raise our brand awareness among, a targeted community of engineers and technical professionals. We may also organise promotional events or activities, online or offline, to raise our brand awareness. We also plan to enrich the content of our SuperIC Community to facilitate exchange of ideas and market information. In addition to the above marketing efforts, we also plan to expand our sales team by hiring more sales representatives and sales management personnel to continue to provide high quality customer services and maintain close relationship with our customers, including SME customers. We plan to increase our sales effort by seeking collaboration opportunities with incubators and allocate resources to serve the SMEs and start-up companies through our Smart-Core Planet.

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We plan to expand our geographical coverage in the PRC and explore market overseas in the coming two to three years. According to the Analysys Report, the PRC Region was the largest semiconductor market in the world in 2015. Our Directors believe that one of the key strategies to achieve our goal is by strengthening our market presence and increasing our market share in the IC and other electronic distribution industry in the PRC Region. We also believe the expansion in geographical coverage of our network to overseas will provide us with sustainable growth opportunities. While most of our customers are based in the PRC Region currently, many manufacturers of electronic products have gradually established their presence in overseas, and we believe there will be growing demand for our products and services. When we select appropriate locations to expand into, which may include India, a market which we expect will have significant potential, and Japan, which has an established market of high-technology electronic products, we will carefully evaluate its IC and other electronic component procurement market, the future prospect, the availability of supplier resources. We will take a cautious approach to expand by hiring business representatives in a selected location to explore business opportunities first before considering setting up representative offices. We consider that India, Japan and the United States to be potential locations that we may expand into.

By raising our brand awareness and providing quality services to a targeted community, we expect to raise customer loyalty and enhance word-of-mouth marketing effects, which we believe will further broaden our customer base and gather a community of new customers with significant growth potential.

### **Strengthen Customer Loyalty by Continuing to Enhance our Value-added Services**

We believe our strategy of providing value-added services and engineering solutions that suit our customers' requirements has been one of the keys to our success and will continue to be an important factor in our continued success and growth.

We intend to continue strengthening and deepening strategic cooperation with our customers through setting foot in their new product design activities and providing technical support to enable our customers to achieve technological breakthrough and furtherance in their product development roadmaps. This in turn helps us create demand and increase transaction per customer. We intend to maintain our technical support capabilities and to continue to add to our library of engineering solutions that encompass products within our strategic segments by increasing our investment in research and development and to recruit additional experts to enhance our application engineering support capabilities so that we can offer the most efficient engineering support services to our customers.

We also plan to improve our inventory management and logistic services to provide timely supply of products to our customers by upgrading our inventory management and logistic system as well as our warehouse facilities. We consider that the above measures, together with our strategy to improve user experience through improving our e-commerce platform, are expected to promote customer loyalty and can be translated into higher sales per customer and revenue.

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### **Expand our Business through Investment and Acquisition**

We plan to further develop and enhance our product offering and services through horizontal expansion such as investment in, acquisition of, and/or formation of strategic cooperation with, (1) IC and other electronic component distributors. Our Group will select our targets with preference for (i) companies with product offerings that can help our Group to expand our product portfolio; (ii) companies that can help our Group to tap into market of new product segments; and/or (iii) companies that help our Group to tap into and explore the IC and other electronic component distribution industry overseas. Our Directors consider companies in both the PRC and overseas to be potential targets. For overseas market, the Directors consider that India, Japan and the United States to be potential locations that our Group may expand into; and (2) independent design house which maintain quality technology portfolios that can supplement our product offering and our library of engineering solutions. Our Group will also select target independent design houses with an aim to enabling us to acquire or develop new engineering solutions or enhance our technical knowhow in new product segments. We also select our target for investment and/or acquisition based on their size and customer profile.

We will also consider to expand vertically by possible investment in, acquisition of, and/or formation of strategic cooperation with, IC companies that we consider to possess substantial potential for growth. Our Directors will also select IC companies that are instrumental for our Group to secure stable supply of IC products, gradually expand our supplier base, and reduce reliance on our largest supplier. IC companies with products that complement our Group's existing product offering or in its new strategic product segments are considered suitable targets. Similarly, we will carefully select our target based on their capital requirement and technology profile, with a preference for those with technologies that complement our product offering or field applications in our new strategic product segments. Our Directors will select IC companies principally based on whether the IC company has high quality products or technologies. Therefore potential targets can be in the PRC or overseas. Backed by the favourable policies of the PRC government which promote and provide support for IC design and manufacturing industry in the PRC, we consider that IC design and manufacturing companies based in the PRC to be suitable targets among other possible locations.

Our Group did not engage in investment during the Track Record Period because our Directors considered that we should focus on our core business to build a solid foundation for future business growth. Our Directors also considered that, when our Group was still in early development stage, financial resources should be allocated in priority to grow our core business by cultivating a group of loyal customers with high business volume. Notwithstanding that our Group did not engage in investment activities during the Track Record Period, the management of our Group has accumulated experience and business connections in the industry that our Directors believe will enable them to identify and evaluate potential targets for investment or acquisition. As at the Latest Practicable Date, we have not identified any specific target for investment or acquisition but will continue to explore investment opportunities with companies that meet the above selection criteria or such other criteria that our management consider appropriate from time to time.

### **Use of Proceeds from the Global Offering for our Strategies**

Please see "Future Plans and Use of Proceeds" for the expected use of proceeds from the Global Offering for our future plans set out above, and we will use our internal resources to carry out the other strategies.

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### OUR BUSINESS MODEL

We are a distributor of IC and other electronic components in the PRC Region and adopt a buy-and-sell distribution model. We derive revenue principally by procuring IC and other electronic components from brand-name IC companies and selling them to electronics manufacturers in the PRC Region. Our products include a wide range of IC and other electronic components used in applications such as smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory products. We provide comprehensive value-added services to our customers covering pre-sale, sale and post-sale stages, including recommendation of engineering solutions and provision of field application engineering support. We typically do not charge our customers for our value-added services, but such services enable us to attract and retain customers to procure IC and other electronic components from us.

We adopt an OAO business model and operate an e-commerce platform together with a physical sales network of seven sales offices set up in selected areas within the PRC for the distribution of IC and other electronic components. Our e-commerce platform is an online front-end customer interaction interface made up of SMC Cloud, SuperIC Navigator and SuperIC Community. Our sales offices, sales representatives and application engineers represent the offline part of our OAO business model. Under such OAO business model, both the online business and the offline business are essential to our operation and going forward, we intend to focus on both the online and offline business operation equally. On one hand, we operate our e-commerce platform to accommodate customers that prefer to manage their procurement process online and as an additional sales and marketing channel to enhance our market presence, promote ourselves and reach out to potential customers that use the internet as their main tool to search for suppliers. On the other hand, a substantial part of our value-added services, which we believe to be one of our competitive strengths over other distributors, are by nature offline. One of such value-added services is the provision of field application engineering support to customers, which requires us to send our application engineers and technicians to our customer's facilities to provide on-site technical support. We therefore consider our online and offline business operations to be complementary to each other. As discussed in the paragraphs headed "Our Strategies" in this section, we plan to continue to develop our e-commerce platform and at the same time, add manpower to our sales team to expand our physical sales network. We consider that both our online and offline operations will continue to play an important role in furthering our business development in the foreseeable future.

Our customer base comprises blue chip customers as well as a community of SME customers. Revenue from sales to our blue chip customers represent 45.6%, 48.2%, 56.2% and 56.8% of our total revenue and that from sales to our SME customers represent 54.4%, 51.8%, 43.8% and 43.2% of our total revenue for FY2013, FY2014, FY2015 and 1Q2016 respectively. We typically set our selling price to our SME customers with a relatively higher profit margin.

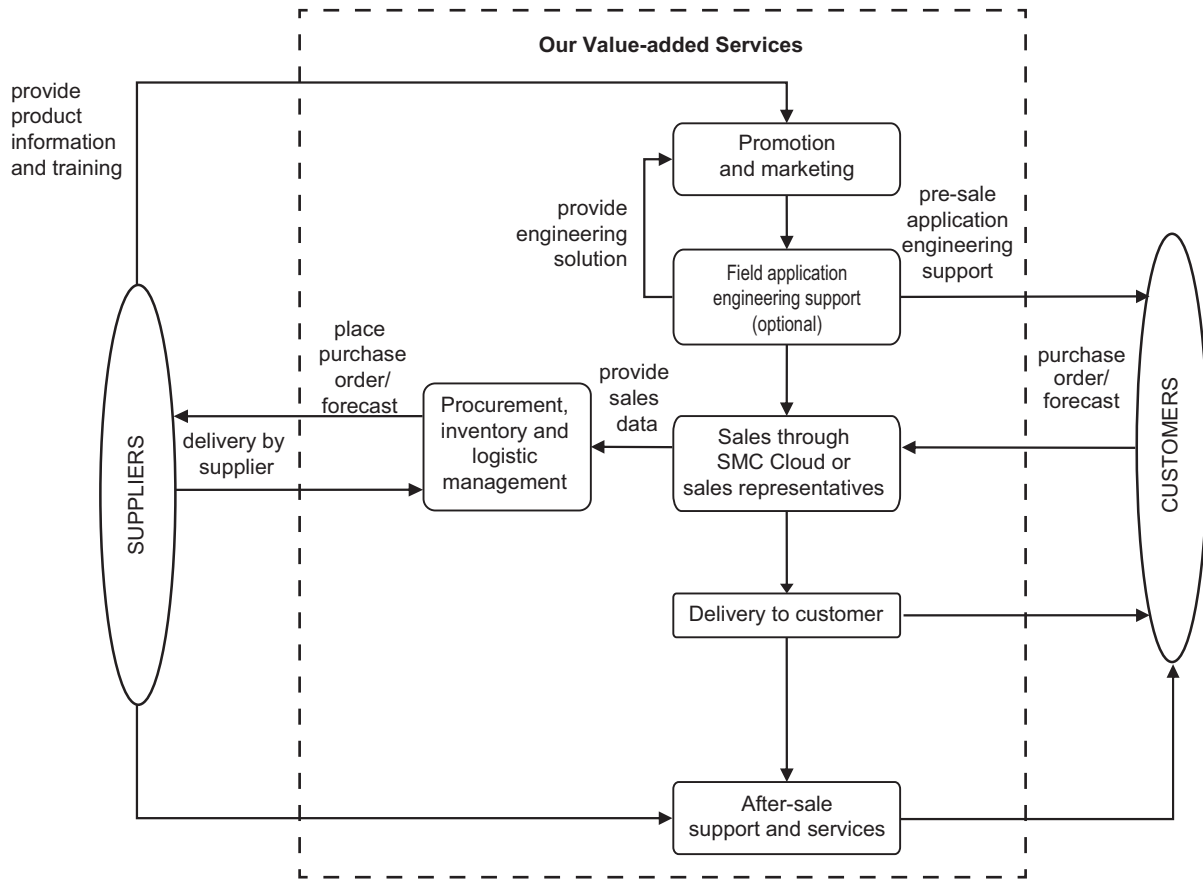
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### OUR BUSINESS PROCESS

The following diagram depicts our business process as a value-add distributor of ICs and other electronic components, which involves inter-departmental cooperation to deliver our products and engineering solutions to our customers.



We promote and market our products through our SMC Cloud, SuperIC Community, certain social media platform and our team of sales representatives. To provide pre-sale application engineering support, we may develop engineering solutions for new products of our suppliers to meet new market needs. Upon request, we may also customise engineering solution to meet the specifications or the intended purposes of the end-product of our potential customers as value-added services.

Our customers can provide us with their purchase forecasts or place purchase orders directly to us. Based on such sales data, our inventory level and market conditions, we prepare our procurement forecast and place purchase orders to our suppliers accordingly. We accept delivery from our suppliers generally in Hong Kong and make logistic arrangements to deliver the products to our customers generally in Hong Kong. After-sale technical support and services are also provided to our customers together with our suppliers.

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### OUR PRODUCTS AND VALUE-ADDED SERVICES

#### Our Products

We offer a wide range of ICs and other electronic components including advanced application specific SoC IC, memory products, power products and other peripheral IC and electronic components. For product management purposes, we classify our products into six product lines, namely smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics, memory and others.

**Smart media display** — this product line is made up of core SoC ICs, other peripheral ICs and electronic components commonly used in applications such as smart-TV, iDTV, smart projectors, smart white board and commercial displays.

**Intelligent broadcasting terminal** — this product line is made up of core SoC ICs, other peripheral IC and electronic components commonly used in production of set-top boxes, which includes Full HD digital set-top box, OTT set-top box which plays media contents from the internet and other set-top boxes for various television broadcasting standards.

**Mobile terminal** — this product line covers ICs used for touchscreen input sensing in touch screen panels for mobile handheld devices such as mobile phones, tablets and smart wearable devices.

**Smart automotive electronics** — this product line covers the core SoC IC and other electronic components for the manufacturing of electronic products used in cars, such as GPS navigation device, entertainment system and car driving recorder.

**Memory** — this product line comprises ICs, modules and memory components used for storage of programme codes and data in electronic products. Examples of which include DRAMs and flash memory.

**Others** — this product line covers all products not included in the above product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.

#### Sales of Products during the Track Record Period

The consumer electronic products which use our ICs and components typically have a short product life cycle and are subject to fast-changing product trends and constantly evolving technologies, and thus our customers generally have to make frequent purchases.

During the Track Record Period, we derived most of our revenue from distribution of products under smart media display, intelligent broadcasting terminal and memory product lines. The table below shows a breakdown of our revenue by product category.

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
	(unaudited)									
<b>Product type</b>										
Smart media display . . . . .	161,350	57.1	225,743	56.7	281,015	57.9	48,940	60.7	69,876	48.1
Intelligent broadcasting terminal . . . . .	30,700	10.9	55,886	14.0	57,581	11.9	6,487	8.0	31,666	21.8
Mobile terminal . . . . .	27,567	9.7	24,020	6.0	26,283	5.4	6,096	7.6	5,702	3.9
Smart automotive electronics . . . . .	8,747	3.1	10,788	2.7	12,383	2.6	2,356	2.9	2,395	1.6
Memory . . . . .	50,257	17.8	54,615	13.7	75,308	15.5	12,457	15.5	17,776	12.2
Others <sup>(Note)</sup> . . . . .	3,931	1.4	27,464	6.9	32,801	6.7	4,258	5.3	17,894	12.4
<b>Total . . . . .</b>	<b>282,552</b>	<b>100.0</b>	<b>398,516</b>	<b>100.0</b>	<b>485,371</b>	<b>100.0</b>	<b>80,594</b>	<b>100.0</b>	<b>145,309</b>	<b>100.0</b>

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*Note:* This segment covers all products not included in the smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.

### **Our Engineering Solutions and Field Application Engineering Support**

#### ***Engineering Solutions***

To develop an electronic product, its developer will usually follow the steps set out below: (1) define the functional specifications of the product; (2) design a system, including hardware and software, that meets the target functional specifications; (3) source for applicable IC and other electronic components from various suppliers, and design the circuit board to implement the system; (4) manufacture a prototype, conduct testing and adjustments on the prototype until it meets the target functional specifications; and (5) conduct trial production of the electronic product. According to the Analysys Report, the development time for electronic products such as smart-TV and set-top box is approximately three to six months. The fees for engaging an independent design house to develop a product varies significantly, but generally between the range of US\$0.3 million and US\$0.8 million.

Our application engineering team add value to our customers by developing and customising our engineering solutions that meet functional specifications commonly adopted in our customers' end-products. By using our engineering solutions in the manufacture of their end products, our customers' will effectively shorten the product development time and lower their product development costs (as compared to developing their end product from scratch). Our engineering solutions also eliminate our customers' need to engage independent design house to develop their end product as they are provided with our engineering solutions that can be applied to produce their end products. When our customers have difficulties in applying our IC or engineering solutions to manufacture their end products, we will also provide them with field application engineering support. Although we generally do not charge our customers separately for the provision of these services, we believe it is one of our major strengths and a reason why our customers choose to purchase products from us and our suppliers select us as their authorised distributor.

We develop engineering solutions to cater for the use of new products introduced by our suppliers or based on the new potential application of our suppliers' products identified as a result of our market research. Our engineering solution is not a customisation of our suppliers' products, but a solution on how to build an end product based on our suppliers' ICs and other electronic components. For example, if our supplier notifies us that it intends to introduce a core SoC IC for smart-TV that supports ultra-HD display, we may take the initiative to design an engineering solution for the mainboard of a smart-TV with ultra-HD display using our supplier's new core SoC IC. Such engineering solution will comprise (1) a system hardware design together with a bill of material (BOM) list of IC and other electronic components required to build the design, including the new core SoC IC of our supplier, memory chips, power devices and other components; (2) a design for electric circuit and layout of the mainboard on which the ICs and other electronic components are to be mounted and connected electrically; and (3) a set of software codes to control the operation of the system. When the new core SoC IC of our supplier is introduced to the market, our customers can purchase the new core SoC IC and other IC and electronic components used in the engineering solution (such as the memory chip and power devices) from us and will be provided the engineering solution for the mainboard of



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the smart-TV with ultra-HD display. We may also develop engineering solutions upon customers' request. We believe that engineering solutions is value-added to our customers as it enables our customers to reduce their time and costs for product development and keep abreast with the latest technological developments.

We conduct research and keep ourselves abreast of changing market demand and the latest development in relevant technology, and identify new engineering solutions which might be of interest to our existing or potential customers. We then conduct market feasibility and technical feasibility studies on the proposed engineering solutions to refine their functional specifications. The development process of the engineering solution is concluded by a documentation of the engineering solutions, which typically includes a design manual, the printed circuit board design, a bill of material (BOM) containing all requisite ICs and electronic components used and the accompanying software codes. We also procure requisite ICs and other electronic components in such BOM from IC companies or their authorised distributors for our customers in the event that we are not the authorised distributor for such IC or electronic components. Customers can further customise our engineering solutions easily to suit their more specific requirements.

### ***Field Application Engineering Support***

We provide our customers with field application engineering support to customise our engineering solutions to tailor for the functional specifications of their end-products. We provide such field application engineering support services generally at pre-sale stage. When we are notified by our customers of their plans to develop a new product or upgrade their existing products, we discuss with the customer to obtain information such as the functional specifications, development schedule and estimated production volume to assess the technical and financial feasibility of such project. Once the information is confirmed, we work with the customer to customise our engineering solution, which is generally followed by the monitoring of the product verification and debug process, pilot production of prototype until the engineering solution is ready for mass production. For example, if our customer plans to introduce a smart-TV with ultra-HD display, we can customise our existing engineering solution based on the product specifications provided by that customer. The customer may request its smart-TV to have higher internal memory storage capacity to allow the user to store more video games, which requires us to include more memory components with higher storage capacity. The customer may also request that its smart-TV to have larger display size or a slimmer product design and to cater for such design needs, we may need to select a more advanced display driver IC and thinner electronic components. In the event our customer encounters difficulties in adopting our engineering solutions, we also provide them with on-site technical support in applying our engineering solutions to their products. Our customers then purchase from us the requisite ICs and electronic components we offer based on the BOM for mass production of their end products.

As at 31 March 2016, we have a team of application engineers and technicians which accounted for approximately 30% of our staff to provide our customers with engineering solutions and on-site technical support from design to mass production of their end products. As at the Latest Practicable Date, our library of engineering solutions comprised over 160 sets of engineering solutions for a broad range of end products such as smart-TV, analog and digital TV, set-top box, smart projector, automotive entertainment system, driving recorders, GPS

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navigation devices, VR headset, baby monitor, security monitoring, wireless charger, optical communication for data centre, drone and charging station for automotive powered by electricity.

### SALES AND MARKETING CHANNELS

#### Our E-commerce Platform

Our e-commerce platform is distinctive in the sense that it is made up of two components, our online sales platform SMC Cloud "[www.superic.com](http://www.superic.com)" and our marketing and technology exchange platforms SuperIC Community "[bbs.superic.com](http://bbs.superic.com)" and SuperIC Navigator "[hao.superic.com](http://hao.superic.com)", instead of a mere online sales platform for distribution of IC and other electronic components. The purposes of our e-commerce platform are to provide an online marketing channel for our Group to attract new customers as well as a convenient online sales channel for existing customers and new customers to transact with us. The marketing function of our e-commerce platform comprises SuperIC Community and SuperIC Navigator. SuperIC Community is a forum designated to facilitate exchange of technical expertise and latest development trends of the electronics industry among industry players. It also enables our application engineers and technicians to provide technical support to our customers online. SuperIC Navigator aims to be a homepage that systematically presents hyperlinks to websites useful for professionals in the electronics industry under separate categories. Both SuperIC Community and SuperIC Navigator are designed to attract industry professionals who are looking for information on electronic components or electronic products to follow us and direct them to our online sales platform SMC Cloud. The sales function of our e-commerce platform is our SMC Cloud, which is an online sales platform where customer can find information on our products and engineering solutions, obtain price quote from and place orders to us. It serves as a convenient tool for our customers to transact as well as manage its business relationship with us.

#### *SMC Cloud*

Our sales platform is supported by a cloud based back-end operation system and an ERP system which allows all users to browse and search our products, and users with registered accounts may request for samples and price quote, place purchase orders, track purchase orders and review historical purchase orders online.

In February 2015, we first launched our e-commerce platform for the distribution of our products. We believe that our e-commerce platform will enable us to expand the market for our products to customers who prefer online procurement and to customers in geographical regions in the PRC which are currently not covered by our network of sales offices. We are continuously enhancing and developing our e-commerce platform comprising SMC Cloud, SuperIC Community and SuperIC Navigator, to streamline our customers' procurement process, so that customers can enjoy better transaction experience and obtain technical support from us more easily. Our SMC Cloud now features an interactive and user-friendly interface designed for the convenience of our customers. It allows them to search for and locate products and engineering solutions, make purchase order and track the delivery of orders online easily. We also display product listing, including the latest products, engineering solutions and development tools. Our registered users can request for price quote and product samples, place purchase orders, browse their order history and track their order status after logging into SMC Cloud.

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All users of SMC Cloud can browse and search for our products but users are required to register an account on SMC Cloud to enjoy other functions such as requesting for price quote and samples and submitting purchase orders. We have a registration process to verify the identity of our users. To become a registered user, a new user must provide basic information about its company and upload documentary proof, such as its business registration or business license and tax registration certificate. As at the Latest Practicable Date, our SMC Cloud has over 5,100 registered users and approximately 270 active users.

The procurement process of our online customers<sup>Note</sup> on SMC Cloud generally includes the following steps:

1. Browsing and searching
2. Requesting for price quote
3. Placing purchase order
4. Tracking order status
5. Reviewing historical purchase orders

**Browsing and searching** — On SMC Cloud, our product offering are organised in several ways to help users locate the products they need efficiently. We arrange our product offering into 15 portfolios based on the functionality of the IC or electronic component to provide users with quick access to different types of products. The portfolios are set out below:

- SoC ICs
- Microcontroller units/Digital signal processors
- Memory
- Signal/Connectivity
- Wireless/Radio frequency (RF)
- Analog-to-digital converter (ADC) and Digital-to-analog converter (DAC)/Filters
- Power electronics
- Discrete semiconductors
- Protection devices
- Sensors
- Optoelectronics
- Passive components
- Switches/Connectors
- Modules
- Others

As an alternative to the above, our products and engineering solutions are also categorised into the 10 application areas set out below such that users can locate products relevant to their target applications more conveniently:

- Consumer electronics
- Display system
- Intelligent terminal

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<sup>Note:</sup> We define “online customers” as customers who have registered accounts at SMC Cloud and have used SMC Cloud to manage one or more steps in the completion of the procurement process (including browsing and searching, requesting price quote, placing purchase order, tracking order status and reviewing historical purchase orders).

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- Mobile connection
- Access technology
- Security monitoring
- Automotive electronics
- Energy control
- Health and medical
- Industrial control

Customers looking for a specific product can also search for the product by fuzzy search on its part number.

**Requesting for price quote** — On SMC Cloud, our registered users can submit request for price quotes after identifying a desired product. The registered user can place the desired product into the price quote basket and will be asked to input information such as the quantity, delivery method and expected purchase price. Our sales representatives will then provide the registered user with a price quote online. If the registered user is satisfied with the price quote, he may proceed to place purchase order for the desired product. If the registered user is not satisfied with the price quote, he may enter into price negotiation with our sales representative directly through the “online customer services” function on SMC Cloud or through our customer service hotline.

**Placing purchase order** — After the registered user has confirmed the desired product, quantity, price and other transaction details and submitted the purchase order, our sales personnel will review the order before confirming the order. We also have a “Rapid Purchase Order Placing” function where our sales representative after communication with the registered users prepares the price quote for the registered user to confirm via SMC Cloud. The confirmed order will be extracted to our ERP system for further processing.

**Tracking order status** — A registered user can track the processing status of its purchase orders on the SMC Cloud, irrespective of whether the order is made online through SMC Cloud or offline through our sales representatives. Customers who purchase our products offline are also provided with an account to SMC Cloud so that they can enjoy this function as well. After the order is delivered, a registered user can confirm delivery online.

**Reviewing historical purchase orders** — Customers generally settle payments through telegraphic transfers or post-dated cheques. Registered users can review their historical purchase orders on our SMC Cloud.

In 2016, we have increased our sales and marketing effort in promoting our e-commerce platform by sending our sales representatives to our customers to introduce and demonstrate various functions of our e-commerce platform, with the aim of attracting more online customers.

Revenue from sales attributable to our online customers for 1Q2016 was US\$103.8 million, representing 71.4% of our overall revenue for the three months ended 31 March 2016. Our e-commerce platform was launched in February 2015, and we had only started to promote it after it was upgraded to the current version in December 2015. We did not adopt the relevant procedure to clearly separate revenue generated from sales attributable to online customers from our other revenue during 2015. As such, information on revenue from sales attributable to online customers during the 2015 are not available.

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Given the relatively short history of operation of our upgraded e-commerce platform, only a modest number of 19 new online customers (which is defined as the number of online customers that conducted its first transaction with our Group after our upgraded e-commerce platform having been launched in December 2015) was recorded as at 31 March 2016. Sales attributable to such new online customers was approximately US\$1.0 million during the three months ended 31 March 2016. Our Directors believe that the relatively low number of new online customers and revenue attributable to such new online customers are due to the product development time of electronic products. After a potential customer obtain product information from us, it may have to go through the product development process as set out in the first paragraph under the heading “Our Engineering Solutions and Field Application Engineering Support — Engineering Solutions” in this section to develop its product before purchasing from us. Therefore, our Directors believe that it may take some time for a new registered user of our e-commerce platform to complete its first transaction with us. Notwithstanding that since the commencement of the operation of our e-commerce platform, it has mainly been providing a convenient way for existing customers to transact with us, our Group intends that the e-commerce platform will not only be for such purposes, but will also be our sales and marketing platform to attract new customers. As disclosed in the paragraphs headed “Our Strategies”, our Group intends to increase our promotional effort for our e-commerce platform and our Directors believe that with increased promotion, including promotion through our Smart-Core Planet which aims to attract start-up companies and SME customers, together with the change in procurement habit from offline to online, our e-commerce platform will become a more significant sales channel of our Group and an important online marketing tool under our OAO business model in the future.

### ***SuperIC Community and SuperIC Navigator***

We also launched SuperIC Navigator “[hao.superic.com](http://hao.superic.com)” and SuperIC Community “[bbs.superic.com](http://bbs.superic.com)” in December 2015 as the online marketing and promotion branch of our e-commerce platform. We target to attract and cultivate a community of SME customers, particularly those engaging in technology areas including our existing key product categories, as well as new strategic product segments which we believe to have significant growth potential, to use our SuperIC Community and SuperIC Navigator as their home page to search for and gather industry and product information. For further details of our strategic product segments, please refer to the paragraphs headed “Our Strategies — Continue to Expand our Product Segments with Strong Market Potential”.

SuperIC Community is a forum for professionals in the electronics industry to exchange ideas, share technical expertise, discuss innovative technology development and look for technical support. We provide latest development of and promote discussion focusing on the above product segments. We post solutions to frequently encountered technical difficulties on SuperIC Community. Through the private chat room in SuperIC Community, our customers can discuss potential application or any technical difficulty encountered in application of our products with our application engineers. We also leverage on our in-depth knowledge in specialty areas such as smart media display, intelligent broadcasting terminal and memory products by posting related product information and discussion topics to attract industry professionals seeking such information to follow and participate in our SuperIC Community.

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SuperIC Navigator aims to be a homepage that systematically presents hyperlinks to websites useful for professionals in the electronics industry under separate portfolios. Examples of such portfolios include IC companies, discussion forums for industry professionals, various technology areas and incubators.

We believe that both SuperIC Navigator and SuperIC Community help promote our brand recognition, and direct online traffic to our SMC Cloud.

### **Sales Offices and Sales Personnel**

We have an established network of seven sales offices in Shenzhen, Shanghai, Xiamen, Beijing, Chengdu, Nanjing and Wuhan.

Other than placing purchase orders through our SMC Cloud, our customers can place purchase orders or provide purchase forecasts to us through our sales representatives using other means such as telephone or email. Our sales representatives will input the desired product, quantity, price and other transaction details to our information system for further processing so that the customer can track processing status of the purchase order online even though the order was placed offline. We set structured approval rights for the price quotes and purchase orders submitted by our customers through our SMC Cloud or sales representative.

While our e-commerce platform enables us to reach out to our target customer group, our sales offices, sales representatives and application engineers represent the offline sales channel of our OAO business model, which enables us to maintain close business relationship with our customers. Our sales personnel are equipped with product expertise and industry know-how to provide professional guidance on product selection, price, payment and procurement management to ensure an efficient and informed purchasing experience. We make annual, quarterly and monthly business plan and maintain regular contact with our customers to collect information such as their procurement needs and forecasts, new product plan as well as feedback on our products and services.

### **CUSTOMERS**

We have established a large and diversified customer base of over 1,300 customers. We cater to the needs of electronics manufacturers of all scales, including blue chip customers and SME customers. We classify our customers into blue chip customers and SME customers mainly for sales management purposes. Our blue chip customers are companies that our Directors believe are strategically important to our business development, which are generally (i) considered by our Directors to be well-known in the industry; (ii) with revenue of over RMB300 million; and/or (iii) have annual sales of over US\$5 million with us. Therefore we generally dedicate more resources to provide better customer services to and maintain our business relationship with them. Revenue from sales to our blue chip customers represent 45.6%, 48.2%, 56.2% and 56.8% of our total revenue and that from sales to our SME customers represent 54.4%, 51.8%, 43.8% and 43.2% of our total revenue for FY2013, FY2014 and FY2015 and 1Q2016 respectively.

We have a loyal customer base resulting from our keen focus on providing competitive prices and comprehensive online and offline services across pre-sale, sale and post-sale stages. In addition, as the electronics industry is subject to short product life cycles, fast changing product trends and constantly evolving technologies, electronics manufacturers often

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need to make frequent purchases. Accordingly, in 2015, we generated approximately 90% of our revenue from return customers, which we define as those who, at the time of a particular transaction, had completed at least one prior transaction with us in the previous two years.

### Our Major Customers

Our top five customers during the Track Record Period include leading brand-name consumer electronic product manufacturing companies, ODMs and OEMs in the electronic product industry in the PRC Region. For FY2013, FY2014, FY2015 and 1Q2016, sales to our five largest customers amounted to approximately US\$144.7 million, US\$217.0 million, US\$286.7 million and US\$86.0 million and accounted for 51.3%, 54.4%, 59.2% and 59.1% of our total revenue respectively. Sales to our largest customer were US\$64.6 million, US\$101.2 million, US\$144.0 million and US\$38.4 million and accounted for 22.9%, 25.4%, 29.7% and 26.4%, respectively of our total revenue for FY2013, FY2014, FY2015 and 1Q2016 respectively.

The table below sets out information on our top five customers during the Track Record Period:

<u>Customer</u>	<u>Sales (US\$ million)</u>	<u>Percentage of our total revenue</u>	<u>Background and principal business</u>	<u>Types of IC and electronic components purchased from us</u>	<u>Years of business relationship with us</u>
<b>FY2013</b>					
Guangzhou Shiyuan Electronics Co., Ltd	64.6	22.9%	A PRC-based company which is engaged in design and development of LCD TV mainboard, TV power supply products, commercial display equipment, smart audio equipment, set-top box & dongle equipment, car infotainment system and smart home products	Smart media display, memory, others <sup>(Note)</sup>	5
Shenzhen Chuang Wei-RGB Electronics Co., Ltd	53.9	19.1%	A principal subsidiary of a Hong Kong listed company which is situated in Shenzhen of the PRC and manufactures TV and its related products, selling its products through branch offices and distributors	Smart media display, memory, others <sup>(Note)</sup>	10

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Customer	Sales (US\$ million)	Percentage of our total revenue	Background and principal business	Types of IC and electronic components purchased from us	Years of business relationship with us
Realcom Industry Limited	9.8	3.5%	A private company incorporated in Hong Kong which principally engages in production and sale of mobile mainboard and mobile phone	Memory, others <sup>(Note)</sup>	4
Shenzhen Each Electronics Co Ltd	8.2	2.9%	A PRC company principally engages in manufacture, research and development and sale of touch screen display products	Mobile terminal	3
Customer I	8.1	2.9%	A Hong Kong company principally engages in sales of LCD TV	Smart media display, memory	3
<b>FY2014</b>					
Guangzhou Shiyuan Electronics Co., Ltd	101.2	25.4%	A PRC-based company which is engaged in design and development of LCD TV mainboard, TV power supply products, commercial display equipment, smart audio equipment, set-top box & dongle equipment, car infotainment system and smart home products	Smart media display, memory, others <sup>(Note)</sup>	5
Shenzhen Chuang Wei-RGB Electronics Co., Ltd	68.5	17.2%	A principal subsidiary of a Hong Kong listed company which is situated in Shenzhen of the PRC and manufactures TV and its related products, selling its products through branch offices and distributors	Smart media display, memory, others <sup>(Note)</sup>	10



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Customer	Sales (US\$ million)	Percentage of our total revenue	Background and principal business	Types of IC and electronic components purchased from us	Years of business relationship with us
Le Shi Zhi Xin Electronic & Technology Co. Ltd Tian Jin	21.5	5.4%	A subsidiary of the largest Chinese online video company listed on Shenzhen Stock Exchange and PRC A-share market which manufactures TV, hard disk player and set-top box, electronic products and mechanical equipment and engaged in information technology, advertising, and import and export business	Smart media display	1
Realcom Industry Limited	16.5	4.1%	A private company incorporated in Hong Kong which principally engages in production and sale of mobile mainboard and mobile phone	Memory, others <sup>(Note)</sup>	4
Shenzhen Siviton Technology Co Ltd	9.3	2.3%	A PRC company specialised in designing, selling LCD TV and AD board, with maximum monthly production capacity of 40 million pieces of boards, including board of LCD TV, mobile phone, IPTV box and DVD player	Smart media display, memory, others <sup>(Note)</sup>	6
<b>FY2015</b>					
Guangzhou Shiyuan Electronics Co., Ltd	144.0	29.7%	A PRC-based company which is engaged in design and development of LCD TV mainboard, TV power supply products, commercial display equipment, smart audio equipment, set-top box & dongle equipment, car infotainment system and smart home products	Smart media display, memory, others <sup>(Note)</sup>	5

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Customer	Sales (US\$ million)	Percentage of our total revenue	Background and principal business	Types of IC and electronic components purchased from us	Years of business relationship with us
Shenzhen Chuang Wei-RGB Electronics Co., Ltd	64.5	13.4%	A principal subsidiary of a Hong Kong listed company which is situated in Shenzhen of the PRC and manufactures TV and its related products, selling its products through branch offices and distributors	Smart media display, memory, others <sup>(Note)</sup>	10
Le Shi Zhi Xin Electronic & Technology Co. Ltd Tian Jin	43.8	9.0%	A subsidiary of the largest Chinese online video company listed on Shenzhen Stock Exchange and PRC A-share market which manufactures TV, hard disk player and set-top box, electronic products and mechanical equipment and engaged in information technology, advertising, and import and export business	Smart media display	1
Shenzhen Twowing Technologies Co., Ltd	17.4	3.6%	A company located in Shenzhen of the PRC and specialised in manufacture and design of telecommunication products	Memory	1

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Customer	Sales (US\$ million)	Percentage of our total revenue	Background and principal business	Types of IC and electronic components purchased from us	Years of business relationship with us
Shenzhen Skyworth Digital Technology Co Ltd	17	3.5%	A subsidiary of a company listed on Shenzhen Stock Exchange which focuses on providing digital TV products and services. The Company researches, designs, develops, produces, and sells digital TV set top boxes, digital televisions, smart networking devices, network access devices, car electronics, car networking equipment, and other products	Intelligent broadcasting terminal	4
<b>1Q2016</b>					
Guangzhou Shiyuan Electronics Co., Ltd	38.4	26.4%	A PRC-based company which is engaged in design and development of LCD TV mainboard, TV power supply products, commercial display equipment, smart audio equipment, set-top box & dongle equipment, car infotainment system and smart home products	Smart media display, memory, others <sup>(Note)</sup>	5
Realmobile Electronics (Hong Kong) Ltd	13.5	9.3%	A private company incorporated in Hong Kong which principally engages in production and sale of mobile phone solutions	Memory, others <sup>(Note)</sup>	1

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Customer	Sales (US\$ million)	Percentage of our total revenue	Background and principal business	Types of IC and electronic components purchased from us	Years of business relationship with us
Le Shi Zhi Xin Electronic & Technology Co. Ltd Tian Jin	12.0	8.2%	A subsidiary of the largest Chinese online video company listed on Shenzhen Stock Exchange and PRC A-share market which manufactures TV, hard disk player and set-top box, electronic products and mechanical equipment and engaged in information technology, advertising, and import and export business	Smart media display	1
Shenzhen Chuang Wei-RGB Electronics Co., Ltd	11.6	8.0%	A principal subsidiary of a Hong Kong listed company which is situated in Shenzhen of the PRC and manufactures TV and its related products, selling its products through branch offices and distributors	Smart media display, memory, others <sup>(Note)</sup>	10
ZTE Kangxun Telecom Co., Ltd	10.5	7.2%	A subsidiary of a company listed on Hong Kong Stock Exchange and the Shenzhen Stock Exchange which principally engages in telecommunications and related equipment manufacturing	Intelligent broadcasting terminal	1

*Note:* This segment covers all products not included in smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.

To the best of our Directors' knowledge, none of our Directors or their respective close associates or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest customers during the Track Record Period.

Continuing to expand our customer base has been one of our key strategies for our sustainable growth. Our e-commerce platform and our Smart-Core Planet represent our initiatives to attract SME customers and start up technology companies. We will continue to improve our e-commerce platform and promote our e-commerce platform and our products

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online and offline, as well as to seek collaboration opportunities with more incubators through our Smart-Core Planet. For details of our strategy on enhancing our e-commerce platform, please see the paragraphs headed “Our Strategies — Improve Procurement Experience of our Customers by Further Enhancing and Developing our E-commerce Platform” in this section of the prospectus. For details of our Smart-Core Planet, please see the paragraphs headed “Our Strategies — Achieve Continuous Growth by Nurturing a Collaborative Eco-system for the Electronics Industry through our Smart-Core Planet” and the paragraphs headed “Sales and Marketing — Marketing and Promotion — Smart-Core Planet” in this section of the prospectus. For details of our sales and marketing strategies, please see the paragraphs headed “Our Strategies — Broaden our Customer Base by Bolstering our Online and Offline Sales and Marketing Initiatives” in this section of the prospectus.

### SALES AND MARKETING

#### Pricing Policy

Our product pricing takes into account various factors, including our procurement and operation costs, profit margin, as well as market competition and conditions. We have adopted a set of pricing guidelines and set target profit margin range for our products, and our product managers review and adjust the target profit margin range in the pricing guidelines from time to time. For sales to blue chip customers, we typically attain a higher sales volume and set our selling price with a relatively lower profit margin, whereas for sales to SME customers, we typically set our selling price with a relatively higher profit margin.

On SMC Cloud, we also adopt the price quotation system for registered users to submit request for price quotes and/or negotiate purchase price for individual products instead of listing out the standard unit prices. We believe such pricing system allow us higher flexibility in pricing our products based on individual transaction details such as purchase volume and delivery means requested by the customers. It also allows us to implement credit policies more effectively.

#### Credit and Payment Terms

Our customers generally settle payment for their purchases from us in US\$ by telegraphic transfer. Before accepting any new customers to settle payment on credit, our Group will apply an internal credit assessment policy to assess the potential customer’s credit quality and define credit limit and credit period by customer. Such credit assessment policy is consistently adopted for all customers, and for all requests for credit terms by customers, irrespective of the length of credit period requested. The credit period is generally 0 to 90 days for our customers. Each customer has a maximum credit limit. We generally only provide credit terms to our customers upon their request. In considering whether we are to provide any credit terms to a requesting customer, we consider factors including, among others, (i) the business volume with the requesting customer; (ii) credit quality of the requesting customer; and (iii) our liquidity and level of unutilised banking facilities. In assessing the credit quality of the requesting customer, we conduct a review of the business licence and the financial information provided to us by the requesting customer. We may require its legal representative and/or shareholders to provide us guarantee in respect of the customer’s payment obligations if we consider necessary. We seek to maintain strict control over outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by our senior management.

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We generally require a customer to settle payment for its previous orders or apply for increase in credit limit with us before processing its new order if the customer has already exceeded its credit limit.

### **Marketing and Promotion**

We launched SuperIC Navigator and SuperIC Community as the online marketing and promotion branch of our e-commerce platform. Please refer to the paragraphs headed "SuperIC Community and SuperIC Navigator" in this section for further details. Apart from online marketing and promotion, in order to maintain close relationships with our customers, our sales team keeps regular contact with our customers so that we are kept informed of the latest developments in respect of our customers' businesses as well as their on-going requirements. Our sales and application engineering teams also communicate with our customers from time to time to keep them informed of our latest product offering and engineering solutions available. We also participate in trade exhibitions with our brand-name suppliers to further develop our relationships with potential customers.

### ***Smart-Core Planet***

We strive to expand our market share and achieve sustainable growth. One of the strategies we adopt to achieve such goal is by cultivating a customer base of SMEs and start-up companies, and nourishing them by providing them with our products and value-added services to help them grow and develop. According to the Analysys Report, internet enterprises has entered into a hardware innovation era. Approximately 1,800 incubators are helping start up entrepreneurs to bring a concept to fruition have been established in the PRC Region in 2015. To capture this wave of growth and expand our SME customer base, we launched our Smart-Core Planet in November 2015, which is an initiative to explore and seek collaboration opportunities with incubators in the electronics industry and provide our products, engineering support and supply chain services to their incubated entities.

Under Smart-Core Planet, we collaborate with incubators to promote our Group to their incubated entities and provide them with following services:

- (1) engineering solutions and application engineering support to facilitate product development. We have a library of engineering solutions for start-up entities to adopt and build on to create their own end-products. We also offer product samples and development boards on SMC Cloud which our Directors believe are useful for start-up entities for product development. Our application engineering team also provides them technical support in applying our products through SuperIC Community and on-site support;
- (2) a low cost and convenient means to access authentic brand name ICs and electronic components. As brand name IC companies and large distributors mainly serve blue chip manufacturers, SMEs and start-up companies mainly procure from small trading companies and retail distributors, based on the Analyses Report. We work with incubators to introduce our Group and our e-commerce platform to incubated entities, and help them register and use our e-commerce platform to procure ICs and electronic components from us. Being an authorised distributor, we have direct access to ICs and electronic components, therefore our Directors believe our prices

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are more competitive than trading companies and retail distributors and are more attractive to start-up companies;

- (3) BOM procurement. After a product is developed, we assist the incubated entity to procure ICs and electronic components required in the BOM. The incubated entity can provide us with the BOM for us to arrange procurement of the requisite ICs and electronic components. We also procure requisite ICs and other electronic components in such BOM from IC companies or their authorised distributors for our customers in the event that we are not the authorised distributor for such IC or electronic components.

Our Smart-Core Planet currently targets incubators that foster smart appliances businesses. We have entered into co-operation agreement with an incubator 海峽兩岸無人機暨智能機器人孵化基地 (China and Taiwan Drones and Intelligent Robots Incubator) that is devoted to assist entrepreneurs and entities in the PRC and Taiwan in the development of drones and robotics technologies. As at the Latest Practicable Date, we have entered into collaboration arrangements with three incubators, and we intend to seek collaboration opportunities with more incubators through our Smart-Core Planet. Pursuant to the collaboration agreements, the incubators are responsible for, among others, (i) recruiting and evaluating suitable incubated entities; (ii) organising seminars on topics such as entrepreneurial training, supply chain and intellectual properties, where our Group can be invited to seminars on supply chain related topics; (iii) facilitating our Group's provision of its supply chain services by establishing contact point and designated personnel for our Group in the incubator; and (iv) recommending our services to its incubated entities that require supply chain services. In return, our Group is responsible for, among others, (i) assisting the incubator to provide supply chain services and promote the development of its incubated entities; (ii) supporting the incubator in selecting and evaluating incubated entities and to provide its services to incubated entities at price more favourable than market prices subject to actual agreement that may be entered into by the incubated entities and us; (iii) providing support to the incubated entities, such as by providing product samples, development board and technical support, and inviting experts and media or co-organise activities with the incubator; and (iv) arranging for relevant experts to provide trainings to incubated entities regularly and promptly handle requests of its incubated entities. Each of the collaboration agreements may be terminated (i) by mutual agreement of the parties to the collaboration agreement; (ii) the occurrence of certain force majeure events; (iii) in the event that a breach of one party on its obligations under the collaboration agreement resulting in the aim of the collaboration agreement incapable of being achieved; and (iv) any other events rendering the performance of the collaboration agreement impractical.

### Customer Service

We place a high priority on providing our customers with consistently high quality service and support, which we believe is critical to our long-term success. We have invested significant financial, management and human resources to provide our customers with customised and technical services across pre-sale, sale and post-sale stages. Our sales personnel are equipped with product expertise and industry know-how to provide professional guidance on product selection, price, payment and procurement management to ensure an efficient and informed purchasing experience. Our application engineers and technicians offer our customers extensive pre-sale consultation and on-site technical support on functional specifications optimisation, product development and mass production of end products. Please

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refer to the paragraphs headed “Our Products and Value-added Services — Our Engineering Solutions and Field Application Engineering Support” of this section of the prospectus for further details.

### **Seasonality**

During the Track Record Period, our sales were generally higher in the second half of each year, and we believe that this is due to the increase in production of our major customers that are consumer electronics manufacturers, and such customers typically increase their procurement volume to prepare for the higher sales of their end-products in the holiday seasons in December and January.

### **Market and Competition**

According to Analysys, the PRC Region is the largest semiconductor market in the world in 2015 and the IC and other electronic components procurement market in the PRC Region was RMB2.4 trillion in 2015. The size of electronic product manufacturing market was RMB15.6 trillion in 2015. Further details and market trend of our key segments and strategic segments can be found in the paragraphs headed “IC and Other Electronic Components Market in the PRC — Markets of selected electronic product manufacturing segments in the PRC Region” in the “Industry Overview” section of this prospectus.

According to Analysys, the IC and other electronic components distribution channel structure in the PRC Region is intensely competitive and highly fragmented. In 2015, there were approximately 100,000 distributors with the top 10 offline distributors accounted for less than 5% of the total market in the PRC Region. Please refer to the paragraphs headed “IC and other electronic components supply chain in the PRC Region” and “Competitive Landscape of the IC and other electronic components distribution market in the PRC Region” of the “Industry Overview” section of this prospectus for further details of our competitive landscape.

### **SUPPLIES AND PROCUREMENT**

We purchase products from over 150 suppliers principally from Taiwan and the PRC and had approximately 60, 93, 121 and 158 suppliers in FY2013, FY2014, FY2015 and 1Q2016 respectively. We enjoy long-term and stable relationship with our major suppliers for up to 10 years.

As an authorised distributor, we procure primarily from the IC companies. In the event of shortage of supply from IC companies, we procure from other authorised distributors or agents of the relevant IC companies. We consider the delivery date, price and quality of the products supplied by such authorised distributors or agents in selecting the suppliers of our products. We recognise the importance of using reputable principal suppliers and are constantly seeking new principal suppliers to complement our existing range of products and to expand to new technologies for the up and coming markets. For our strategy on expanding our product offering, please refer to the paragraphs headed “Our Strategies — Continue to Expand our Product Segments with Strong Market Potential” and “Our Strategies — Expand our Business through Investment and Acquisition” of this section of the prospectus.



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### Our Major Suppliers

Our top suppliers are generally reputable IC and other electronic component companies.

Our largest supplier is headquartered in Taiwan and has a diverse product portfolio of application specific ICs in various product markets such as TV, set-top box and LCD monitor. Our top five suppliers include IC companies that supply memory and silicon tuner ICs as well as other electronic components in the Greater China Region.

We generally do not enter into formal distributorship agreement with major suppliers, and the supply arrangement with these suppliers are governed by the relevant purchase orders and industry practice. Despite the absence of any formal distributorship agreement signed in the past, we have established long-term and stable relationship with the majority of these suppliers, and we do not foresee any material change of our supply arrangement with them.

For FY2013, FY2014, FY2015 and 1Q2016, our purchases from our five largest suppliers amounted to US\$255.9 million, US\$372.4 million, US\$469.6 million and US\$136.0 million and represented 94.4%, 96.6%, 96.4% and 97.5%, respectively, of our total purchases, and purchases from our single largest supplier were US\$195.2 million, US\$291.9 million, US\$366.1 million and US\$97.6 million, accounted for 72.1%, 75.7%, 75.2% and 70.0%, respectively, of our total purchases in the respective years.

The table below sets out information on our top five suppliers during the Track Record Period:

Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
<b><i>FY2013</i></b>					
MStar	195.2	72.1%	An IC company headquartered in Taiwan and is a global leader in supplying application specific ICs (ASIC) for the consumer and image processing product markets and engages in sales and research and development of LCD monitor controller, analog and digital TV, set-top box IC products	smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics	10

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Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
Supplier B	23.7	8.7%	A subsidiary of a Japanese multinational conglomerate corporation which is engaged in the sales and promotion of its own brand electronic products (including but not limited to TV, audio devices, computer and telecommunication electronic components, LCD monitor and magnetron) in Hong Kong and the PRC	memory, others <sup>(1)</sup>	4
Supplier C	23.4	8.6%	A Taiwan-based company that principally engages in the development, manufacture and distribution of memory products. The company provides DRAM chips, including double data rate DRAM chips, DDR2 DRAM chips and DDR3 DRAM chips, as well as low power double data rate and low power double data rate 2 memory products. The company also provides semiconductor original equipment manufacturing services. The company distributes its products in domestic market and to overseas markets, including the PRC, Hong Kong, Europe, Japan and North America	memory	4

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Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
Supplier D	10.3	3.8%	A Taiwan-based company that principally engages in the development, manufacture and distribution of radio frequency integrated circuits for digital signal receiving, satellite frontend receiving, multi-channel signal receiving, and optical communication and chip integration products	smart media display, intelligent broadcasting terminal	4
Supplier F	3.3	1.2%	A company listed on the Shenzhen Stock Exchange which is engaged in sales of LED light source products	others <sup>(1)</sup>	3
<b><i>FY2014</i></b>					
MStar	291.9	75.7%	An IC company headquartered in Taiwan and is a global leader in supplying application specific ICs (ASIC) for the consumer and image processing product markets and engages in sales and research and development of LCD monitor controller, analog and digital TV, set-top box IC products	smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics	10

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Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
Supplier B	38.6	10.0%	A subsidiary of a Japanese multinational conglomerate corporation which is engaged in the sales and promotion of its own brand electronic products (including but not limited to TV, audio devices, computer and telecommunication electronic components, LCD monitor and magnetron) in Hong Kong and the PRC	memory, others <sup>(1)</sup>	4
Supplier C	28.4	7.4%	A Taiwan-based company that principally engages in the development, manufacture and distribution of memory products. The company provides DRAM chips, including double data rate DRAM chips, DDR2 DRAM chips and DDR3 DRAM chips, as well as low power double data rate and low power double data rate 2 memory products. The company also provides semiconductor original equipment manufacturing services. The company distributes its products in domestic market and to overseas markets, including the PRC, Hong Kong, Europe, Japan and North America	memory	4

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Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
Supplier D	11.2	2.9%	A Taiwan-based company that principally engages in the development, manufacture and distribution of radio frequency integrated circuits for digital signal receiving, satellite frontend receiving, multi-channel signal receiving, and optical communication and chip integration products	smart media display, intelligent broadcasting terminal	4
Wisdom Fortune HK <sup>(2)</sup>	2.3	0.6%	A company incorporated in Hong Kong and engaged in IC products distribution	others <sup>(1)</sup>	2 <sup>(2)</sup>
<b><i>FY2015</i></b>					
MStar	366.1	75.2%	An IC company headquartered in Taiwan and is a global leader in supplying application specific ICs (ASIC) for the consumer and image processing product markets and engages in sales and research and development of LCD monitor controller, analog and digital TV, set-top box IC products	smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics	10

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Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
Supplier B	46.8	9.6%	A subsidiary of a Japanese multinational conglomerate corporation which is engaged in the sales and promotion of its own brand electronic products (including but not limited to TV, audio devices, computer and telecommunication electronic components, LCD monitor and magnetron) in Hong Kong and the PRC	memory, others <sup>(1)</sup>	4
Supplier C	38.1	7.8%	A Taiwan-based company that principally engages in the development, manufacture and distribution of memory products. The company provides DRAM chips, including double data rate DRAM chips, DDR2 DRAM chips and DDR3 DRAM chips, as well as low power double data rate and low power double data rate 2 memory products. The company also provides semiconductor original equipment manufacturing services. The company distributes its products in domestic market and to overseas markets, including the PRC, Hong Kong, Europe, Japan and North America	memory	4

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Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
Supplier D	13.0	2.7%	A Taiwan-based company that principally engages in the development, manufacture and distribution of radio frequency integrated circuits for digital signal receiving, satellite frontend receiving, multi-channel signal receiving, and optical communication and chip integration products	smart media display, intelligent broadcasting terminal	4
Supplier E	5.6	1.1%	A subsidiary of a Japanese multinational conglomerate corporation which engages in the sales and promotion of its own brand semiconductor memory products in the PRC	memory, others <sup>(1)</sup>	1
<b>1Q2016</b>					
MStar	97.6	70.0%	An IC company headquartered in Taiwan and is a global leader in supplying application specific ICs (ASIC) for the consumer and image processing product markets and engages in sales and research and development of LCD monitor controller, analog and digital TV, set-top box IC products	smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics	10

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Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
Supplier B	20.4	14.6%	A subsidiary of a Japanese multinational conglomerate corporation which is engaged in the sales and promotion of its own brand electronic products (including but not limited to TV, audio devices, computer and telecommunication electronic components, LCD monitor and magnetron) in Hong Kong and the PRC	memory, others <sup>(1)</sup>	4
Supplier C	13.2	9.4%	A Taiwan-based company that principally engages in the development, manufacture and distribution of memory products. The company provides DRAM chips, including double data rate DRAM chips, DDR2 DRAM chips and DDR3 DRAM chips, as well as low power double data rate and low power double data rate 2 memory products. The company also provides semiconductor original equipment manufacturing services. The company distributes its products in domestic market and to overseas markets, including the PRC, Hong Kong, Europe, Japan and North America	memory	4



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Supplier	Purchase (US\$ million)	Percentage of our total purchase	Background and principal business	Types of IC and electronic components sold to us	Years of business relationship with us
Supplier D	4.2	3.0%	A Taiwan-based company that principally engages in the development, manufacture and distribution of radio frequency integrated circuits for digital signal receiving, satellite frontend receiving, multi-channel signal receiving, and optical communication and chip integration products	smart media display, intelligent broadcasting terminal	4
Supplier G	0.7	0.5%	A private company incorporated in the U.S. and principally engages in radio frequency IC and ICs for wireless markets, power devices for power electronics, and photodetectors and lasers for optical communications markets	others <sup>(1)</sup>	1

*Notes:*

1. This segment covers all products not included in smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.
2. Wisdom Fortune HK was a member of SMC Group until it was disposed of in September 2015. For details, please see the section "History, Reorganisation and Group Structure — Structure Prior to Reorganisation" of this prospectus.

Save for Wisdom Fortune HK, to the best of our Directors' knowledge, none of our Directors or their respective close associates or any person who owns more than 5% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest suppliers during the Track Record Period.

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### ***Relationship with our largest supplier MStar***

#### *Background of MStar*

MStar principally supplies a diverse portfolio of SoC ICs for consumer electronic products and image processing products including connected TV, smart TV, analog and digital TV, set-top box and LCD monitor. It was founded in 2002 and headquartered in Taiwan and the shares of its holding company listed in the Taiwan Stock Exchange Corporation until it was acquired by its current parent company and delisted subsequently in 2014. According to the annual report 2012 published by MStar on 31 May 2013, which is the latest publicly available annual report of MStar prior to its delisting in 2014, it recorded revenue of approximately TWD37.8 billion for the year ended 31 December 2012. According to the Analysys Report, MStar is in a leadership position in IC for TV and set-top box applications for 2015, with market shares of approximately 14% in the global set-top box SoC market and approximately 40% in the global TV SoC market in 2015. MStar has had the largest global market share in TV SoC market since 2009. According to Analysys, brand-name IC companies has a limited number of authorised distributors in the PRC Region and MStar has two major authorised distributors in the PRC Region that distribute products of all its product lines, which is supplemented with a few authorised distributors that distribute certain separate product lines.

#### *Business Relationship with MStar*

We have been an authorised distributor of MStar in the PRC Region since 2005. We distribute all of MStar's products in the PRC Region and are one of the two authorised distributors of MStar that distribute all its product lines in the PRC Region. In 2015, we achieved the highest sales among MStar's distributors worldwide. During the Track Record Period, the sales of MStar's product in the PRC Region accounted for over half of its global sales. During 2013 and 2014, our sales of MStar's products amounted to approximately one-third of its total sales in the PRC Region and in 2015, our sales of MStar's products amounted to almost half of its total sales in the PRC Region.

Our business relationship with MStar commenced when MStar sought to expand into the PRC market through distributors with the relevant experience and expertise, which Mr. Tian, our founder, possessed. Notwithstanding that we had not entered into formal distributorship agreement with MStar before 2016, we have obtained an authorisation letter from MStar as its authorised distributor. Our solid business relationship has been established through over 10 years of strategic cooperation and the amount of transaction has been in an overall increasing trend during the 10 years of business relationship. There was no material changes to our cooperation with MStar as a result of its acquisition by its current holding company in 2014, which is evidenced by the fact that we remain its authorised distributor in the PRC Region after the acquisition and that we were selected by its current parent company as its authorised distributor for certain product lines in the PRC Regions as well.

Our procurement arrangements with MStar involve two steps: the provision of our procurement forecast to MStar and the confirmation of our purchase through issuing a purchase order to MStar for each batch of our purchase. We obtain procurement forecasts from our customers regularly and analyse their procurements needs, market conditions and our own inventory level to provide MStar with our own procurement forecast which generally covers a period of one month to three months. In respect of each batch of our purchase from MStar, we finalise the terms of purchase by issuing a purchase order that sets out the terms such as

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quantity, price, payment and delivery. Our Directors confirm that we have not been and are not subject to any minimum purchase commitments or required to meet any minimum purchase target imposed by MStar. Save for transactions where the customers participate in the negotiation of their purchase prices with MStar, MStar does not impose restriction on the selling price at which we sell our products to our customers. Our Directors confirm that such price negotiation arrangement is adopted only for relatively large orders of our customers and our Group is also involved in the price negotiation process for such transactions. The final selling price to our customer is agreed by our Group and MStar before it is quoted by us to the relevant customer. To protect our gross profit margin, we also separately negotiate on our procurement price with MStar in respect of the batch of products to be sold to the customers in such transactions. In the event that our Group considers that the selling price negotiated for by the customer, taken together with our procurement price from MStar, is unacceptable to our Group, we will not enter into the transaction until we can negotiated for a selling price that we find agreeable. In these transactions, when we are negotiating our procurement price from MStar and the selling price to our customers, we take into account substantially the same factors as in other transactions to protect our gross profit margin, such as the level of our technical support, logistic services and credit terms required by the relevant customer, as well as the likelihood for the relevant customer to deviate from its procurement forecast. The role and responsibilities of our Group in these transactions also remain substantially the same as in other transactions. Our Group remains responsible for providing our value added services such as inventory planning, logistic arrangements, engineering solution, technical support as well as credit terms (as requested by the relevant customer and our Group considers appropriate) to the relevant customer. On such basis, our Directors are of the view that our customers participating in the negotiation for their purchase price with MStar has no particular impact on our financial results.

According to the Analysys Report, it is common practice in the IC and other electronic components distribution industry for large end customers to participate in negotiation for their purchase prices with IC companies in respect of relatively large orders. The reasons for such arrangement is for IC companies to (i) understand the end customers' view on the prices charged by their distributors; (ii) obtain information on its end customers' credit terms requirements and target procurement prices; and (iii) evaluate the technical support, logistic services and credit support provided by its distributors to such end customers.

### *Mutually Beneficial and Complementary Relationship*

We are not the exclusive distributor of MStar in the PRC Region. Nevertheless we achieved the highest sales among MStar's distributors worldwide in 2015. During the Track Record Period, the sales of MStar's product in the PRC Region accounted for over half of its global sales. During 2013 and 2014, our sales of MStar's products amounted to approximately one-third of its total sales in the PRC Region and in 2015, our sales of MStar's products amounted to almost half of its total sales in the PRC Region. We currently distribute all of MStar's products in the PRC Region and are one of the two authorised distributors of MStar that distribute all its product lines in the PRC Region. According to the Analysys Report, core SoC IC used in flat panel TV distributed by us accounted for approximately 25% of the sales volume in the global market in 2015.

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Our established procurement arrangements and close business relationship with MStar enables us to provide our customers a relatively stable and reliable source of supply of quality IC products. In return, our ability to analyse and consolidate market information based on our understanding of the IC procurement market in the PRC Region and our customers' procurement needs to facilitate MStar to expand its sales and market in the PRC region, plan its production schedule with IC fabrication companies as well as implementing better supply chain and inventory management. Our sales network, our e-commerce platform and our customer base that comprises a number of sizeable brand name electronics manufacturers, OEM and ODM manufacturers in the PRC Region enable MStar to efficiently sell, through us, their products in the PRC region, which is the largest semiconductor market in the world according to Analysys.

We also have strong research capability to develop engineering solutions and provide engineering support to our customers. Leveraging on our understanding of the electronics industry in the PRC Region, we identify potential applications for both new and existing products of MStar which electronics manufacturers may be interested in. We develop and customise engineering solutions which adopt the products of MStar in the design to facilitate and encourage potential customers to use its products in their end products. Therefore our research capability helps to create demand for MStar's products, which we believe is of great value to it. In return, MStar provides us technical training on application of its products which enable us to keep abreast of the latest technology, enhance our research capability and facilitate our development of engineering solutions. This in turn helps us to attract and retain customers by helping them maintain their competitive edge in the highly competitive electronics industry, which is characterised by its short product cycle and constantly evolving technology, according to Analysys.

Based on the above, our Directors consider that our relationship with MStar to be mutually beneficial and complementary and that we are capable of maintaining our revenue in future despite our reliance on it.

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### *Distribution Agreement with MStar*

On 1 January 2016, with a view to formalising certain principal terms of our long-term business cooperation with MStar, we entered into a legally binding distribution agreement (“**Distribution Agreement**”) with MStar, pursuant to which MStar agreed to supply and we agreed to distribute its products subject to the terms of the Distribution Agreement which also provide for certain ancillary matters such as the provision of technical support and promotion material and samples. The Distribution Agreement is a framework agreement and does not contain all the terms of transactions between MStar and us. Some terms of the distribution arrangements, such as the credit limit and purchase price for each batch of our purchase are negotiated and agreed separately or governed by the purchase order for each batch of our purchases. We set out below some principal terms of the Distribution Agreement:

Term	three years from 1 January 2016 to 31 December 2018
Area of distribution	the PRC, Hong Kong, Macau, Taiwan and such other nations and regions that both parties may subsequently negotiate and agree in writing
Minimum purchase commitment/ target	No such commitment or target was stated in the Distribution Agreement
Restriction on selling price	No such restriction was stated in the Distribution Agreement
Payment and credit terms	In respect of the amount of purchase within credit limit, such amount shall be confirmed and agreed monthly between MStar and us on the last day of each calendar month, and payment for which shall be settled by us within 30 days of the date of confirmation.
Delivery	MStar bears the risk before delivery to us save for those products the delivery and risk of which are agreed to be governed by Incoterms Rules, and in such case, Incoterms Rules apply.
Termination/renewal	<p>The Distribution Agreement shall be renewed automatically for one year upon expiry of the term of three years unless any one party notifies the other of its intention to not renew the Distribution Agreement.</p> <p>The Distribution Agreement is terminable by MStar and/or us by 90 day prior notice in writing.</p> <p>The Distribution Agreement will also be terminated upon the occurrence of the following events:</p> <p>(a) the dissolution, winding up or bankruptcy of either party;</p>

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- (b) the breach or non-performance by one party (“breaching party”) of its material obligations under the Distribution Agreement and which breach or non-performance is not rectified by the breaching party within a reasonable period, causing the non-breaching party to be deprived of the expected benefit of the Distribution Agreement or render the future performance of the Distribution Agreement to become unnecessary, and the non-breaching party elect to so terminate the Distribution Agreement; or
- (c) one party to the Distribution Agreement assign the rights, benefit and/or obligations of the Distribution Agreement without the written consent of the other party and other party elect to so terminate the distribution agreement.

The parties may also jointly terminate the Distribution Agreement in the event that there is material change to the circumstances that render the performance of the Distribution Agreement impracticable.

On the bases that (i) we have developed a strong business relationship with our largest supplier for over 10 years with a general increasing trend of sales over the years; (ii) we achieved the highest sales among all MStar’s distributors of in 2015 which accounted for over half of MStar’s total sales in the PRC Region for 2015; (iii) the business relationship between MStar and us is mutually beneficial and complementary, as set out above; (iv) we have entered into the Distribution Agreement with MStar; (v) MStar confirmed that save for significant change in business plan and subject to continuous compliance of its authorised distributors, it has no current plan to appoint additional or change its distributors in the PRC Region for its existing product lines in the foreseeable future, and that save for significant change in business plan, it is MStar’s current intention to continue to use authorised distribution system to conduct sales in the PRC Region and it has no plan to engage in direct sales, our Directors consider that it is unlikely, barring any significant and unforeseeable changes in circumstances, that MStar will terminate the distribution arrangement or its business relationship with us.

### *Availability of alternative supplier*

Based on the reasons set out above, we consider that it is unlikely, barring any significant and unforeseeable changes in circumstances, that MStar will terminate the distribution arrangement or its business relationship with us. As set out in the sections headed “Background of MStar” and “Business Relationship with MStar” above, through 10 years of cooperation, our Group has established strong strategic business relationship with MStar, which supplies a diverse portfolio of SoC ICs for consumer electronic products and has leadership position in IC for TV and set-top box applications. Cooperation between our Group and MStar provides benefits, such as supply stability and technical training on product application, to our Group’s business and our Group intends to continue to cooperate and maintain a symbiotic business relationship with MStar instead of switching to alternative suppliers to procure the same type of products of comparable price and quality to those of MStar. Nevertheless, our Group will continue to monitor the market to identify alternative suppliers to cooperate with us in the unlikely event that the business relationship between our Group and MStar is terminated.

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In the unlikely event that supply from MStar is interrupted for any reason, our contingency plan is to procure supply from our alternative suppliers, including, among others, (i) a global semiconductor leader based in the U.S. that supplies a wide range of ICs such as SoC IC for set-top box and media processors, which was listed on NASDAQ prior to its merger with another IC company, and had revenue of US\$8.4 billion for the fiscal year 2014 according to its annual report for the same fiscal year; (ii) a Taiwan-based IC company that designs and develops a wide range of IC products for communications network, computer peripheral, and multimedia applications including, among others, decoders and controllers for TV applications, which is listed on the Taiwan Stock Exchange and had revenue of TWD31.7 billion according to its financial report for 2015; (iii) a Taiwan-based IC design company that supplies display driver ICs and SoC ICs for flat-panel display, set-top box and audio/video applications, which is listed on the Taiwan Stock Exchange and had revenue of TWD50.9 billion according to its financial report for 2015; and (iv) a private PRC-based IC company, which was formerly an ASIC (Application Specific IC) design centre for a brand name electronics manufacturer in the PRC and provides ASIC for communication network and digital media, including SoC for network surveillance, IPTV, smart-TV and set-top box; (v) other authorised distributors of MStar; and (vi) authorised distributors of the alternative suppliers in (i) to (iv) above.

In the unlikely event that business relationship between our Group and MStar is terminated, our Group will immediately negotiate with IC companies, such as alternative suppliers (i) to (iv) set out above, for authorised distributorship rights such that our procurement price and the terms will be comparable to those provided to other authorised distributors to maintain our competitiveness. It is customary for an authorised distributor of an IC company to refrain from cooperating and distributing similar products from the IC company's competitors during the term of the distributorship. As such, save for the authorised distributors of MStar, our Group has no prior business dealings with alternative suppliers set out above, nor has our Group obtained any independent quotation or sample product from such alternative suppliers. We consider that the products supplied by the above alternative suppliers are of comparable quality to those supplied by MStar as alternative suppliers (i) to (iv) are also reputable IC companies supplying such products in the market and they are either listed companies or have been supplying their products to brand name manufacturers. Based on the industry experience of our Directors and taking into account the large quantity of products to be supplied by the alternative suppliers to us in the event that our relationship with MStar is terminated, our Directors believe that the pricing and terms of supply offered by the alternative suppliers will be at bulk purchase discounted prices similar to those offered by MStar.

We do not see substantial difficulty in sourcing supplies from alternative suppliers because a number of alternative sources of supply from other IC suppliers and distributors as set out above are available, and, based on the Directors' experience, it is a common practice to source products from other suppliers and distributors in the industry, and to require other IC manufacturers to increase their production volume to satisfy additional demand. Further, we do not expect a material increase in costs in sourcing new brands or increasing purchases of existing products from other suppliers compared to MStar, because (i) of the large volume of IC and other electronic components we would purchase; (ii) suppliers generally seek to establish long-term relationship with distributors like us in a business-to-business relationship; (iii) there are a number of IC suppliers and distributors in the market; and (iv) the price of IC are subject to market adjustment. As set out in the section headed "Distribution Agreement with MStar" above, MStar is required to provide us with written notice to terminate our distributorship rights 90 days prior to such termination. Our Group also obtain procurement forecasts from our customers on a rolling basis, which generally cover a period of one to three months. Based on

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the above, our Directors consider that our Group will have reasonable time to negotiate for distributorship rights and arrange for supply from IC companies at bulk purchase discounted price to meet the demand of our customers, and the likelihood for our Group to procure contingency supply from authorised distributors of IC companies at market price to satisfy our customers' immediate needs are significantly reduced through the above arrangements. Given the low quantity of purchase at market price, our Directors consider that the impact on the financial and business operations of our Group due to the need to procure contingency supply from authorised distributors of IC companies at market price to satisfy our customers' immediate needs will not be significant.

We will continue to gather business information of alternative IC companies of comparable products with those of MStar, including their product types and prices, and maintain our relationship with other authorised distributors. We believe that with our diversified and loyal customer base comprising industry players from well-known brand names to SME customers, strong capability to develop engineering solutions and provide technical support to customers, as well as deep experience in the electronic distribution industry in the PRC Region, our Group is in a position to negotiate and obtain authorised distributorship from alternative suppliers, including brand-name IC companies, in the market in the unlikely event that the business relationship between our Group and MStar is terminated. In the occurrence of such event, to help minimising the potential loss of sales to customers using MStar's products at that time, our Group will modify our engineering solutions to adopt our alternative suppliers' products and provide necessary technical support to our customers to facilitate them to switch to using products of alternative suppliers in their end product design and production during the 90 days prior notice for termination required to be provided by MStar under the Distribution Agreement.

On the bases set out above, we believe that we will be able to procure products we require from alternative suppliers without any significant difficulty, but there may be material interruptions to our operations and business before we can secure supply from alternative suppliers for the large quantity of products that we may need, and it may take time for us to negotiate for and/or finalise procurement terms with alternative suppliers. In this respect, pursuant to the Distribution Agreement, our largest supplier is required to provide us written notice to terminate our distributorship rights no less than 90 days prior to such termination. We will also continue to closely monitor the market trend in order that if we discover indicative factors that our relationship with MStar may be disrupted or terminated, we can discuss supply arrangements with alternative suppliers, and form strategic cooperation relationship or obtain authorised distributorship rights with such suppliers timely.

For risks associated with our supplier concentration, please refer to the paragraph headed "We are dependent on our major suppliers. If our distributorship rights with these major suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial condition and results of operations could be adversely affected." in the "Risk Factors" section of this prospectus.



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### *Measures to Reduce Reliance on MStar*

According to the Analysys Report, MStar is a market leader in IC for product segments including TV, set-top-box and LCD monitor control. As smart media display (including TV) and intelligent broadcasting terminal (including set-top box) are some of our key segments which has experienced significant growth during the Track Record Period, we procure a significant amount of such products from MStar during the Track Record Period. Based on the Analysys Report, supplier market of TV SoC IC has an oligopolistic competition structure, and due to such highly concentrated supplier market, distributors with significant amount of sales in TV products tend to be reliant on its suppliers. Further, it is an industry norm for a distributor to source as many products as practicable (in terms of both product type and quantity) from a single supplier in order to maximise its bargaining power. It is also customary in the industry for an authorised distributor of an IC company to refrain from cooperating with, and distributing similar products for, the IC company's competitors during the term of the distributorship. Such an approach is voluntary and not contractual in nature and therefore will not restrict our Group's ability to expand its supplier base as its business continues to expand. Based on the Analysys Report, as a distributor become larger in scale and following the use of e-commerce to disseminate information in market, it may gradually increase its number of suppliers. Despite that we source a significant percentage of our products from MStar, we have a range of products such as memory, RF, sensors, optical communication, connectivity and power products that are supplied by our other suppliers.

### *Expansion of our Supplier Base*

It is our intention to gradually expand our supplier base by means such as organic growth of our business, expansion into various product segments which MStar is not a supplier and through investment in, acquisition of and strategic cooperation with IC companies and distributors. We have been expanding and will continue to expand our supplier base by exploring co-operation opportunities with new suppliers as well as introducing new product segments that we consider to have growth potential. We have implemented guidelines for selecting and introducing new suppliers and/or new products to our offering. Please refer to the paragraph headed "Our Strategies — Continue to Expand our Product Segments with Strong Market Potential" in this section of the prospectus for more details. The amount of purchase from suppliers other than MStar has been increasing from US\$75.6 million in FY2013 to US\$93.7 million in FY2014, and further to US\$121.1 million in FY2015, with a cumulative annual growth rate of 26.6% from FY2013 to FY2015. Notwithstanding the growth in amount of purchase from suppliers other than MStar, such growth did not account for a significantly increasing percentage of the total purchase of our Group during the Track Record Period because the smart media display product segment and intelligent media broadcasting segments of our Group (which are the main products supplied to our Group by MStar) recorded significant growth during the Track Record Period as well. The increase is attributable to the increasing demand for end products such as TV and set-top box in the consumer market. For the three months ended 31 March 2016, purchases from MStar accounted for 70.0% of the total purchases of our Group, which represented a significant decrease in comparison to the concentration of 75.2% for FY2015.

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From FY2013 to FY2015, revenue from sales of products in the new product segments, which is recorded under the “Others” category, has increased from US\$3.9 million in FY2013, to US\$27.5 million in FY2014 and further to US\$32.8 million in FY2015. New strategic product segments of our Group such as smart home applications, VR, drones and robotics have only been introduced into the consumer electronic product market recently. According to Analysys, new strategic segments which we diversify into have substantial market potential and are expected to grow in the coming years. It is therefore a realistic expectation that the growth in demand for such end products will drive the demand for relevant ICs and electronic components, which in turn drive our Group to increase our purchase of these types of ICs and electronic components, and many of which are not supplied by MStar. Further details and market trend of segments can be found in the paragraph headed “IC and Other Electronic Components Market in the PRC — Markets of selected electronic product manufacturing segments in the PRC Region” in the “Industry Overview” section of this prospectus.

We have also sought cooperation opportunities with new suppliers during the Track Record Period and added over 60 new suppliers to our supplier base from FY2013 to FY2015. The revenue from sales of products supplied by suppliers other than MStar has also been increasing from FY2013 to FY2015.

We plan to expand vertically as well as horizontally through possible investment in, acquisition of, and/or formation of strategic cooperation with, IC companies and distributors of IC and other electronic components. We consider that such strategy will also enable us to expand our supplier base and product offering. Please refer to the paragraph headed “Our Strategies — Expand our Business Through Investment and Acquisition” in this section of the prospectus for more details.

Based on the above, our Directors are of the view, and the Sole Sponsor agrees, that there is a realistic expectation that the level of our reliance on MStar will gradually decline over the coming years.

### **Supply during the Track Record Period**

We have experienced scattered occasions of shortage and delay of supply which did not have any material impact on our business operation, and is common in the industry, according to the Analysys Report. According to the same report, such occasional shortage and delay is caused by short product cycle of electronic products and rapid development of the market of smart device. Besides, as IC and electronic product are relatively non-standard products, their suppliers generally plan the production schedule after taking into account procurement forecast of their end customers. However, the end customers, being electronic product manufacturers, tend to estimate market demand for new products conservatively, causing under production and understocking by suppliers which sometimes result in shortage of supply in IC and electronic components during the Track Record Period. In addition, as authorised distributors of, and by maintaining close relationships with, our major suppliers, we are able to obtain first-hand information on shortages and have priority in securing the supply of out of stock components as soon as they become available.

We have not been subject to significant price increases by our suppliers during the Track Record Period, and we believe that in the event of price increases, as we typically take into consideration our procurement costs when setting our selling price, we have the ability to transfer a portion of the increased price to our customers by raising the prices of our products.

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### Product Selection and Procurement Process

Our business development staff are responsible for identifying suitable new products to be introduced to our product offering based on market demand, customer feedback and information from our suppliers about their new products. We intend to further expand our product offering and we have launched incentive programme and implemented guidelines for selecting and introducing new products to our offering.

Our sales department prepares sales forecasts based on our sales data and projected market demands and prepares purchase orders and purchase forecasts accordingly. It normally takes around four to eight weeks from the placing of orders to our suppliers to the delivery of the products to our warehouses. For some products with very specific applications that are not commonly used, we typically have customer orders or concrete demand secured before making procurement order. As such, we are generally able to avoid overstocking and mitigate our inventory risk. To the extent that our inventory level is insufficient to meet sudden surge in customers' demands, we may obtain extra supplies from our suppliers if they have stocks available, or from other authorised distributors of our suppliers. Our engineers with specialised knowledge can also recommend alternative electronic components to minimise the impact of shortages or delays.

### Rebate

While we receive certain discount on purchase price from our suppliers if our purchases exceed the quantity prescribed by such suppliers, we generally do not receive any rebate on our purchases from our suppliers and do not offer rebate to our customers on their purchases from us. However, certain suppliers of our Group provide rebates to our end customers through us if the purchase volume of the end customers reach certain prescribed level. As the authorised distributor, we are also responsible for handling such rebates. Where on the last day of each financial year/period, there is any rebate that shall be, but has not been provided to our customers or provided by our suppliers, the amounts of the relevant rebate is recorded as other payables or other receivables, as appropriate.

Upon receipt of request from a major customer for a rebate on bulk purchase, the Group, being an authorised distributor and in order to promote the sales of the Group to the end customer, will facilitate the negotiation between the supplier and customer for an agreed-upon rebate arrangement. Upon finalisation of such arrangement, the Group's sales representative will then prepare a rebate registration form describing the details of the rebate arrangement including the target sales quantity and rebate amount (in form of inventory) and inform finance division on such arrangement. Based on the rebate registration form, the Group will book the other receivables and other payables when the relevant customer's purchase reached the prescribed level for a rebate. During the negotiation of the amount of rebate between the end customer and the supplier, the Group merely acts as a passive channel for such negotiation, therefore the Group generally is not offered any rebates from the supplier.

The rebate arrangement is not a general policy of the supplier but a result of negotiation among the suppliers, the Group and the customers on a case by case basis, and is not included in any contracts between the Group and its suppliers or the Group and its customers. As the Group's sales to major customers has already adopted a relatively lower pricing, the Group will not offer any volume rebate or further discount to the customer in order to protect the Group's gross profit margin. However, being an authorised distributor and in order to

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promote the sales of the Group to the end customer, the Group is willing to act as a facilitator under the circumstance and offers a channel for the customer to negotiate the rebate request with the supplier as the Group understands that it is not a general policy of the supplier to offer a rebate.

During the Track Record Period, ten customers of the Group received rebate from suppliers.

### **Credit and Payment Terms**

We are generally granted certain credit limit and credit period by our major suppliers and we have to settle payment for our purchases in exceed of such credit limit by cash. During the Track Record Period, most of our purchases were settled by telegraphic transfer with credit periods up to 60 days. Our purchases were generally settled in US\$.

### **RESEARCH AND DEVELOPMENT**

In 2013 and 2014, we outsourced certain of our research and development projects to certain external third parties. In 2015, our strong in-house application engineering team is responsible for substantially all our research and development activities. As at 31 March 2016, our application engineering team had over 80 members, which accounted for approximately 30% of our total employees.

Our application engineering team is primarily responsible for providing customers with engineering services and support such as developing engineering solutions, providing technical training, making technical recommendations and assisting in component selection. We have particular in-depth knowledge and a rich library of engineering solutions principally in our key product categories such as smart media display, intelligent broadcasting terminals and smart automotive electronics. In addition, our field application engineers customise engineering solutions to meet the functional specifications of individual end-product of our customers and prompt them to procure requisite ICs and electronic components from us.

We also provide field application engineering support to our customers. Our application engineering team aims to enhance and closely participate in our customers' product development processes, which we consider critical to our success. We sometimes send our engineering staff to our customers' office to provide field application engineering support and follow our customers' designs through to mass production and provide services and technical support throughout their product development processes. This can help our customers introduce innovative new designs, reduce their time to market, and in turn strengthen our relationship with our customers.

### **QUALITY CONTROL AND PRODUCT RETURN POLICY**

As an authorised distributor, we procure primarily from IC companies. In the event of shortage of supply from the IC companies, we procure from the other authorised distributors or agents of the IC companies. We consider the delivery date, price and quality of the products supplied by such authorised distributors or agents in selecting the suppliers of our products.

We conduct visual check on incoming products delivered by our suppliers to ensure that the products are consistent with the order and that the product packaging is intact, which is an important way of ensuring that the products are authentic and have not been tampered with, before we accept delivery. We also conduct simple functionality tests on products supplied to us.

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As a distributor, we generally do not directly monitor the quality, design or control procedures of the products manufactured by our principal suppliers. We provide warranties to our customers for products sold that are generally based on warranties given by our suppliers. We generally do not allow product return or refunds for our products, except for quality issues such as damaged products, broken packages, unclear labels, missing contents or products that are inconsistent with specifications. We subsequently return defective products under warranty to the relevant supplier for exchange according to the return material authorisation procedures as agreed with the supplier, and the relevant supplier normally bear the related costs under the relevant distribution agreement. In the event that a claim under warranty comes to light after we have sold the products to our customers, we will try to recoup any losses incurred by us from the relevant supplier.

During the Track Record Period, there were isolated cases of product return. Our Directors confirm that the value of returned products was insignificant, and we have not recalled any products due to serious quality or other issues.

### **Maintenance of our Technology Infrastructure**

Our SMC Cloud is supported by a cloud-based back end operation system and our ERP system to process our customers' purchase orders. We have adopted security policies and measures, such as structured access right control within the ERP system, access control to our data centre and adoption of firewall, to protect our proprietary data and customer information, and we back up our database regularly with both on-site, off-site storage and cloud storage and conduct recovery test on our back up data.

### **INVENTORY**

Our inventory comprises mainly of finished products, ICs and other electronic components, for trading purpose. Our products are generally packed in barcoded packages and boxes, organised based on their brands and categories, and are stored at our two warehouses in Shenzhen and Hong Kong which are installed with advanced security system and kept at controlled temperature and humidity and are delivered on a first-in-first-out basis to minimise stock-aging problem.

### **Inventory Control**

It is also our policy to maintain an optimum inventory level of each kind of products depending on the relevant sales forecast to ensure that there is sufficient inventory for our sales without over-stocking. We normally maintain an inventory level that is sufficient for our sales for about two weeks on average. We continuously monitor the inventory turnover of the products in our warehouses.

We usually make procurement decision based on (i) our forecast of customers' needs, (ii) our inventory levels, (iii) the availability of stocks from principal suppliers and (iv) procurement lead time. In certain cases, upon receipt of forecast or confirmed order from a customer, we procure supplies in accordance with such customer's individual and unique specifications and requirements. We employ advanced ERP software to track inventory levels as well as ensure adequate levels of products. As our products are bar-coded, we are able to monitor the inflow and outflow of products from our warehouses in real-time.

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Our SMC Cloud is fully supported by our ERP system that enables the sales and inventory of any particular item to be updated on real time basis to maintain what our management consider to be an optimum level of inventory. Useful information such as the sales performance of any individual product can be extracted from the system, which enables us to maintain a low inventory level to minimise capital requirements and the risk of having obsolete inventory.

We generally perform monthly physical stock take at our warehouses to ensure the accuracy of our inventory records and to monitor the turnover and aging of our inventory.

### LOGISTICS AND WAREHOUSING

#### Warehouse

We store our inventory primarily in warehousing facilities that we lease and manage. Our warehouses include a warehouse in Hong Kong and a warehouse in Shenzhen. Our warehouses are managed by our ERP system, which enables us to control the movement and storage of products and inventory level in our warehouses so that we can make procurement plan based on our business needs to achieve optimal warehouse capacity utilisation.

#### Logistics

Our logistics department works with our suppliers to accommodate a variety of shipping terms and risk of loss arrangements for the shipment of ICs and other electronic components to our warehouses. We also provide delivery services to our customers with risk of loss arrangement as negotiated. To minimise capital expenditures, we contract with third parties for transportation services on an as needed basis for products that we are responsible for delivery. We handle our logistics, delivery and customs requirements both by ourselves and by engaging third party logistics companies in the PRC and Hong Kong.

Despite our ability to take delivery from suppliers outside Hong Kong and to make delivery to customers in the PRC, we generally accept delivery from our suppliers in Hong Kong and make logistic arrangements to deliver the products to our customers in Hong Kong as a result of the preferences of our suppliers or our customers. It is also the common practice in the industry according to the Analysys Report. Our Directors consider that it is preferable to use Hong Kong as our logistics centre as it adopts minimal control on foreign exchange and a free trade policy (which result in tariff not being imposed on import and export of our goods). As we generally settle payments to our suppliers in US\$, we also generally accept payment from our customers in US\$ to lower risks associated with foreign exchange loss. According to the Analysys Report, electronic manufacturers in the PRC that purchase in bulk are also sensitive to foreign exchange fluctuation and prefer to transact in Hong Kong and settle payments in US\$. It was also stated in the same report that the low tax policy of Hong Kong also makes it common transaction venue within the IC and other electronic components in the PRC Region.

For sales of SMC Technology SZ to customers that take delivery of goods in the PRC, SMC Technology SZ places purchase orders to the SMC International HK and engage third party logistics companies in the PRC to handle transportation and customs related matters. SMC Technology SZ holds a valid Registration Certificate of the Customs of the People's Republic of China for Customs Declaration Entities and has obtained a compliance certificate

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issued by the Corporate Management Office of the Shenzhen Customs of the People's Republic of China. As advised by our PRC legal counsel, the logistic arrangements set out above are in compliance with customs related laws and regulations of the PRC.

As advised by our PRC legal counsel, in relation to the pricing of the transactions set out above, according to the EIT Law, the Regulations on the Implementation of Enterprise Income Tax Law of the PRC and the Measures for the Implementation of Special Tax Adjustments (for Trial Implementation), enterprises shall conduct affiliated transactions, and taxation authorities shall inspect and assess affiliated transactions, by adopting reasonable transfer pricing methods under the arm's length principle. The taxation authorities shall have the power to ascertain the enterprise for investigation, and conduct transfer pricing investigations and make adjustments under the provisions on tax inspections of the Law of the People's Republic of China on the Administration of Tax and the Detailed Rules on the Implementation of the Law of the People's Republic of China on the Administration of Tax Collection. In respect of transactions where SMC International HK sold goods to SMC Technology SZ, SMC International HK is remunerated with a return that is determined to be within reasonable range after a transfer pricing study prepared in accordance with the relevant Hong Kong/PRC transfer pricing guidelines/regulations. Please refer to the section headed "Transfer Pricing" in the "Financial Information" section for further details. According to the confirmation made by our Group and the compliance certificates issued by relevant tax authority obtained by SMC Technology SZ, SMC Technology SZ has not been subjected to any investigation or penalty imposed by the relevant tax authority due to the above transactions with SMC International HK. On the above basis, our PRC legal counsel confirmed that the above transaction arrangements are in compliance with taxation laws and regulations of the PRC.

### INTERNAL CONTROL AND RISK MANAGEMENT

Our Directors are responsible for the formulation of and for overseeing the implementation of the internal control measures and the effectiveness of risk management system, which is designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

In order to manage our external and internal risks and to ensure the smooth operation of our business, we have engaged an independent internal control reviewer (the "**Internal Control Reviewer**") in December 2015 to assist us in reviewing our internal control system and provide recommendations for improving our internal control system. The Internal Control Reviewer has conducted certain agreed-upon review procedures on our internal control system in certain aspects, including revenue, purchases, fixed assets management, human resources, financial reporting and information technology.

We have taken actions in response to the Internal Control Reviewer's findings and recommendations including adoption of formal written documentation in relation to risk assessment and management mechanism, written procedures for certain sales management processes, written documentation on procurement processes, written checklist on monthly statement workflow and others. The Internal Control Reviewer performed follow-up procedures on our internal control system with regard to those actions taken by us and reported further commentary in March 2016. According to the internal control report issued by our Internal Control Reviewer, no material deficiencies were identified by the Internal Control Reviewer. As

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our business continues to expand, we will enhance our internal control system in response to the evolving requirements of our operations as appropriate to ensure regulatory compliance in our business operations both in the PRC and in Hong Kong.

We are dedicated to the establishment and maintenance of an internal control system. We have adopted and implemented on-going risk management policies and corporate governance measures in various aspects of our business operations such as financial reporting, interest rate and cashflow management, legal compliance, intellectual property rights management and human resources management.

### Corporate Governance

We continuously strive to strengthen the role of our Board as a body responsible for decision-making concerning our fundamental policies and upper-level management issues, and supervising the execution of our operation. Our Board includes three independent non-executive Directors to ensure transparency in management and fairness in business decisions and operations. The independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge.

We have strengthened our auditing system to ensure the appropriate functioning of the risk management and operation oversight systems. We have established the audit committee which comprises three independent non-executive Directors to review and monitor the effectiveness of our financial controls, internal control and risk management systems.

### AWARDS AND RECOGNITIONS

Our achievements over the years have been recognised by numerous awards, including the following:

Award	Year	Issuer of Award
深圳市優秀軟件企業 (Shenzhen Outstanding Software Enterprise*)	2012	深圳市軟件行業協會 (Shenzhen Software Industry Association*)
深圳市優秀軟件產品 (Shenzhen Outstanding Software Products*)	2012	深圳市軟件行業協會 (Shenzhen Software Industry Association*)
Shenzhen Outstanding Software Enterprise	2014	Shenzhen Software Industry Association
Shenzhen Outstanding Software Products	2014	Shenzhen Software Industry Association
高新技術企業 (PRC State High New Technology Enterprise*)	2008–2017	深圳市科技創新委員會 (The Committee of Innovative Technology of Shenzhen*) 深圳市財政委員會 (Finance Commission of Shenzhen Municipality*) 深圳市國家稅務局 (Shenzhen National Taxation Bureau*) 深圳市地方稅務局 (Shenzhen Local Taxation Bureau*)



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Award	Year	Issuer of Award
深圳市高新技術企業 (Shenzhen High New Technology Enterprise*)	2014–2017	The Committee of Innovative Technology in Shenzhen Finance Commission of Shenzhen Municipality
軟件企業認定證書 (Certificate of Recognised Software Enterprise*)	2007–2012	深圳市科技和訊息局 (Shenzhen Technology and Information Bureau*)
軟件企業認定證書 (Certificate of Recognised Software Enterprise*)	2013, 2014	深圳市經濟貿易和信息化委員會 (Economy, Trade and Information Commission of Shenzhen Municipality*)

### EMPLOYEES

We had a total of 281 employees as at 31 March 2016. Sets forth below is a breakdown of the number of our employees by functions as at 31 March 2016:

#### Number of Employees

Finance and administrative . . . . .	46
Sales and marketing . . . . .	86
Business development and procurement . . . . .	11
E-commerce platform . . . . .	19
Warehouse and logistics . . . . .	32
Application engineering . . . . .	87
Total . . . . .	281

#### Employee Training

We believe our employees are the most valuable resources in achieving our success. To ensure the quality of our employees at all levels, we have an intensive and standardised in-house training programme to train our new joiners, mainly focusing on skills like company introduction and working procedure. The goal of the training programmes is to train our employees and to identify talent, with the aim of providing upward mobility within our Group, fostering employee loyalty and incorporating customised mentoring, coaching and training.

We provide our employees with an array of training and courses on various aspects of our business operation depending on their responsibilities and experience. We believe that such training helps us to build an experienced, loyal and focused workforce. As we are authorised distributors of our brand name suppliers, our employees also receive technical training from them from time to time when needed.

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### PROPERTIES

As at the Latest Practicable Date, we have the following rented properties in the PRC and Hong Kong which are used as our offices and warehouses:

Location	Tenure	Use
Hong Kong	10 November 2014 to 9 November 2017	Office and warehouse
Hong Kong	9 May 2016 to 31 May 2018	Office and warehouse
Shenzhen, the PRC	1 April 2016 to 31 May 2017	Office, sales office and warehouse
Chengdu, the PRC <sup>(Note)</sup>	8 November 2015 to 7 November 2016	Sales office
Xiamen, the PRC <sup>(Note)</sup>	1 January 2015 to 31 December 2016	Sales office
Wuhan, the PRC	13 March 2016 to 12 September 2018	Sales office
Beijing, the PRC	23 May 2016 to 22 May 2017	Sales office
Shanghai, the PRC	5 November 2015 to 30 September 2017	Sales office
Nanjing, the PRC	27 April 2016 to 26 April 2017	Sales office

*Note:* We plan to renew the tenancy agreements for all such rented properties and have started or will start to negotiate with the relevant landlords at appropriate time.

### CERTIFICATES, PERMITS AND REGISTRATION

Our SMC Cloud, SuperIC Navigator and SuperIC community are all operated by our subsidiary in Hong Kong and the domain name “[superic.com](http://superic.com)” is owned by one of our subsidiaries in Hong Kong. All computer servers of our SMC Cloud, SuperIC Navigator and SuperIC Community are located in Hong Kong. As advised by our PRC legal counsel,

- (1) according to the “Regulations on the Administration of Foreign-invested Telecommunications Enterprises” (“**Telecommunications Regulations**”), a foreign-invested telecommunications enterprise is one established by foreign investors and Chinese investors within the territory of the PRC by way of a sino-foreign equity joint venture for engagement in the telecom services. As our e-commerce platform is operated and owned by our subsidiaries in Hong Kong, the “Provisions on the Administration of Foreign-funded Telecommunications Enterprises” is not applicable to us; and
- (2) according to the “Regulations on Telecommunications of the PRC” and the “Regulations on Internet Information Service of the PRC”, anyone engaged in internet information service provision within the territory of the PRC shall abide by the above regulations and internet information service provider for profit shall obtain

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a licence for value-added telecommunication services (“**ICP Licence**”) from telecommunications administrative authorities of the provinces, autonomous regions and cities under the direct control of the Central Government or the Ministry of Information Technology. As (i) our SMC Cloud, SuperIC Navigator and SuperIC Community are all operated by our subsidiary in Hong Kong; (ii) the domain name “**superic.com**” is owned by one of our subsidiaries in Hong Kong; and (iii) all computer servers of our SMC Cloud, SuperIC Navigator and SuperIC Community are located in Hong Kong, our e-commerce platform is operated in Hong Kong and not within the PRC, the foregoing two regulations mentioned are not applicable to us.

Our PRC legal counsel confirmed, and our Directors and the Sole Sponsor agreed, that on the bases set out above, the Telecommunication Regulations are not applicable to us and we are not required to obtain any permit, licence or approval (including the ICP Licence) for developing and operating our e-commerce platform.

During the Track Record Period, we have (i) obtained all material licenses, permits or certificates necessary to conduct our business in all the relevant jurisdictions; (ii) complied in our operations with all relevant laws and regulations of the applicable jurisdictions and the terms and conditions set out in the relevant approvals or licenses granted to us in all material aspects; and (iii) complied in all material aspects with the labour laws and environmental laws in all relevant jurisdictions.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have registered our material patents in the PRC and our material marks in the PRC and Hong Kong. For details of our intellectual property rights, please see the section “Statutory and General Information — B. Further Information about our Business — 2. Intellectual Property Rights of our Group” in Appendix IV.

To the best of our Directors’ knowledge and belief, during the Track Record Period, there were no material instance of infringement of intellectual property rights or disputes between our Group, our customers and other third parties in respect of intellectual property rights.

### INSURANCE

Our Directors consider our insurance coverage to be customary for businesses of our size and type and in line with the standard commercial practice in the jurisdictions where we have operations. We primarily maintain insurance for employee’s compensation for injuries or death in the course of employment, physical assets insurance and material damage insurance and liability insurance.

### LEGAL AND COMPLIANCE MATTERS

#### Material Dispute and Litigation

During the Track Record Period and up to the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company’s results of operations or financial condition.

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## BUSINESS

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### Health, Safety and Environmental Matters

We do not engage in the manufacturing of products and do not have any production facilities, but possess storage and warehousing facilities for our inventory. Therefore, we are not subject to significant health, safety or environmental risks. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

### Tax Implications on Over-provision for Certain Items in the Statutory Financial Statements and corresponding penalty

During FY2015, certain errors in the statutory financial statements of SMC International HK for the years ended 31 December 2012 and prior periods and FY2014 (“**Relevant Periods**”) that are principally related to over-provision of allowance for inventories and staff bonus have been identified, and consequently those statutory financial statements were restated and reissued. The over-provision of allowance for inventories made for the years ended 31 December 2012 and 2014 amounted to approximately US\$4.7 million and US\$4.2 million respectively while the over-provision of staff bonus for the year ended 31 December 2014 was approximately US\$1.9 million. These inadvertent errors identified were adjusted and credited back to profit for the year to the extent (net of tax effect) of approximately Nil, US\$5.0 million and Nil for the years ended 31 December 2013, 2014 and 2015 respectively.

At the time when the statutory financial statements for the Relevant Periods were prepared, we considered inventories to be obsolete if they are over one year as at end date of the relevant financial year and make provisions accordingly for allowance of such obsolete inventories. Due to inadvertent oversight of our accounting staff, certain provision amount was not reversed even though part of the obsolete inventories were subsequently sold. Our Directors confirmed that they were aware that such inventories were subsequently sold. However, our Directors relied on the accounting staff and our auditors at that time to apply and advise on the appropriate accounting treatments for provision for inventories in preparing and reviewing the financial statements for the relevant period, and in particular, whether any provisions made previously should have been reversed under applicable accounting principles and policies. For staff bonus, our policy at the time when the statutory financial statements for the Relevant Periods were prepared was to make a provision in the amount equal to 1% of our total sales. As the actual amount of staff bonus subsequently distributed was substantially less than the amount of provision made, such provision for FY2014 was considered to be over provided. Our Directors confirmed that such treatments for allowances for inventories and staff bonus were consistently applied by our Group since commencement of our operations.

The above over-provisions were identified by the newly appointed auditors of the relevant subsidiary, Deloitte Touche Tohmatsu, during its statutory audit for FY2015. Consequently, audit adjustments were made to rectify these over provisions and the statutory financial statements of SMC International HK for FY2013 and FY2014 were restated and reissued. We then submitted the revised tax computations of the relevant subsidiary to the Inland Revenue Department of Hong Kong (“**IRD**”) for the years of assessment 2012/2013 and 2014/2015 based on the revised assessable profits calculated based on the reissued statutory financial statements. The additional tax provision for the year ended 31 December 2012 and prior periods, and FY2014 amounted to US\$0.8 million and US\$0.8 million, respectively.

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## BUSINESS

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In addition to making additional tax provision for the Relevant Periods as discussed above, our Directors have also considered the maximum penalty that may be imposed on us by the IRD arising from omission or understatement of assessment profits for the years of assessment 2012/2013 and 2014/2015 by the relevant subsidiary. Pursuant to section 80(2)(a) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (“IRO”) and the eighth schedule of the Criminal Procedure Ordinance (Chapter 221 of the Laws of Hong Kong) (“CPO”), any person who without reasonable excuse makes an incorrect return by omitting or understating anything in respect of which he is required by the IRO to make a return, either on his behalf or on behalf of another person commits an offence and is liable on conviction to (i) a fine in the amount of HK\$10,000; and (ii) a further fine of treble the amount of tax which has been undercharged in consequence of such incorrect return, statement or information, or would have been so undercharged if the return, statement or information had been accepted as correct. Also, pursuant to sections 82(1)(b) and 82(1A) of the IRO and the eighth schedule of the CPO, any person who wilfully with intent to evade or to assist any other person to evade tax makes any false statement or entry in any return made under the IRO, commits an offence, and is liable to (i) a fine at the maximum amount of HK\$50,000; (ii) a further fine of treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence has not been detected; and (iii) imprisonment for 3 years.

Our Directors confirmed that the incorrect tax returns or statement to the IRD for the relevant years of assessment were made without any wilful intent to evade tax. As advised by our tax advisers, our Directors consider that the reasonably possible penalty, if any, is likely to be at the level of 30% of the amount of tax undercharged and HK\$10,000 (equivalent to US\$1,290) for each offense, that is, US\$0.2 million and US\$0.3 million for the year ended 31 December 2012 and FY2014 respectively. Relevant provision was made and included in administrative expenses in the profit or loss for the relevant years. However, the actual penalty that may be imposed by the IRD may be different from the amounts provided, such difference will be charged to profit or loss in the period during which such a determination is made by the IRD.

### ***Our tax adviser’s view on sufficiency of the provision made***

Our Group has recognised additional tax provision based on the revised assessable profits in the reissued statutory financial statements of the relevant subsidiary for the Relevant Periods.

According to the penalty policy of the IRD disclosed on its website, for cases where the taxpayers fail to exercise reasonable care and omit profits/income, and such omission was voluntarily disclosed to the IRD, the IRD will generally impose a penalty loading from 5% to 30% of the tax undercharged. Based on the fact that (i) the relevant subsidiary has submitted the revised tax computations to the IRD based on the revised assessable profits calculated based on the reissued statutory financial statements; (ii) our Group took the initiative to voluntarily disclose the omission of the relevant subsidiary’s income to the IRD upon finalisation of its re-issued statutory financial statements, and (iii) our Group does not have a wilful intention to evade tax, our tax adviser, which is an international professional accounting firm in Hong Kong, considered that it is a reasonable estimation that the IRD may impose a penalty up to 30% on the tax undercharged to our Company. As our Company has made a provision on the potential penalty of 30% on the tax undercharged for the relevant year of non-compliance in the Financial Information, the tax adviser are of the view that such a provision for penalty is reasonable.

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## BUSINESS

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### ***Our Directors' and Sole Sponsor's view***

Our Directors confirmed that the over-provision of allowance for inventories and staff bonus were made due to inadvertent oversight without any wilful intent to evade tax. The accounts of SMC International HK for the Relevant Periods were prepared by our accounting staff in the PRC before our current financial controller joined our Group in March 2015. Such accounting staff had insufficient understanding towards the accounting standards of Hong Kong which resulted in the provisions having been made over prudently. Our Group had submitted the accounts of SMC International HK so prepared to our auditors at that time, who issued unqualified opinion on the accounts. After such over-provisions were identified by the newly appointed auditors, we have arranged for the statutory financial statements to be restated and reissued, and notified the IRD as soon as practicable.

With a view to prevent recurrence of similar event in future, our Internal Control Reviewer has reviewed, among others, our policy and procedures on making provision for allowance of inventories and staff bonus and recommended appropriate changes to the such internal policy and procedures which we have adopted. According to the revised policy and procedures on making provision for allowance of inventory, in addition to the age of the inventories, we will also take into account factors such as the market price of the inventories and whether any new end products were introduced such that the inventories will no longer be fit for producing the new products. According to the revised policy and procedures on making provision for staff bonus, such provision will be made with reference to the amount of staff bonus actually distributed and the total staff costs of the preceding financial year. In addition, our currently financial controller, who now oversees the preparation of the accounts of our Group, has been a member of the Chartered Association of Certified Accountants since September 1998 and has substantial experience in the field prior to joining our Group. To enhance our Directors' understanding towards relevant accounting policies, our Directors have also attended training on accounting matters.

On the bases that (i) the over-provision of allowance for inventories and staff bonus and thus the incorrect tax returns or statement to the IRD for the relevant years of assessment were made due to inadvertent oversight without any wilful intent to evade tax; (ii) submission of the revised tax computations of the relevant subsidiary was made to the IRD as soon as practicable after the discovery of such errors; (iii) appropriate internal control measures in respect of the provision and reversal of allowance for inventories and staff bonus as recommended by the Internal Control Reviewer have been adopted by our Group; (iv) an experienced financial controller has been engaged to oversee the preparation of our financial statements; and (v) our Directors have attended training in relation to relevant matters, our Directors are of the view, and the Sole Sponsor agree, that the incident above does not adversely affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules.

### **Material Non-compliance**

During the Track Record Period, we did not have any non-compliance with the laws or regulations which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations. Our PRC legal counsel is of the opinion that we have complied with all relevant PRC laws and regulations in all material respects during the Track Record Period and the subsequent period up to the Latest Practicable Date.

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## CONNECTED TRANSACTIONS

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### EXEMPT CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, we had entered into certain transactions with our connected person. Such transactions will continue after Listing and will constitute continuing connected transactions pursuant to the Listing Rules. Details of the transactions are set out below.

SMC Taiwan is owned as to 90% by Mr. Tian and 10% by Mr. Lin Tsung Ming. Mr. Tian, our executive Director and Controlling Shareholder, is a connected person of our Company. Pursuant to the Listing Rules, SMC Taiwan is an associate of Mr. Tian and is therefore a connected person of our Company.

### IC Component Supply and Procurement

During the Track Record Period, our Company had procured from and supplied to SMC Taiwan IC components (the “**Continuing Connected Transactions**”). Upon completion of the Global Offering, we will continue such Continuing Connected Transactions. During the Track Record Period, the aggregate amount of purchase and supply transactions between our Group and SMC Taiwan are as follows:

	For the year ended 31 December			For the three months ended
	2013	2014	2015	31 March
	US\$'000	US\$'000	US\$'000	2016 US\$'000
Amount of purchase by our Group . . . . .	386	352	–	–
Amount of supply by our Group . . . . .	3,391	792	203	135

After the completion of the Listing, the consideration for the Continuing Connected Transactions will not exceed HK\$3 million (or approximately US\$387,000) for the year ending 31 December 2016 and the Continuing Connected Transactions will be carried out on normal commercial terms. The consideration payable is determined based on arms' length negotiations between the parties and with reference to the price offered by independent similar suppliers and customers. Accordingly, our Directors are of the view that such consideration is fair and reasonable and in the interests of our Company and its Shareholders as a whole.

As the highest relevant percentage ratio in respect of 2016 annual cap for the Continuing Connected Transactions is less than 5% and the total consideration is less than HK\$3 million, such transactions are fully exempt under Chapter 14A of the Listing Rules.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option and the options granted under the Share Option Scheme are not exercised and no Shares are issued pursuant to the grant of the Awards under the Share Award Scheme), Mr. Tian, through Smart IC (a company wholly owned by him) will hold approximately 52.5% of our issued share capital, (or approximately 50.60% if the Over-allotment Option is exercised in full). As Smart IC and Mr. Tian are, directly or indirectly entitled to exercise, or control the exercise of, 30% or more of the voting power at our Company's general meeting, each of Smart IC and Mr. Tian is regarded as a Controlling Shareholder of our Company under the Listing Rules. For more details on Mr. Tian, please refer to the section headed "Directors and Senior Management — Directors — Executive Directors" in this prospectus.

### DELINEATION OF BUSINESS

SMC Taiwan, which is owned as to 90% by Mr. Tian, is engaged in businesses that potentially compete with our business ("**Retained Business**"). As part of the Reorganisation, Mr. Tian had attempted to inject his interests in SMC Taiwan into our Group. However, due to the long processing time for obtaining the relevant governmental approval for the transfer, he was unable to do so. For further information about the Reorganisation, please refer to the section headed "History, Reorganisation and Group Structure — Structure prior to Reorganisation". Accordingly, as at the Latest Practicable Date, Mr. Tian has no intention to inject, prior to or in the near future after Listing, the Retained Business into our Group.

SMC Taiwan was principally engaged in the business of trading of electronic products. For FY2013, FY2014, FY2015 and 1Q2016, the revenue (unaudited) of SMC Taiwan was approximately US\$4.1 million, US\$1.3 million, US\$0.3 million and US\$33,851, respectively. SMC Taiwan recorded a loss (unaudited) of approximately US\$0.1 million, US\$61,999, US\$0.1 million and US\$30,919, for FY2013, FY2014, FY2015 and 1Q2016, respectively.

As at the Listing Date, the following Director has overlapping positions in our Company and SMC Taiwan:

<u>Name</u>	<u>Position in our Company</u>	<u>Position in SMC Taiwan</u>
Mr. Tian	Executive Director, Chairman and Chief Executive Officer	Director

While there is potential overlap between the Retained Business and our Group, we believe that the potential overlap is not material for the reasons set forth below:

#### *No overlap in customers*

The customers whom our Group supply to are different from the customers whom SMC Taiwan serve and our Group supplies to customers which SMC Taiwan does not supply to, and vice versa. Accordingly, our business and the Retained Business do not compete directly with each other in serving these customers.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### *Limited overlap in suppliers*

While our business and the Retained Business have two common suppliers, primarily component suppliers, we place orders with different departments of the common suppliers independently and separately from SMC Taiwan. During the Track Record Period, the amount of purchases from the common suppliers made by our Group and SMC Taiwan amounted to:

	For the year ended 31 December			For the three months ended 31 March
	2013	2014	2015	2016 <sup>(1)</sup>
	US\$'000	US\$'000	US\$'000	US\$'000
Our Group . . . . .	205,510	303,118	379,127	–
SMC Taiwan . . . . .	483	470	8	–

*Note:*

(1) We cease to have any common suppliers with SMC Taiwan in 2016.

Our Directors are of the view that the overlap in suppliers are limited based on the following:

- (i) the actual amount of purchase made by SMC Taiwan from the common suppliers is not significant (in comparison to our Group's purchases) and had declined during the Track Record Period;
- (ii) for the three months ended 31 March 2016 and up to the Latest Practicable Date, our Group and SMC Taiwan had no overlapping suppliers; and
- (iii) during the Track Record Period, the amount of purchases made by our Group from the common suppliers represents approximately 75.9%, 78.6%, 77.8% and nil of our total purchases, respectively.

The two common suppliers are the five largest suppliers of our Group during the Track Record Period.

### *No overlap in geographical scope*

The Retained Business will only serve the customers in the Taiwan market while our geographical coverage for our customers is in the PRC and Hong Kong. To the knowledge of our Company, SMC Taiwan will continue to focus their sales in Taiwan and SMC Taiwan currently has no plans to materially change the market segments in which it operates. Hence, it is not expected that the Retained Business will directly compete with our products in our market in the near future.

Save for the Retained Business, our Controlling Shareholders do not have any interest in a business which competes or is likely to compete, either directly or indirectly with our business.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### 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 the Deed of Non-competition. 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, save for the Retained Business, they will not, and they will use their best endeavours to procure that their respective close associates (except any members of our Group) will not, whether directly or indirectly (including through anybody 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 details of which are set out in this prospectus (the "**Restricted Business**").

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 recognised 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 the Restricted Business (the "**Business Opportunity**") is identified by or made available to the Controlling Shareholders or their respective close associates, they are required to refer such Business Opportunity to our Company and may not pursue such Business Opportunity unless our independent non-executive Directors declines the Business Opportunity and do not veto the pursuit of such Business Opportunity by our Controlling Shareholders. We maintain an option to require our Controlling Shareholders to transfer such business developed by them to us as referred to the subsection below headed "Option to Purchase SMC Taiwan and/or New Similar Business".

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 Stock Exchange.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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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.

### **Option to Purchase SMC Taiwan and/or New Similar Business**

To manage the competition between our Controlling Shareholders and our Group, we have been granted an irrevocable option by Mr. Tian ("**Option**") (exercisable at our absolute discretion) to require him or require him to procure the relevant companies controlled by him, to sell to our Group all of his shareholding interest in SMC Taiwan, and/or the assets or other interests of SMC Taiwan and/or any new business similar to our core business which has been developed, operated or owned (whether directly or indirectly) by Mr. Tian, or any companies controlled (whether directly or indirectly) by him.

The exercise of such Option is subject to various conditions precedent being satisfied including without limitation the receipt of the relevant approvals and licences from all relevant government authorities and bodies for our Company to operate the relevant companies, business and/or assets.

Upon the exercise of the Option, all relevant acquisitions will be carried out based on arm's length negotiations and subject to compliance with all applicable rules and regulations. In particular, such acquisitions by our Group may be required to comply with the requirements of Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review and Shareholders' approval requirements. Mr. Tian undertakes to provide to our Company such information and assistance as it may require to comply with the requirements of all applicable laws and regulations, including the publication of announcements and circulars (if necessary).

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the Option. If the independent non-executive Directors decide to exercise the Option, they will notify the Board of its decision and the Board shall notify Mr. Teng accordingly ("**Option Notice**"). Upon receipt of the Option Notice, the parties shall negotiate in good faith the terms and conditions governing such transactions and the parties shall within 3 months from the date of the Option Notice, enter into a sale and purchase agreement. The consideration payable for such transactions shall be determined with reference to the valuation provided by an independent third party valuer (who shall be jointly selected by Mr. Tian and our Company).

As at the Latest Practicable Date, we had no intention to acquire SMC Taiwan and/or the assets and other interests forming part of SMC Taiwan immediately upon completion of the Global Offering. After the Listing, we believe that our Group may acquire SMC Taiwan if the relevant condition precedents are satisfied. The independent non-executive Directors will review the operation of our business regularly. If and when they find there is a need to exercise the Option, the independent non-executive Directors will bring the topic to the attention of, and for consideration by, the Board. The decision of whether to exercise the Option will be subject to annual review.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective close associates (other than our Group) after the completion of the Global Offering for the reasons set out below:

#### Management Independence

Our Board comprises four executive Directors and three independent non-executive Directors and is supported by a team of senior management (the majority of whom has been managing our business throughout the Track Record Period). Each of our executive Directors and senior management members possesses relevant management and/or industry-related experience. For further information about the experience of our Directors and members of senior management, please refer to the section headed “Directors and Senior Management”. Other than Mr. Tian, none of our Directors or senior management will have overlapping roles in our Company and SMC Taiwan as at the Listing Date. Our Directors are of the view that our Company is managed independently of our Controlling Shareholders for the following reasons:

- 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;
- at any meetings held to discuss a matter that gives rise to a conflict with any of our Directors, including Mr. Tian, and their respective close associates, any conflicted Directors will abstain from voting and will not be counted in the quorum of the relevant Board meeting;
- more than one third of our Board is made up of independent non-executive Directors who have extensive experience in different industries and have 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 opinion; and
- connected transactions between our Group and our Controlling Shareholders or their respective associates are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement and independent Shareholders’ approval (where applicable).

Based on the above, our Directors are satisfied that they are able to perform their roles as Directors independently and manage our business independently from our Controlling Shareholders after Listing.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### Financial Independence

Our Group has an independent financial system and makes financial decision according to its own business needs. As at the Latest Practicable Date, our bank borrowings were guaranteed by Mr. Tian, Mr. Tian's spouse and Mr. Wong, and a loan of US\$399,000 advanced to us by Mr. Tian remains outstanding. All the foregoing pledges, guarantees and loans provided by our connected persons in favour of our Group will be fully released upon Listing. Save as mentioned, we are financially independent of our Controlling Shareholders and their respective close associates.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

### Operational Independence

Our Company makes business decisions independently. Our Company and its subsidiaries hold all relevant licences necessary to carry on their businesses and have sufficient capital, equipment and employees to operate its businesses independently.

On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent from our Controlling Shareholders after Listing:

- our Company is not reliant on the manufacturing capabilities of our Controlling Shareholders;
- our Company is not reliant on the sales and distribution network of our Controlling Shareholders;
- our Company is not reliant on the trademark of our Controlling Shareholders; and
- our Company has its own administrative and corporate governance infrastructure (including its own accounting, legal and human resources departments).

### DIRECTORS' COMPETING INTERESTS

Save as mentioned in this section, our Directors have confirmed that none of them is interested in any business which competes, or is likely to compete directly or indirectly with our businesses as at the Latest Practicable Date.

### CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to manage any potential or actual conflict of interests and to safeguard the interests of our Shareholders:

- (a) The independent non-executive Directors will review, on an annual basis, the compliance with the undertakings by our Controlling Shareholders under the Deed of Non-competition;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (b) Our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (c) Our Company will disclose decisions, with basis, on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the undertakings provided by our Controlling Shareholders, including decisions reached in respect of exercising the right of refusal to pursue or decline any Business Opportunity, in our annual reports or by way of announcement to the public in compliance with the requirements of the Listing Rules;
- (d) Our Controlling Shareholders will provide an annual confirmation that it is in compliance with its undertakings under the Deed of Non-competition in our annual report;
- (e) Our Board has a balanced composition of executive Director and independent non-executive Directors that can facilitate the exercise of independent judgment. With the expertise in their respective professional fields, our Directors believe that the independent non-executive Directors have the necessary caliber and expertise to form and exercise independent judgment in the event that conflicts of interest between our Company and our Controlling Shareholders arise;
- (f) In the event that any potential conflict of interest arises at our Director's level, i.e. where a Director has an interest in a company that will enter into an agreement with our Group, the relevant Director shall be excluded from the Board's deliberation process and abstain from voting and shall not be counted towards the quorum in respect of the relevant resolution(s) at such Board meeting;
- (g) In the event that any potential conflict of interest arises at the Shareholders' level, and subject to compliance with all applicable rules and regulations and the constitutional documents of our Company, the relevant Shareholders shall abstain from voting in the Shareholders' meeting with respect to the relevant resolution(s);
- (h) Only our independent non-executive Directors will be involved in determining whether our Company should take up any Business Opportunity; and our Company will disclose in the annual report the decision of the independent non-executive Directors, with basis, in respect of any Business Opportunity;
- (i) Pursuant to the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules (the "**CG Code**"), our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's cost;
- (j) Any proposed transaction between us and connected persons will be subject to Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting and Shareholders' approval requirements of such rules; and

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (k) We have appointed Fortune Financial Capital Limited as our compliance adviser, which is expected to provide advice and guidance to us in respect of compliance with applicable laws and the Listing Rules, including various requirements relating to directors' duties and internal controls.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders as our Directors and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

We are committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgment. We are also committed to the view that our independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. Our independent non-executive Directors are free of any business or other relationships which could interfere in any material manner with the exercise of their independent judgment. Our Company is expected to comply with the CG Code which sets out principles of good corporate governance in relation to, among others, Directors, the chairman, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Company will state in its interim and annual reports whether we have complied with the CG Code, and will provide details of, and reasons for, any deviations from it in our corporate governance report which will be included in our annual report.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD OF DIRECTORS

The Board of our Company consists of seven Directors, of whom four are executive Directors, and three are independent non-executive Directors.

The functions and duties of the Board include, but are not limited to, convening general meetings, reporting on the performance of the Board at the general meetings, implementing the resolutions passed at the general meetings, formulating business plans and investment plans, preparing the annual budget and final accounts, preparing proposals on profit distribution and increasing or decreasing the issued and/or registered capital, as well as performing the other authorities, functions and responsibilities of the Board in accordance with the Articles of Association.

The following table briefly sets forth the information of each of our Directors:

Name	Age	Position/Title	Date of joining our Group	Date of appointment as a Director	Principal responsibilities
Mr. Tian Weidong (田衛東)	50	Chairman, Executive Director and Chief Executive Officer	July 2005	22 October 2015	Overseeing the overall business strategy, development of projects, management and operations of our Group, chairman of nomination committee and member of remuneration committee
Mr. Wong Tsz Leung (黃梓良)	52	Executive Director, and Chief Financial Officer	March 2007	22 October 2015	Overseeing the overall strategy and responsible for the financial operations and management of our Group
Mr. Liu Hongbing (劉紅兵)	50	Executive Director	February 2007	22 October 2015	Overseeing the overall strategy and responsible for the research and development matters of our Group
Mr. Xie Yi (謝藝)	44	Executive Director	May 2008	16 March 2016	Overseeing the operations of the E-Commerce platform of our Group



## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position/Title	Date of joining our Group	Date of appointment as a Director	Principal responsibilities
Mr. Zheng Gang (鄭鋼)	49	Independent Non-executive Director	March 2016	16 March 2016	Supervising the compliance and corporate governance, providing independent advice to our Board, chairman of remuneration committee, member of audit committee
Mr. Tang Ming Je (湯明哲)	62	Independent Non-executive Director	March 2016	16 March 2016	Supervising the compliance and corporate governance, providing independent advice to our Board, member of audit committee, nomination committee and remuneration committee
Mr. Wong Hon Kit (黃漢傑)	49	Independent Non-executive Director	March 2016	16 March 2016	Supervising the compliance and corporate governance, providing independent advice to our Board, chairman of audit committee, member of nomination committee and remuneration committee

### DIRECTORS

#### Executive Directors

**Mr. Tian Weidong (田衛東)**, aged 50, is the chairman of the Board, an executive Director and chief executive officer of our Company. He is the founder of our Group and has been leading our Group for over 10 years. Mr. Tian is responsible for overseeing the overall business strategy, development of projects, management and operations of our Group.

Mr. Tian has extensive experience in the semiconductor industry and its related distribution. He was the sales director of Shenzhen Dadong Electronics Co., Ltd. (深圳大東電子有限公司) (which was principally engaged in sales of semiconductors) from October 1993 to June 1997 where he was in charge of the management of the sales team, formulation of sales and marketing strategies and maintenance of business partnerships with clients and suppliers. He was the sales manager of Trident Multimedia Technologies (Shanghai) Co., Ltd. (泰鼎多媒體技術(上海)有限公司) (which was principally engaged in the design of IC products and the development of associated system software and application software) from December 1999 to March 2002 where he was in charge of sales and marketing.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Tian obtained a degree of Bachelor of Electronic Engineering from Xiamen University in July 1989 and a degree of Master of Business Administration from the National University of Singapore in March 2000.

**Mr. Wong Tsz Leung (黃梓良)**, aged 52, is an executive Director and chief financial officer of our Company. Mr. Wong joined SMC Group in March 2007 and subsequently promoted to the vice general manager. Mr. Wong is responsible for overseeing the overall strategy and responsible for the financial operations and management of our Group.

Mr. Wong has more than 20 years of experience in business management. He was the financial controller of OSSIMA Publishing Group Limited. (奧斯瑪有限公司) (which was engaged in travel media business) from January 1995 to September 2005, Mr. Wong obtained a degree of Master of Business Administration from University of Wales via its distance learning program in December 2011.

Mr. Wong was a director of Samsung Drycleaning Company Limited, a private company limited by shares which was dissolved by way of striking off on 19 September 2003. Mr. Wong was also director of The Golden Key Hotels of the World Limited, a private company limited by shares which was dissolved by way of deregistration on 17 June 2005. Mr. Wong confirmed that the aforementioned companies were solvent at the time of dissolution by striking off or deregistration and that no misconduct or misfeasance on his part as director led to the companies' dissolution, nor is he aware of any actual or potential claim that has been or will be made against him as a result of the dissolutions.

**Mr. Liu Hongbing (劉紅兵)**, aged 50, is an executive Director of our Company. Mr. Liu joined SMC Technology SZ in February 2007 and acted as the manager of the development department and was subsequently promoted to vice general manager. Mr. Liu is responsible for overseeing the overall strategy and responsible for the research and development matters of our Group.

Mr. Liu has extensive experience in the electronic engineering industry. He was the engineer of Hebei Tengfei Electronics Co., Ltd. (河北騰飛電子有限公司) (which was principally engaged in the design, manufacturing and sales of LCD TVs and other electronic appliances) from October 1993 to May 1999 and was the senior engineer of Shenzhen Zhong Tian Xin Electrical Technologies Co., Ltd. (深圳中天信機電科技實業有限公司) (which was principally engaged in the design, manufacturing and sales of electronic products including LED products, LCD TVs and audio devices) from June 1999 to January 2007. Mr. Liu obtained a degree of Bachelor of Physics from Shandong University in July 1988 and a degree of Executive Master of Business Administration from The Chinese University of Hong Kong in November 2015.

**Mr. Xie Yi (謝藝)**, aged 44, is an executive Director of our Company. Mr. Xie joined SMC Technology SZ in May 2008 and acted as the manager of the mobile phone business division. In September 2012, Mr. Xie was appointed as the assistant to the general manager where he was responsible for assisting the general manager in respect of internal management of the sales centers. Mr. Xie has become the head of the e-commerce platform since August 2015. He is responsible for overseeing the operations of the e-commerce platform of our Group.

Mr. Xie has more than 20 years of experience in the electronic technology industry. He joined Xiaxin Electronics Co. Ltd.\* (夏新電子股份有限公司) from January 2001 to December 2005. He later joined Kuanda (Xiamen) Communication Technologies Co. Ltd.\* (寬大(廈門)通訊技術有限公司) from January 2007 to February 2008. Mr. Xie graduated from the Department of Physics at Xiamen University in July 1995.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Independent Non-executive Directors

**Mr. Zheng Gang (鄭鋼)**, aged 49, is an independent non-executive Director of our Company. Mr. Zheng has been the executive director of Hua Xia Healthcare Holdings Limited, a company listed on the Stock Exchange (stock code: 8143) since August 2007. Mr. Zheng had also been appointed as the independent non-executive director of China Internet Investment Finance Holdings Limited (formerly known as Opes Asia Development Limited), a company listed on the Stock Exchange (stock quote: 810) from July 2012 to May 2013. Mr. Zheng has extensive experience in management in the finance and investment industry.

Mr. Zheng obtained a degree of Bachelor of Electronic Engineering from Xiamen University in July 1989 and a degree of Master of Business Administration from University of Wales in April 1994.

**Mr. Tang Ming Je (湯明哲)**, aged 62, is an independent non-executive Director of our Company. Mr. Tang was an associate professor of the department of business administration of University of Illinois at Urbana-Champaign from August 1991 to August 1995, a visiting associate professor of Hong Kong University of Science and Technology in 4 January 1994 to January 1995 and a professor of department of industrial administration of Chang Gung University from December 1994 to August 1996. He held various positions in National Taiwan University, including Professor of the department of international business since August 1996, founding executive director of the executive master of business administration program from August 1997 to July 1999, director of the division of professional development from March 1998 to July 2004 and vice president for finance from August 2007 to May 2014.

Mr. Tang obtained a degree of Bachelor of Civil Engineering from National Taiwan University in June 1975 and a degree of Doctor of Philosophy from Massachusetts Institute of Technology in September 1985.

Mr. Tang's past and current directorships in listed companies in Taiwan in the last three years are set forth in the following table:

<u>Company</u>	<u>Stock Code</u>	<u>Position</u>	<u>Term</u>
MediaTek Inc.	2454	Supervisor	From June 2012 to December 2013
Fubon Financial Holding Co., Ltd.	2881	independent director	Since June 2014

**Mr. Wong Hon Kit (黃漢傑)**, aged 49, is an independent non-executive Director of our Company. Mr. Wong Hon Kit has been the independent non-executive director of Wanjia Group Holdings Limited (萬嘉集團控股有限公司), a company listed on the Stock Exchange (stock code: 401), since 11 April 2013. He was also a non-executive director of Shaanxi Northwest New Technology Industry Company Limited (陝西西北新技術實業股份有限公司), a company listed on the Stock Exchange (stock code: 8258) from September 2012 to August 2014.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Wong Hon Kit has over 10 years of experience in the corporate finance industry. He has held various positions, including chief financial officer, director and company secretary in different companies in Hong Kong, where he has experience in handling corporate finance transactions such as mergers and acquisitions, capital fund raising and restructuring. He was the responsible officer of Greater China Paxwell Limited, a company providing corporate financial advisory services from September 2013 to March 2015, where he was responsible supervising type-6 regulated activities under SFO including corporate finance, internal control and risk management. He was also responsible for overseeing the daily operations of the said company.

Mr. Wong Hon Kit obtained a Diploma in Accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University 香港樹仁大學) in July 1991 and is currently a Certified Public Accountant in Hong Kong. He was admitted as an associate member of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) in March 2000.

Save as disclosed above and in the section headed “Appendix IV — Statutory and General Information”, no Director held any other directorships in listed companies during the three years immediately prior to the Latest Practicable Date nor do they have any relationship with any other Director or member of senior management. There is no other information in respect of our Directors to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention of the Shareholders.

### SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The senior management team of our Group, in addition to our executive Directors, Mr. Tian, Mr. Liu, Mr. Wong and Mr. Xie, comprises the following:

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>	<u>Date of joining our Group</u>	<u>Date of appointment</u>	<u>Principal responsibilities</u>
Ms. Yin Suqin (殷素琴)	34	Head of Sales and marketing Department	March 2010	March 2016	Responsible for the overall sales of our Group
Ms. Tang Mei Ling (鄧美玲)	46	Head of Finance Department	March 2015	March 2016	Responsible for the financial matters

For details of the background of each of Mr. Tian, Mr. Liu, Mr. Wong and Mr. Xie, please refer to the subsection headed “— Executive Directors” in this section.

**Ms. Yin Suqin** (殷素琴), aged 34, has been the head of sales and marketing department of our Company since March 2016. Ms. Yin joined SMC Technology SZ in March 2010 and acted as the sales director of the marketing division. She was appointed as the vice general manager of SMC Technology SZ in August 2014 where she was responsible for assisting the general manager in respect of the daily operations of the sales centers.

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## DIRECTORS AND SENIOR MANAGEMENT

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Prior to joining our Group, Ms. Yin worked for ASEC International (H.K.) Limited (亞矽科技(香港)有限公司) (which was principally engaged as agents of the semiconductor components) and acted as the sales supervisor from May 2004 to September 2007 where she was in charge of the sales and operation of product lines. She joined E-CMOS Corporation (飛虹積體電路股份有限公司) (“E-CMOS”) (which was principally engaged in the design, manufacturing and sales of IC products and electronics products) and acted as the business manager of the Southern China region from October 2007 to March 2010 and her main responsibilities include the sales and marketing duties in the PRC, managing agents and serving E-CMOS’ direct customers.

Ms. Yin completed the study of Applied Electronic Technology at HeFei University of Technology in July 2001.

**Ms. Tang Mei Ling (鄧美玲)**, aged 46, has been the head of finance department of our Company since March 2016. Ms. Tang joined SMC International HK in March 2015 and acted as the financial controller.

Prior to joining our Group, Ms. Tang worked for Wo Kee Administration Limited and acted as the financial controller and assistant company secretary in the Finance & Company Secretarial Department from October 1996 to February 2015.

Ms. Tang obtained a degree of Bachelor of Arts in Accountancy from The Hong Kong Polytechnic University in November 1993. She is a member of the Chartered Association of Certified Accountants since September 1998.

Save as disclosed above and in the section headed “Appendix IV — Statutory and General Information”, no member of senior management has any relationship with any Director or other member of senior management.

Saved as disclosed above, each of our senior management members confirm that he or she did not hold any directorships in other listed public companies in the three years immediately preceding the Latest Practicable Date.

### COMPANY SECRETARY

**Mr. Lo Kai Cheong (盧繼昌)**, aged 33, was appointed as the company secretary of our Company on 16 March 2016. Mr. Lo has over 8 years of experience in auditing. Mr. Lo started his professional career at an accounting firm Thomas Cheng & Company in October 2007 where he handled audit and tax works. He later left the said firm in August 2011 as an Audit Supervisor. He subsequently joined RSM Nelson Wheeler, an accounting firm, as a Senior Auditor in October 2011. In October 2012, he re-joined Thomas Cheng & Company as an Audit Manager. He then worked at ADGS Advisory Limited, a consultancy company, as the assurance and business advisory manager from July 2013 to April 2016. Mr. Lo is currently the principal of an accounting firm Justin Lo & Co..

Mr. Lo obtained a degree of Bachelor of Business (Accounting) from Australian Catholic University in December 2007. He has been a practising member of The Hong Kong Institute of Certified Public Accountants since September 2014 and a member of CPA Australia since November 2011. He was admitted as an Associate of The Taxation Institute of Hong Kong since January 2015 and a member of The Society of Chinese Accountants and Auditors since November 2014.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD COMMITTEE

#### Audit Committee

An audit committee was established by our Company pursuant to a resolution of the Board on 19 September 2016 with written terms of reference in compliance with Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control system. The members of the audit committee are Mr. Wong Hon Kit, Mr. Zheng Gang and Mr. Tang Ming Je, all of whom are independent non-executive Directors. Mr. Wong Hon Kit is the chairman of the audit committee.

#### Remuneration Committee

A remuneration committee was established by our Company pursuant to a resolution of the Board on 19 September 2016 with written terms of reference in compliance with Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group. The members of the remuneration committee are Mr. Tian Weidong, Mr. Zheng Gang, Mr. Tang Ming Je and Mr. Wong Hon Kit. Mr. Zheng Gang is the chairman of the remuneration committee.

#### Nomination Committee

A nomination committee was established by our Company pursuant to a resolution of the Board on 19 September 2016 with written terms of reference in compliance with Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board on appointment of Directors and the management of the Board succession. The members of the nomination committee are Mr. Tian Weidong, Mr. Tang Ming Je and Mr. Wong Hon Kit. Mr. Tian Weidong is the chairman of the nomination committee.

### CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code and Corporate Governance Report (“**CG Code**”) set out in Appendix 14 of the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Tian currently performs these two roles. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

Save as disclosed above, our Company expects to comply with the CG Code set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the CG Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon Listing.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPENSATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses related to the performance of our Company. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. For further information, please refer to the section headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 3. Directors’ Service Contracts, Letters of Appointment and Remuneration” set out in Appendix IV to this prospectus.

### COMPLIANCE ADVISER

Pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Fortune Financial Capital Limited as our compliance adviser. The compliance adviser will advise us on the following matters pursuant to Rule 3A.23 of the Listing Rules:

- (i) the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where our Company proposes 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 forecast, estimate or other information of this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares the possible development of a false market in its securities, or any other matters.

The term of this appointment will commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.45 of the Listing Rules on the distribution of our annual report in respect of the financial results of the first full financial year commencing after the Listing Date.

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## SUBSTANTIAL SHAREHOLDERS

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### PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

So far as our Directors are aware, as at the Latest Practicable Date, immediately following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option and the options granted under the Share Option Scheme are not exercised and without taking into account any Shares which may be issued upon the grant of the Awards under the Share Award Scheme), the following persons (other than a Director or a chief executive of our Company) will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, 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:

#### Interest in Shares or Underlying Shares of Our Company

Name of Shareholder	Nature of interest	Number of Shares held <sup>(1)</sup>	Approximate shareholding percentage
Smart IC <sup>(2)</sup> . . . . .	Beneficial owner	262,500,000 (L)	52.5%
Insight <sup>(3)</sup> . . . . .	Beneficial owner	112,500,000 (L)	22.5%

*Notes:*

- (1) The letter "L" denotes a person's "long position" in such Shares.
- (2) Smart IC is wholly owned by Mr. Tian. Therefore, Mr. Tian is deemed to be interested in all the Shares held by Smart IC.
- (3) Insight is wholly owned by Mr. Wong. Therefore, Mr. Wong is deemed to be interested in all the Shares held by Insight.

Save as disclosed above, as at the Latest Practicable Date, none of our Directors or chief executive of our Company is aware of any other person who will, immediately following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option and the options granted under the Share Option Scheme are not exercised and without taking into account any Shares which may be issued upon the grant of the Awards under the Share Award Scheme), have an interest or short position in the shares which would fall to be disclosed to our Company and the Stock Exchange under the provision of Divisions 2 and 3 and Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.



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## SHARE CAPITAL

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### AUTHORISED AND ISSUED SHARE CAPITAL OF OUR COMPANY

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the Capitalisation Issue and the Global Offering:

*Authorised share capital:*

<u>Number of Shares</u>	<u>Total nominal value</u> (US\$)
<u>5,000,000,000</u> Shares	<u>50,000.00</u>

*Issued and to be issued, fully paid or credited as fully paid:*

<u>Number of Shares</u>	<u>Total nominal value</u> (US\$)
20,000 Shares in issue as at the date of this prospectus	0.20
374,980,000 Shares to be issued pursuant to the Capitalisation Issue	3,749.80
<u>125,000,000</u> Shares to be issued pursuant to the Global Offering	<u>1,250.00</u>
<u>500,000,000</u> Shares	<u>5,000.00</u>

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Capitalisation Issue and the Global Offering. The above does not take into account Shares to be issued upon the exercise of the Over-allotment Option or the exercise of the options granted under the Share Option Scheme or the grant of the Awards under the Share Award Scheme or 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 Offer Shares will rank *pari passu* with all Shares currently in issue or to be issued, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus.

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## SHARE CAPITAL

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### GENERAL MANDATES GRANTED TO OUR DIRECTORS

Subject to the Global Offering becoming unconditional, general mandates have been granted to our Directors to allot and issue Shares and to repurchase Shares. For further details of such mandates, including the information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares, please refer to “Statutory and General Information — A. Further Information about our Group — 3. Resolutions in Writing of our Shareholders” in Appendix IV to this prospectus.

We had adopted the Share Award Scheme and conditionally adopted the Share Option Scheme which takes effect on Listing. A summary of the principal terms of the Share Award Scheme and Share Option Scheme is set out in the section headed “Statutory and General Information — D. Employee Incentive Schemes” in Appendix IV to this prospectus.

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## FINANCIAL INFORMATION

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*You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in “Appendix I — Accountants’ Report” to this prospectus. The consolidated financial information has been prepared in accordance with HKFRSs.*

*The following discussion and analysis contains forward-looking statements 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 trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk Factors”.*

### OVERVIEW

We are a leading distributor of IC and other electronic components based in the PRC Region. We have strong capability to provide engineering support and operate a distinctive e-commerce platform. Through closely co-operating with IC technology vanguards, we deeply consolidate industry resources and adopt an OAO (online and offline) business model to provide high quality core IC and value-added services to a broad base of customers.

We offer a wide range of IC and other electronic components and provide comprehensive value-added services including engineering solutions and field application engineering support to our customers, which help them to shorten their product development time. Our products include a wide range of IC and other electronic components used in applications such as smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics and memory products. We have strong product offering in IC used in our key product segments including the smart media display, intelligent broadcasting terminal and memory, and our suppliers include internationally well-known IC companies in the industry. We are one of the limited number of authorised distributors of our major suppliers in the PRC. Our e-commerce platform is an online customer interaction interface that comprises our sales platform SMC Cloud and marketing platform SuperIC Community and SuperIC Navigator.

For FY2013, FY2014 and FY2015 and 1Q2016, our total revenue was US\$282.6 million, US\$398.5 million, US\$485.4 million and US\$145.3 million, respectively, while our profit for the year/period was US\$0.1 million, US\$7.4 million, US\$6.9 million and US\$2.4 million, respectively.

### BASIS OF PRESENTATION AND PREPARATION

Our Company was incorporated in the Cayman Islands on 22 October 2015 as an exempted company with limited liability under the Cayman Islands Companies Law. In preparation for Listing, we underwent the Reorganisation. For details of the Reorganisation, please refer to the section “History, Reorganisation and Group Structure”. As a result of the Reorganisation, our Company became the holding company of the companies now comprising our Group which were under the common control of our Controlling Shareholders before and after the Reorganisation.

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## FINANCIAL INFORMATION

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The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2016, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the Financial Information throughout the Track Record Period.

All intra-group transactions and balances have been eliminated on consolidation. For more information on the basis of presentation and preparation of the financial information included herein, please refer to “Accountants’ Report — Notes to the Financial Information — Note 2” in Appendix I to this prospectus.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

#### Our Ability to Invest in Research and Development

During the Track Record Period, our research and development expenses were US\$4.8 million, US\$4.5 million, US\$2.1 million and US\$0.6 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively. Our involvement in research and development helps us to provide our customers with more customised and advanced products. Also, we believe that our technological automation will allow us to scale up our operations without a proportional increase in fixed costs. It will also allow us to analyse customer data and enhance our marketing. Since 2015, we commenced our e-commerce platform for our customers, which is our major interface with customers that provides them with a superior customer experience. During the Track Record Period, we outsourced some of our research and development projects to certain external third parties for FY2013 and FY2014. In FY2015, we performed substantially all our research and development activities through our own research and development department in order to better control both cost and quality of such function. Hence, our research and development cost, notwithstanding its decrease in FY2015, still shared certain portion of our total costs. In 1Q2016, we performed all our research and development activities through our own research and development department. Hence, our research and development cost decreased for 1Q2016 compared to that of 1Q2015. Our continued success depends heavily on the reliable maintenance and continued upgrading of our technology systems.

#### Our Mix of Customers

We provide a diversified portfolio of products with individually negotiated prices to our customers during the Track Record Period. Our profitability of sales depends on our mix of customers and the pricing that we can sell our products to them. We attract and retain blue chip customers to increase our business scale and transaction volume, which in turn helps us to gain more bargaining power over our suppliers. Also, the mix of our online and other customers may result in fluctuation in our gross profit margin. Our gross profit margin were 4.6%, 5.3%, 4.6% and 4.6% for FY2013, FY2014 and FY2015 and 1Q2016, respectively.

## FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, the breakdown of our customer type during the Track Record Period:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
Blue chip										
customers . .	128,812	45.6	192,157	48.2	272,807	56.2	50,915	63.2	82,608	56.8
SME										
customers . .	153,740	54.4	206,359	51.8	212,564	43.8	29,679	36.8	62,701	43.2
Total . . . . .	<u>282,552</u>	<u>100.0</u>	<u>398,516</u>	<u>100.0</u>	<u>485,371</u>	<u>100.0</u>	<u>80,594</u>	<u>100.0</u>	<u>145,309</u>	<u>100.0</u>

Our revenue generated from our blue chip customers accounted for 45.6%, 48.2%, 56.2% and 56.8% of total revenue for FY2013, FY2014 and FY2015 and 1Q2016, respectively. Our customer data analysis also allowed us to make more relevant promotion to our customers, negotiate more favourable prices with them and in turn may increase our revenue from them.

### Mismatch in Turnover Days for our Accounts Receivables and Accounts Payables

The turnover days of our accounts receivables were 34 days, 34 days, 47 days and 49 days for FY2013, FY2014 and FY2015 and 1Q2016, respectively; while the turnover days of our accounts payables were 31 days, 25 days, 28 days and 29 days for FY2013, FY2014 and FY2015 and 1Q2016, respectively. As such, our credit periods for payment to our suppliers is generally shorter than that we offered to our customers and thus, our cash inflow and outflow maybe mismatched. We expect that our cash outflow to increase at a faster pace than cash inflow if our operations further expand. We had net cash used in operating activities of US\$4.5 million, US\$5.6 million and US\$9.0 million for FY2013, FY2014 and FY2015, respectively, as our operations expanded. We mainly relied on our collateralised bank borrowings on bills discounted with recourse in order to cater for the increased purchases before our customers pay. In order to expand our operation further without generating large amount of cash outflow, we had successfully negotiated with some of our suppliers to extend the limit of purchase with credit periods. We may continue to experience operating net cash outflow if our credit terms from suppliers continue to mismatch our credit terms offered to our customers. While such effect is not reflected in our operating cash flows for 1Q2015 and 1Q2016 due to seasonality effect of settlement from and payment to our customers and suppliers, respectively, we had net cash inflow from operating activities of US\$8.5 million and US\$5.2 million for 1Q2015 and 1Q2016, respectively.

We generally only provide credit terms to our customers upon their request. In considering whether we are to provide any credit terms to a requesting customer, we consider factors including, among others, (i) the business volume with the requesting customer; (ii) credit quality of the requesting customer; and (iii) our liquidity and level of unutilised banking facilities. In late FY2014, with a view to commence business with a new customer that manufactures, among others, TV and set-top box ("**Customer C**"), which our Directors considered to have significant business potential based on its market position and business strategy, we provided credit terms to Customer C on its purchases from us. As a result, we recorded increasing revenue for FY2014 when compared to FY2013, for FY2015 when compared to 2014 and for 1Q2016 when compared to 1Q2015, which is partially attributable to

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## FINANCIAL INFORMATION

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sales to Customer C which accounted for 5.4%, 9.0% and 8.2% of our overall revenue in FY2014, FY2015 and 1Q2016, respectively. Customer C also became one of our top five customers for FY2014, FY2015 and 1Q2016. We are cautious in providing credit terms to our customers and take appropriate measures to monitor our liquidity and implement credit control measures to monitor our outstanding receivables as set out in the paragraph headed “Sales and Marketing — Credit and Payment Terms” in the “Business” section.

Despite that we recorded operating cash outflow for the three years ended 31 December 2015, our Directors are of the view that we will be able to meet our working capital and liquidity requirement for at least the next 12 months due to (i) our continuous effort to increase our credit limit from our major suppliers in order to reduce the impact of mismatch cash inflows and outflows of its operating activities. We have successfully increased our credit limit from our largest supplier from US\$20.0 million in 2015 to US\$39.9 million in July 2016; (ii) our experience of increasing total banking facilities amounts to meet our operating needs. We consider that we will be able to obtain collateralised bank borrowings on trade receivables factored with recourse and bank borrowings and import and export loans to be secured by, among others, our available-for-sale investments and pledged bank deposits. Between January and July 2016, we had obtained additional banking facilities from two of our principal bankers of US\$35.4 million; and (iii) as set out in the section “Future Plans and Use of Proceeds” we intend to use approximately HK\$23.6 million for general working capital; and (iv) we will continue to closely monitor our liquidity and cashflow and take this into account, together with other factors as set out in the paragraph headed “Sales and Marketing — Credit and Payment Terms” in the “Business” section, in considering the credit limit and credit period that we may provide to our customers.

The table below sets forth the credit limit obtained from our Group’s largest supplier for the dates indicated:

	<b>Credit limit</b>
	<b>(US\$ million)</b>
31 December 2013.....	15.5
31 December 2014.....	17.0
31 December 2015.....	20.0
31 July 2016.....	39.9

### Access to and Cost of Financing

As mentioned, our operation requires significant amount of cash outflow before cash inflow from operation. During the Track Record Period, we mainly relied on our collateralised bank borrowings on bills discounted with recourse in order to cater for the increased purchases before our customers paid. We also had secured bank borrowings and secured import and export loans from our principal bankers in order to finance our operations. Our total bank borrowings amounted to US\$7.5 million, US\$16.0 million, US\$36.9 million and US\$41.7 million as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively. As such, our gearing ratio showed an increasing trend during the Track Record Period from 57.5% to 88.0%, to 158.8% and to 162.8% as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively. For details, please see the paragraph “Key Financial Ratios” in this section.

During the Track Record Period, our bank borrowings carried variable interest rate. Our total borrowing costs for bank borrowings amounted to US\$0.4 million, US\$0.9 million, US\$1.8 million and US\$0.7 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively. Therefore, any changes in interest rate may affect our cost of financing and, thus, our results of operation.

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### Seasonality

Our business is subject to seasonality. During the Track Record Period, we recorded relatively lower revenue in the first half of each year due to the Chinese New Year holiday while a relatively higher demand in the second half of each year due to a higher demand for the electronic products during summer holidays and festivals such as Christmas and New Year. Our revenue generated in the first half of each of FY2013, FY2014 and FY2015 was relatively lower than the second half of each of the respective year. As such, any comparison of sales and results of operations between different periods within a single financial year for our Group may not be meaningful and should not be relied upon as indicators of our performance. Also, our trade receivables as at each year end may not reflect the whole year's turnover, as the amount as at year end would be higher than other points of time during the year.

### Cost of Inventories

Our cost of inventories comprised all of our cost of sales during each of FY2013, FY2014 and FY2015 and 1Q2016.

We are exposed to the market risk of price fluctuation, and fluctuation in prices may cause fluctuation in our cost of sales. Any increase in the price of our cost of acquisition of inventories would negatively impact our gross profit margin if we are unable to transfer the increased cost resulting from such price increase through increasing the selling price of our sales.

Our cost of inventories consist of IC chips and electronic components of various models. During the Track Record Period, we considered the cost of inventories as a whole and did not further analyse such cost in detailed breakdown and there was no further segmentation.

For illustrative purpose only, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of inventories from our cost of sales on our profit before tax during the Track Record Period. Fluctuations in our cost of inventories sold from our cost of sales are assumed to be 2%, 5% and 8%.

	+/-2%	+/-5%	+/-8%
	US\$'000	US\$'000	US\$'000
<b>Decrease/increase in profit before tax if increase/decrease in cost of sales</b>			
FY2013 .....	-/+5,393	-/+13,482	-/+21,571
FY2014 .....	-/+7,546	-/+18,866	-/+30,186
FY2015 .....	-/+9,263	-/+23,157	-/+37,052
1Q2016 .....	-/+2,773	-/+6,932	-/+11,091

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### SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our Group's financial statements. Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 4 and 5 to our consolidated financial statements included in "Appendix I — Accountants' Report".

#### Significant Accounting Policies

##### *Merger accounting for business combination involving entities under common control*

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

##### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business and net of discounts and returns.

Revenue from the sales of goods is recognised when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- we have transferred to the buyer the significant risks and rewards of ownership of the goods;
- we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;



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- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to us; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Technical support services income are recognised when the relevant services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to us and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *Our Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### ***Taxation***

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income as directly in equity, respectively.

### ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less estimated cost necessary to make the sale.

### ***Borrowing costs***

Borrowing costs which are not capitalised to qualifying assets are recognised in profit or loss in the period in which they are incurred.

### ***Research and development expenditure***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;

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- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

### **Critical Accounting Estimates and Judgements**

#### ***Estimated impairment of trade and bills receivables***

Management estimates the recoverability of trade and bills receivables based on objective evidence. When there is objective evidence of impairment loss, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate compounded at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, 2014 and 2015 and 31 March 2016, the carrying amounts of our trade and bills receivables was US\$32.0 million, US\$41.5 million, US\$84.2 million and US\$74.4 million, less of allowance of doubtful debts of nil, US\$0.3 million, US\$0.1 million and US\$0.1 million, respectively.

#### ***Net realisable value of inventories***

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated cost necessary to make the sale. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market condition. We will reassess the estimation at the end of each reporting period. As at 31 December 2013, 2014 and 2015 and 31 March 2016, the carrying amounts of our inventories were US\$9.7 million, US\$16.3 million, US\$17.9 million and US\$19.0 million, less of allowance of US\$0.7 million, US\$0.2 million, US\$0.4 million and US\$0.4 million, respectively.

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### *Income tax provision and corresponding penalty*

During FY2015, Our Directors have identified certain errors in the statutory financial statements of a group entity in Hong Kong for the years ended 31 December 2012 and prior periods and FY2014, and consequently those statutory financial statements were restated and reissued. We then voluntarily submitted the revised tax computations of the relevant subsidiary to the Inland Revenue Department of Hong Kong (“**IRD**”) for the years of assessment 2012/2013 and 2014/2015 based on the revised assessable profits calculated based on the reissued statutory financial statements. The additional tax provision for the year ended 31 December 2012 and prior periods, and FY2014 amounted to US\$0.8 million and US\$0.8 million, respectively, was recognised in the consolidated financial statements. As we made an incorrect tax returns or statement to the IRD for the relevant years of assessment, it may be liable for penalty, the amount of which accordingly to the penalty policy of the IRD would be at a maximum of (i) a fine of HK\$10,000 (equivalent to US\$1,290) to HK\$50,000 (equivalent to US\$6,450) for each offense; (ii) trebling the amount of tax undercharged or would have been undercharged; and (iii) imprisonment for 6 months to 3 years. However, the penalty may be less than the maximum level if we can prove to the satisfaction of the Commissioner of the IRD that we do not have any willful intention to omit/understate the profit in question.

In addition to making additional tax provision for the relevant year as discussed above, our Directors have also considered reasonably possible penalty that may be imposed by the IRD on us as at each of the reporting date, if any, arising from omission or understatement of assessment profits for the years of assessment 2012/2013 and 2014/2015 by the relevant group entity. After seeking professional advice, our Directors understand that the reasonably possible penalty, if any, is likely to be at the level of 30% of the amount of tax undercharged and HK\$10,000 (equivalent to US\$1,290) for each offense, that is, US\$0.2 million and US\$0.3 million for the year ended 31 December 2012 and FY2014, respectively, and relevant provision was made and included in administrative expenses in the profit or loss for the relevant years. Our Directors believe that adequate provision has been made against the potential penalty. However, the ultimate penalty may be different from the amounts provided, such difference will be charged to profit or loss in the period during which such a determination is made.

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### RESULTS OF OPERATIONS

The following table summarises the consolidated statement of profit or loss from the financial statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	US\$'000	Percentage of total revenue	US\$'000	Percentage of total revenue	US\$'000	Percentage of total revenue	US\$'000	Percentage of total revenue	US\$'000	Percentage of total revenue
							(unaudited)			
<b>Revenue</b>	282,552	100.0	398,516	100.0	485,371	100.0	80,594	100.0	145,309	100.0
Cost of sales	(269,633)	(95.4)	(377,319)	(94.7)	(463,145)	(95.4)	(76,988)	(95.5)	(138,633)	(95.4)
<b>Gross profit</b>	12,919	4.6	21,197	5.3	22,226	4.6	3,606	4.5	6,676	4.6
Other income	743	0.3	684	0.2	2,001	0.4	214	0.3	122	0.1
Other gains and losses	(70)	(0.0)	(36)	(0.0)	(724)	(0.2)	145	0.2	133	0.1
Research and development expenses	(4,772)	(1.7)	(4,503)	(1.1)	(2,129)	(0.4)	(796)	(1.0)	(592)	(0.4)
Administrative expenses	(3,788)	(1.4)	(4,929)	(1.2)	(6,817)	(1.4)	(1,365)	(1.7)	(1,534)	(1.1)
Selling and marketing expenses	(4,159)	(1.5)	(2,359)	(0.6)	(2,608)	(0.5)	(672)	(0.8)	(799)	(0.5)
Listing expenses	-	-	-	-	(1,157)	(0.2)	-	-	(505)	(0.3)
Finance costs	(365)	(0.1)	(965)	(0.3)	(1,750)	(0.4)	(283)	(0.4)	(671)	(0.4)
<b>Profit before tax</b>	508	0.2	9,089	2.3	9,042	1.9	849	1.1	2,830	1.9
Income tax expense	(378)	(0.2)	(1,707)	(0.4)	(2,140)	(0.5)	(182)	(0.2)	(452)	(0.3)
<b>Profit for the year/period</b>	<b>130</b>	<b>0.0</b>	<b>7,382</b>	<b>1.9</b>	<b>6,902</b>	<b>1.4</b>	<b>667</b>	<b>0.9</b>	<b>2,378</b>	<b>1.6</b>

### DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

#### Revenue

Our revenue represents trading of electronic products. Our revenue generated during the Track Record Period amounted to US\$282.6 million, US\$398.5 million, US\$485.4 million and US\$145.3 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively.

Our Directors, for the purpose of resource allocation and assessment of segment performance, focus and review on our overall results (i.e. revenue and gross profit) and financial position as a whole which are prepared and accordingly, we have only one single operating segment and no further analysis of the single segment is presented. Nevertheless, we may analyse our performances in different product type.

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The following table sets forth, for the years/periods indicated, the breakdown of our revenue, the respective quantity sold and the respective ASP by product types during the Track Record Period:

Product type	For the year ended 31 December				For the three months ended 31 March														
	2013		2014		2015		2016												
	Revenue US\$'000	Quantity (million units)	Revenue US\$'000	Quantity (million units)	Revenue US\$'000 (unaudited)	Quantity (million units)	Revenue US\$'000	Quantity (million units)											
	%	US\$/unit	%	US\$/unit	%	US\$/unit	%	US\$/unit											
Smart media display . . . . .	57.1	66	2.4	225,743	56.7	85	2.6	281,015	57.9	136	2.1	48,940	60.7	22	2.2	69,876	48.1	30	2.3
Intelligent broadcasting terminal . . . . .	10.9	12	2.5	55,886	14.0	28	2.0	57,581	11.9	25	2.3	6,487	8.0	3	2.3	31,666	21.8	15	2.2
Mobile terminal . . . . .	9.7	52	0.5	24,020	6.0	62	0.4	26,283	5.4	81	0.3	6,096	7.6	16	0.4	5,702	3.9	19	0.3
Smart automotive electronics . . . . .	3.1	6	1.5	10,788	2.7	7	1.6	12,383	2.6	8	1.6	2,356	2.9	1	1.7	2,395	1.6	1	2.0
Memory . . . . .	17.8	37	1.4	54,615	13.7	31	1.8	75,308	15.5	43	1.8	12,457	15.5	6	2.0	17,776	12.2	12	1.5
Others <sup>(Note)</sup> . . . . .	1.4	9	0.4	27,464	6.9	69	0.4	32,801	6.7	83	0.4	4,258	5.3	16	0.3	17,894	12.4	21	0.8
<b>Total</b> . . . . .	<b>100.0</b>	<b>182</b>	<b>1.6</b>	<b>398,516</b>	<b>100.0</b>	<b>282</b>	<b>1.4</b>	<b>485,371</b>	<b>100.0</b>	<b>376</b>	<b>1.3</b>	<b>80,594</b>	<b>100.0</b>	<b>64</b>	<b>1.3</b>	<b>145,309</b>	<b>100.0</b>	<b>98</b>	<b>1.5</b>

*Note:* This segment covers all products not included in the smart media display, intelligent broadcasting terminal, mobile terminal smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.

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The ASP of the products distributed by our Group, namely IC and other electronic components, is generally affected by, among other factors, their product life cycle. The ASP of products in a product line is generally higher when they are launched into the market, and decreases with time, until another new product line is launched. Such price fluctuation is consistent with the price fluctuation of IC and other electronic components according to Analysys as disclosed in the paragraph headed “Price fluctuation of IC and other electronic components” in the “Industry Overview” section.

While the overall ASP of our Group’s products decreased during the three years ended 31 December 2015, there is no such general long term trend for each product type, as set out in the table above. The overall ASP for our Group’s products decreased from US\$1.6 for 2013 to US\$1.4 for 2014 mainly because of the decrease in the ASP for intelligent broadcast terminal products, being our Group’s second largest product type in 2014, from US\$2.5 for 2013 to US\$2.0 for 2014, which subsequently increased to US\$2.3 for 2015; and the overall ASP for our Group’s products decreased from US\$1.4 for 2014 to US\$1.3 for 2015 mainly because of the decrease in the ASP for smart media display products, being our Group’s largest product type, from US\$2.6 for 2014 to US\$2.1 for 2015, whereas the ASP for this segment increased from US\$2.4 for 2013 to US\$2.6 for 2014. The ASP for memory products, being our Group’s second largest product type in 2013 and 2015 and the third largest product type in 2014, increased from US\$1.4 for 2013 to US\$1.8 for 2014, and remained stable at US\$1.8 for 2015. Our ASP increased from US\$1.3 for 1Q2015 to US\$1.5 for 1Q2016 mainly due to the increase of ASP for smart media display products, from US\$2.2 for 1Q2015 to US\$2.3 for 1Q2016 and increase in ASP of others products from US\$0.3 for 1Q2015 to US\$0.8 for 1Q2016.

Furthermore, while the ASP of the products distributed by our Group fluctuates, our Group’s cost of sales for such products often fluctuated in the same direction, subject to the effect of other factors that we take into account in pricing our products. The average cost of sale per unit of goods sold in 2013, 2014 and 2015 and 1Q2016 were US\$1.5, US\$1.3, US\$1.2 and US\$1.4, respectively. Apart from costs of sales which is made up of the procurement cost, our product pricing takes into account various factors such as operation costs, market competition and conditions, as well as the quantity of purchase. For example, if a customer requires our engineering solution or technical support, the selling price of the products sold to such customer is generally higher. Also, for sales to blue chip customers, we typically attain a higher sales volume and set our selling price with a relatively lower profit margin, whereas for sales to SME customers, we typically set our selling price with a relatively higher profit margin. For further information on our pricing policy, please refer to the section headed “Sales and Marketing — Pricing Policy” in the “Business” section.

Therefore, even though the ASP of the products distributed by our Group decreases, it does not necessarily translate into a decreasing trend in our Group’s gross profit margin. This is evidenced by the change in our Group’s overall gross profit margin from 4.6% for 2013, to 5.3% for 2014, and to 4.6% for 2015, and remained stable at 4.5% and 4.6% for 1Q2015 and 1Q2016, respectively which does not mirror the decrease of ASP of the products distributed by our Group from US\$1.6 for 2013 to US\$1.4 for 2014, and from US\$1.4 for 2014 to US\$1.3 for 2015, and increased from US\$1.3 for 1Q2015 to US\$1.5 for 1Q2016. To maintain an acceptable level of profit margin, we adopt a set of pricing guidelines and set target profit margin range for our products taking into account the factors set out above. We closely monitor the market condition and our product managers review and adjust the target profit margin range in the pricing guidelines from time to time.

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Based on the above, our Directors are of the view that the decreasing overall ASP for the products distributed by our Group during the Track Record Period is not predictive of our Group's performance in the future.

### Cost of Sales

Our cost of sales comprise cost of products, mainly IC products, procured from our suppliers. During the Track Record Period, our cost of sales amounted to US\$269.6 million, US\$377.3 million, US\$463.1 million and US\$138.6 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively.

The following table sets out the breakdown of our cost of sales by product type during the Track Record Period:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
	(unaudited)									
<b>Product type</b>										
Smart media display	154,759	57.4	214,502	56.9	268,909	58.1	46,806	60.8	67,026	48.3
Intelligent broadcasting										
terminal . . . . .	29,343	10.9	51,698	13.7	54,155	11.7	6,113	7.9	30,005	21.6
Mobile terminal . . .	25,574	9.5	22,438	5.9	24,642	5.3	5,723	7.4	5,237	3.8
Smart automotive										
electronics . . . . .	8,128	3.0	10,054	2.7	11,637	2.5	2,220	2.9	2,252	1.6
Memory . . . . .	48,068	17.8	52,443	13.9	72,313	15.6	11,995	15.6	17,091	12.4
Others <sup>(Note)</sup> . . . . .	3,761	1.4	26,184	6.9	31,489	6.8	4,131	5.4	17,022	12.3
<b>Total . . . . .</b>	<b>269,633</b>	<b>100.0</b>	<b>377,319</b>	<b>100.0</b>	<b>463,145</b>	<b>100.0</b>	<b>76,988</b>	<b>100.0</b>	<b>138,633</b>	<b>100.0</b>

*Note:* This segment covers all products not included in the smart media display, intelligent broadcasting terminal, mobile terminal smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.



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### Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of gross profit and gross profit margin by segment for the years/periods indicated:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
	(unaudited)									
<b>Product type</b>										
Smart media display	6,591	4.1	11,241	5.0	12,106	4.3	2,134	4.4	2,850	4.1
Intelligent broadcasting terminal . . . . .	1,357	4.4	4,188	7.5	3,426	5.9	374	5.8	1,661	5.2
Mobile terminal . . . . .	1,993	7.2	1,582	6.6	1,641	6.2	373	6.1	465	8.2
Smart automotive electronics . . . . .	619	7.1	734	6.8	746	6.0	136	5.8	143	6.0
Memory . . . . .	2,189	4.4	2,172	4.0	2,995	4.0	462	3.7	685	3.9
Others <sup>(Note)</sup> . . . . .	169	4.3	1,279	4.7	1,312	4.0	127	3.0	872	4.9
<b>Total . . . . .</b>	<b>12,919</b>	<b>4.6</b>	<b>21,197</b>	<b>5.3</b>	<b>22,226</b>	<b>4.6</b>	<b>3,606</b>	<b>4.5</b>	<b>6,676</b>	<b>4.6</b>

*Note:* This segment covers all products not included in the smart media display, intelligent broadcasting terminal, mobile terminal smart automotive electronics and memory product lines. Examples of products covered under this product line include those used in applications such as optical communication, security monitoring, power products, IoT, smart home applications, virtual reality, drones and robotics.

For FY2013, FY2014 and FY2015 and 1Q2016, our gross profit amounted to US\$12.9 million, US\$21.2 million, US\$22.2 million and US\$6.7 million, respectively. The respective gross profit margin was 4.6%, 5.3%, 4.6% and 4.6%, respectively.

According to the Analysys Report, due to a concentrated upstream IC supplier market and keen competition in the IC and other electronic component distribution industry in the PRC Region, it is common for IC and other electronic component distributors to engage in price competition, resulting in a gross profit margin between 3% to 8% generally among IC and other electronic component distributors based in the PRC Region, which is in general lower than international market players. Our Group's gross profit margin was therefore in line with that of IC and other electronic component distributors based in the PRC Region. According to the same report, such profit margin is also caused by the fact that IC and other electronic distribution is a B2B business that principally serves loyal customers that purchase in bulk.

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According to the same report, international IC distributors have higher gross profit margin due to the following reasons: (i) international IC distributors principally distribute for Europe and U.S. based IC companies, which has entered the IC supply market at an early stage and enjoyed first mover advantage with a higher profit margin. IC distributors based in the PRC Region principally distribute products for Asia, Taiwan or PRC based IC companies which engage in price competition to increase its market share; (ii) as set out in the paragraph above, IC distributors engage in price competition in the PRC Region due to keen competition in the industry in the PRC Region; (iii) international IC distributors supply to a broader geographical market including U.S. and Europe, which in general has a higher profit margin in comparison to the PRC Region due to protection of relevant industrial associations; and (iv) international IC distributors generally charge a fee for their engineering support services which has a higher profit margin in compare to the sales of IC and other electronic components.

Despite the relatively low gross profit margin experienced by our Group, we had maintained a relatively stable gross profit margin during the Track Record Period. According to the Analysys Report, the IC procurement market in the PRC Region is also expected to increase from RMB2.4 trillion in 2015 to RMB5.2 trillion in 2018. Our Group was also in a leading position in terms of sales revenue in 2015 according to the same report, and ranked eighth among all electronic component distributors based in the PRC Region and ranked fifth among electronic component distributors based in the PRC Region that principally distribute IC. Being an authorised distributor that cooperates with and purchase in bulk directly from IC companies further allows our Group to maintain price competitiveness in comparison to trading companies and retail distributors. In view of the keen competition in our industry, our Group's strategy is to differentiate ourselves from other distributors by providing value-added services. We position ourselves as a value-add distributor with strong capability to provide our customers engineering solutions and technical support, which are valued by electronic product manufacturers due to continuous technology upgrade and short product life cycle of electronic products. According to the Analysys Report, the PRC Region was the largest semiconductor market in the world in 2015 and the IC and other electronic components procurement market in the PRC Region was RMB2.4 trillion in 2015. At the same time, the SME customer community remains a market with significant growth potential but underserved by, and lack the scale to access authentic brand-name products from, IC companies. As such, our Group also adopts the following strategies to expand our market share, particularly in the SME market, and achieve sustainable growth: (i) we intend to expand our SME customer base by, among others, attracting start-up companies to be our customers through our Smart-Core Planet. Please refer to the sections headed "Our Strategies — Achieve Continuous Growth by Nurturing a Collaborative Eco-system for the Electronics Industry through our Smart-Core Planet" and "Sales and Marketing — Marketing and Promotion — Smart-Core Planet" in the "Business" section; (ii) we have launched and will continue to improve and enhance our e-commerce platform, which provides a convenient platform for SME customers to access our product information, obtain technical support from us and transact with us. Please refer to the section headed "Our Strengths — Our E-commerce Platform Serves the SME Market which has High Growth Potential" for further details; and (iii) we intend to increase our online and offline sales and marketing initiatives to promote our product offerings and services and strengthen our market presence. Please refer to the section headed "Our Strategies — Broaden our Customer Base by Bolstering our Online and Offline Sales and Marketing Initiatives" in the "Business" section for further details.

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### Other Income

	For the year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Dividend and interest income from available-for-sale investments . . . . .	103	78	180	32	52
Bank interest income . . . . .	11	19	13	1	1
Technical support services income . . . . .	531	399	1,641	97	–
Interest income from life insurance policies . . . . .	49	79	109	27	27
Others . . . . .	49	109	58	57	42
	<u>743</u>	<u>684</u>	<u>2,001</u>	<u>214</u>	<u>122</u>

Other income mainly represents dividend and interest income from available-for-sale investments and bank deposits, technical support services income, interest income from life insurance policies and others. Other income amounted to US\$0.7 million, US\$0.7 million, US\$2.0 million and US\$0.1 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively. Technical support services income mainly represented commission and license income from providing technical support to our supplier and related companies based on contract terms. Interest income from life insurance policies represented interest income on key man insurance purchased.

### Other Gains and Losses

	For the year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Loss on disposal of property, plant and equipment . . . . .	(17)	(22)	–	–	–
Forfeiture of deposits received from a customer . . . . .	–	197	–	–	–
Net foreign exchange (loss)/gain . . . . .	(53)	(211)	(724)	145	133
	<u>(70)</u>	<u>(36)</u>	<u>(724)</u>	<u>145</u>	<u>133</u>

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Our other gains and losses mainly represents net foreign exchange loss and gain, loss on disposal of property, plant and equipment and forfeiture of deposits received from a customer. Net foreign exchange loss and gain mainly represented exchange loss and gain arising from our operation. The increase in losses in FY2015 was mainly due to depreciation of RMB against US\$ as our purchases were generally settled in US\$ while the sales by SMC Technology SZ to our customers were generally settled in RMB. For 1Q2015, and 1Q2016, we recorded net foreign exchange gains mainly due to slight appreciation of RMB against US\$ during the periods. With a view of better monitoring our exposure to foreign exchange loss, we have enhanced our financial information disclosure procedures by including a sensitivity analysis of our purchase in US\$ and sales in RMB in our monthly management accounts. Our Directors will consider from time to time whether it is necessary for our Group to adopt hedging or other mitigating measures taking into account the results of such sensitivity analysis. Forfeiture of deposits received from a customer amounted to US\$0.2 million for FY2014 which was one-off and have not incurred in other periods during the Track Record Period. We recorded other losses of US\$70,000, US\$36,000 and US\$0.7 million, for FY2013, FY2014 and FY2015, respectively, while we recorded other gains of US\$145,000 and US\$133,000 for 1Q2015 and 1Q2016, respectively.

### **Research and Development Expenses**

Research and development expenses mainly comprise outsourced research and development expenses and staff cost incurred for our research and development department. Research and development expenses amounted to US\$4.8 million, US\$4.5 million, US\$2.1 million and US\$0.6 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively. During the Track Record Period, we outsourced the research and development function to certain external third parties for FY2013 and FY2014. In FY2015 and 1Q2016, we performed our own research and development function instead of outsourcing such function in order to better control both the quality and costs of research and development. Thus, our research and development expenses decreased in FY2015 and 1Q2016 despite our increase in revenue.

### **Administrative Expenses**

Administrative expenses primarily comprise staff costs, rental expenses, other office expenses and others.

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

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
Staff cost . . . .	1,702	44.9	2,239	45.4	3,819	56.0	721	52.8	812	52.9
Rental										
expenses . . . .	611	16.1	628	12.7	805	11.8	183	13.4	212	13.8
Office										
expenses . . . .	223	5.9	126	2.6	358	5.3	32	2.3	57	3.7
Entertainment . .	348	9.2	248	5.0	285	4.2	102	7.5	51	3.3
Depreciation . .	152	4.0	238	4.8	257	3.8	63	4.6	56	3.7
Overseas and										
local										
travelling . . .	256	6.8	185	3.8	233	3.4	41	3.0	33	2.2
Provision of										
bad debts . . .	–	–	371	7.5	183	2.7	–	–	–	–
Motor vehicles										
expenses . . . .	118	3.1	113	2.3	152	2.2	23	1.7	17	1.1
Building										
management										
fee . . . . .	74	2.0	79	1.6	116	1.7	35	2.6	26	1.7
Others . . . . .	304	8.0	702	14.3	609	8.9	165	12.1	270	17.6
Total . . . . .	<u>3,788</u>	<u>100.0</u>	<u>4,929</u>	<u>100.0</u>	<u>6,817</u>	<u>100.0</u>	<u>1,365</u>	<u>100.0</u>	<u>1,534</u>	<u>100.0</u>

Our administrative expenses amounted to US\$3.8 million, US\$4.9 million, US\$6.8 million and US\$1.5 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively. As a percentage of total revenue, our administrative expenses accounted for 1.4%, 1.2%, 1.4% and 1.1% during the respective years/period.

### Selling and Marketing Expenses

Selling and marketing expenses primarily comprise staff costs and delivery expenses to our customers. For FY2013, we entered into written agreements (“**Referral Agreements**”) with various third parties pursuant to which we paid referral fees of US\$2.0 million to third parties. Such fees were determined based on negotiated amount or certain percentage sales for successful referral of new customers. Such arrangement was one-off in nature and have not taken place in the other years during the Track Record Period. The third parties are two PRC individuals and a private company incorporated in Hong Kong and the new customers referred to us through such arrangements were generally companies incorporated in the PRC. According to the Analysys Report, it is common in the industry for IC and other electronic components distributors to find new customers through referral arrangements in its earlier stage of business development due to the highly dispersed procurement market and incomplete market information. Based on the Hong Kong legal advice received from our barrister, given that the third parties were independent third parties, the referrals were not made in relation to any of their principals affairs or business, and the referees were not public servants, the execution, delivery and performance of the Referral Agreements (including the

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payment of the referral fee by us to each of such third parties) were not and are not in breach of any Hong Kong laws and regulations. Our PRC legal advisers also opine that, given that (i) the third parties have signed Referral Agreements and indeed provided the service pursuant to the Referral Agreements, the referral fee paid as agreed has been entered into the account truthfully; (ii) the third parties were independent third parties and not employees or agents of the Group or its customers, and not public officers of the PRC; and (iii) the Group had not instructed the third parties to provide any improper benefits, the Referral Agreements and the payment of the referral fees were not and are not in breach of any PRC laws or regulations.

The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
							(unaudited)			
Staff costs . . .	1,861	44.7	2,047	86.8	2,244	86.0	584	86.9	634	79.3
Referral fee . . .	2,035	48.9	-	-	-	-	-	-	-	-
Delivery expenses . .	263	6.4	312	13.2	364	14.0	88	13.1	165	20.7
Total . . . . .	<u>4,159</u>	<u>100.0</u>	<u>2,359</u>	<u>100.0</u>	<u>2,608</u>	<u>100.0</u>	<u>672</u>	<u>100.0</u>	<u>799</u>	<u>100.0</u>

Selling and marketing expenses amounted to US\$4.2 million, US\$2.4 million, US\$2.6 million and US\$0.8 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively. As a percentage of total revenue, our selling and marketing expenses accounted for 1.5%, 0.6%, 0.5% and 0.5% during the respective years/period.

### Listing Expenses

Listing expenses comprise professional and other expenses in relation to our Listing. Listing expenses amounted to US\$1.2 million and US\$0.5 million for FY2015 and 1Q2016, respectively, as it incurred in that year or period only during the Track Record Period.

### Finance Costs

Finance costs mainly comprise interest charges on our interest-bearing bank borrowings. Finance costs amounted to US\$0.4 million, US\$1.0 million, US\$1.8 million and US\$0.7 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively.

### Income Tax Expense

We are subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

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**(i) Cayman Islands/BVI profits tax**

We have not been subject to any taxation in the Cayman Island/BVI.

**(ii) Hong Kong profits tax**

Hong Kong profits tax has been provided at the rate of 16.5%, in the FY2013, FY2014 and FY2015 and 1Q2016 on the estimated assessable profit for the Track Record Period.

**(iii) PRC enterprise income tax**

PRC enterprise income tax has been generally provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the companies in our Group during the Track Record Period.

Under the Law of the PRC on the EIT Law and Implementation Regulation of the EIT Law, the tax rate of entities established in the PRC is 25% during the Track Record Period. As SMC Technology SZ has been accredited as a “High and New Technology Enterprise” by the relevant authorities in Shenzhen, it is entitled to a reduced tax rate of 15% for PRC EIT for a period of 3 years up to 2016.

**(iv) PRC withholding income tax**

Dividends declared by the PRC subsidiaries to parent companies incorporated outside PRC are subject to withholding tax of 10%.

Our income tax expenses were US\$0.4 million, US\$1.7 million, US\$2.1 million and US\$0.5 million for FY2013, FY2014 and FY2015 and 1Q2016, respectively; the effective tax rate for the respective periods was 74.4%, 18.8%, 23.7% and 16.0%. The exceptionally high effective tax rate for FY2013 was mainly due to loss before tax incurred for one of our PRC subsidiaries as a result of higher cost incurred. For FY2013, our effective tax rate was 74.4%, which was higher than the statutory tax rate, as one of our PRC subsidiaries incurred loss before tax of US\$1.8 million. For illustration purpose only, if such loss was excluded from our profit before tax for FY2013, the effective tax rate was 16.6%, which approximated our statutory tax rate in Hong Kong for our Hong Kong subsidiary. For FY2014, our effective tax rate decreased to 18.8% as the loss before tax of the abovementioned PRC subsidiary decreased to US\$0.5 million due to increased domestic sales in FY2014. For FY2015, our effective tax rate increased to 23.7% mainly due to (i) increase in loss before tax incurred from our abovementioned PRC subsidiary of US\$0.7 million; (ii) loss before tax incurred from our other subsidiaries of US\$2.5 million; and (iii) increase in tax effect of expenses not deductible for tax purpose of US\$0.2 million for FY2015. For 1Q2016, our effective tax rate decreased to 16.0% due to decrease in tax effect of tax losses not recognised of US\$47,000 as our PRC subsidiary recorded profit for 1Q2016.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

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### Transfer pricing

Our Group's major intra-group transaction was the sale of goods from SMC International HK to SMC Technology SZ. Under our Group's prevailing transfer pricing policy, in respect of the intra-group transaction where SMC International HK sold goods to SMC Technology SZ, SMC Technology SZ is the principal operating entity of our Group responsible for the key R&D and sales & marketing activities, and owns our Group's intellectual property. SMC Technology SZ engages SMC International HK to act as its limited risk distributor responsible for the distribution of products as well as the related logistics and warehousing activities in Hong Kong. Hence SMC International HK is remunerated with a routine return, which is determined to be within reasonable range after a transfer pricing study prepared in accordance with the relevant Hong Kong/PRC transfer pricing guidelines/regulations, and SMC Technology SZ is entitled to the residual profit/loss. The relevant transfer pricing policy of our Company is supported by an independent transfer pricing study. Our Group has engaged an independent tax adviser, which is an international professional accounting firm in Hong Kong, to conduct the independent transfer pricing study to evaluate the transfer pricing arrangement in relation to the intra-group transaction between SMC International HK and SMC Technology SZ. The transfer pricing study, covering the years ended 31 December 2013, 2014 and 2015, indicates that the said intra-group transactions satisfy the arm's length principle and requirements under the relevant Hong Kong and the PRC transfer pricing guidelines/regulations. On such basis, our Group considers that its transfer pricing policy is in compliance with the applicable transfer pricing guidelines/regulations of the respective jurisdictions, and the probability of having resultant tax exposure in this respect should be relatively low.

### REVIEW OF HISTORICAL RESULTS OF OPERATION

#### 1Q2016 Compared to 1Q2015

##### *Revenue*

Our revenue increased by US\$64.7 million or 80.3% to US\$145.3 million for 1Q2016 from US\$80.6 million for 1Q2015 mainly as a result of (i) increase in sales from our intelligent broadcasting terminal products of US\$25.2 million; (ii) increase in sales from our smart media display products of US\$20.9 million; and (iii) increase in sales from our other products of US\$13.6 million.

Our sales from intelligent broadcasting terminal products increased by US\$25.2 million for 1Q2016 compared to that of 1Q2015 was mainly due to increase in sales volume from 3 million units for 1Q2015 to 15 million units for 1Q2016. The increase was mainly contributed by (i) one of our new top five customers that principally engages in telecommunications and related equipment manufacturing, and another of our top five customer that focuses on providing digital TV related products and services, of US\$10.4 million and US\$5.8 million, respectively, as a result of increased sales volume of 3.6 million units and 2.6 million units, respectively, for 1Q2016 to cater for improved broadcasting standard of set-top box for sales in the PRC; (ii) a customer principally engages provision of display products, such as projectors, of US\$3.4 million as a result of increased sales volume of 1.6 million units to cater for their own increase in demand.



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Our sales from smart media display products increased by US\$20.9 million for 1Q2016 compared to that of 1Q2015 was mainly due to increase in sales volume from 22 million units for 1Q2015 to 30 million units for 1Q2016. The increase was mainly contributed by (i) one of our top five customers during the Track Record Period that is principally engaged in design and development of LCD TV mainboard, of US\$35.6 million as a result of increased sales volume of 16 million units for 1Q2016 to cater for their own increase in demand and wider range of products sold to them; (ii) Customer C of US\$12.4 million by increase in sales volume of 3 million units for 1Q2016 in order to cater for their own increase in demand. The increase was partially offset by decrease in sales from our certain customers due to their decrease in purchase orders to cater for their business needs.

Our sales from other products increased by US\$13.6 million for 1Q2016 compared to that of 1Q2015 was mainly due to increase in sales volume of 5 million units from 16 million units for 1Q2015 to 21 million units for 1Q2016. The increase was mainly contributed by one of our top five customers during the Track Record Period that principally engages in production and sale of mobile phone solutions ("**Customer J**"), of US\$13.5 million as a result of increased sales volume of 2.2 million units of products to be used in mobile communication to cater for their own increase in demand.

The average selling price increased to US\$1.5 per unit for 1Q2016 from US\$1.3 per unit for 1Q2015. The increase was mainly due to the increase in unit selling price for our (i) smart media display products to US\$2.3 per unit for 1Q2016 from US\$2.2 per unit for 1Q2015, due to increase in sale of certain products of 1.3 million units to our Customer C of higher ASP of US\$4.5 per unit; and (ii) other products to US\$0.8 per unit for 1Q2016 from US\$0.3 per unit for 1Q2015 mainly due to higher average selling price of products for use in mobile communication to Customer J. The increase was partially offset by the decrease in average selling price of our intelligent broadcasting terminal products to US\$2.2 per unit for 1Q2016 from US\$2.3 per unit for 1Q2015 which was mainly due to increase in quantity sold of 4.0 million units of our product introduced in 4th quarter of 2015 with ASP ranged US\$0.1 per unit to US\$0.3 per unit.

### ***Cost of sales***

Cost of sales represented cost of inventories. Our cost of sales increased by US\$61.6 million or 80.1% to US\$138.6 million for 1Q2016 from US\$77.0 million for 1Q2015. Such increase was mainly due to increase in purchase which was in line with our increase in number of units sold.

### ***Gross profit and gross profit margin***

As a result of the foregoing, our gross profit increased by US\$3.1 million or 85.1% from US\$3.6 million for 1Q2015 to US\$6.7 million for 1Q2016. Our gross profit margin remained relatively stable at 4.5% and 4.6% for 1Q2015 and 1Q2016, respectively, due to combined effect of increase in gross profit margin of (i) our mobile terminal products from 6.1% for 1Q2015 to 8.2% for 1Q2016 mainly due to decrease in purchase price per unit sold due to market condition despite decrease in its average selling price; and (ii) decrease in gross profit margin of our smart media display products from 4.4% for 1Q2015 to 4.1% for 1Q2016 mainly as a result of increase in sales to Customer C which were products of lower gross profit margin.

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### ***Other income***

Other income decreased by US\$92,000 or 43.0% from US\$214,000 for 1Q2015 to US\$122,000 for 1Q2016 which was mainly due to decrease in technical support services income of US\$97,000.

### ***Other gains and losses***

Other gains remained relatively stable at US\$145,000 for 1Q2015 and US\$133,000 for 1Q2016 which was mainly due to slight decrease in net foreign exchange gain of US\$12,000 as RMB slightly appreciated against US\$ during the period.

### ***Research and Development Expenses***

Research and development expenses decreased by US\$0.2 million or 25.6% to US\$0.6 million for 1Q2016 from US\$0.8 million for 1Q2015 mainly due to our effort in cost control by performing research and development by our own department while certain research and development projects were outsourced to certain external third parties in 1Q2015.

### ***Administrative expenses***

Administrative expenses increased by US\$169,000 or 12.4% to US\$1.5 million for 1Q2016 from US\$1.4 million for 1Q2015 which was primarily due to increase in staff costs of US\$0.1 million due to increase in both staff number of staff and annual salary adjustment in 1Q2016.

### ***Selling and Marketing Expenses***

Selling and marketing expenses remained relatively stable at US\$0.7 million and US\$0.8 million for 1Q2015 and 1Q2016, respectively.

### ***Listing expenses***

Listing expenses amounted to US\$0.5 million for 1Q2016 as it had not been incurred in the three years ended 31 December 2015.

### ***Finance costs***

Finance costs increased by US\$0.4 million from US\$0.3 million for 1Q2015 to US\$0.7 million for 1Q2016. The increase was mainly due to increase in balances of average bank borrowings during 1Q2016.

### ***Income tax expense***

Income tax expense increased by US\$0.3 million or 148.4% to US\$0.5 million for 1Q2016 from US\$0.2 million for 1Q2015. The increase was mainly due to the increase in assessable income which was in line with increase in revenue. Our effective tax rate decreased to 16.0% for 1Q2016 from 21.4% for 1Q2015 which was mainly as a result of decrease in tax effect of tax losses not recognised of US\$47,000 as our PRC subsidiary recorded profit for 1Q2016.

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### ***Profit for the period***

As a result of the foregoing, profit for the period increased to US\$2.4 million for 1Q2016 from US\$0.7 million for 1Q2015. Our net profit margin also increased from 0.8% for 1Q2015 to 1.6% for 1Q2016 mainly due to (i) decrease in percentage of our administrative expenses to our revenue from 1.7% for 1Q2015 to 1.1% for 1Q2016 due to our effort in cost control; (ii) the decrease in research and development expenses; and (iii) decrease in effective tax rate despite having incurred Listing expenses for 1Q2016.

### **FY2015 Compared to FY2014**

#### ***Revenue***

Our revenue increased by US\$86.9 million or 21.8% to US\$485.4 million for FY2015 from US\$398.5 million for FY2014 mainly as a result of (i) increase in sales from our smart media display products of US\$55.3 million; and (ii) increase in sales from our memory products of US\$20.5 million.

Our sales from smart media display products increased by US\$55.3 million for FY2015 compared to that of FY2014 was mainly due to increase in sales volume from 85 million units for FY2014 to 136 million units for FY2015. The increase was mainly contributed by (i) our largest customer in FY2015, which is principally engaged in design and development of LCD TV mainboard, of US\$42.8 million as a result of increased sales volume of 40.9 million units for FY2015 to cater for their own increase in demand and wider range of products sold to them; (ii) Customer C of US\$22.3 million who commenced procuring from us since second half of FY2014 which was reflected by increase in sales volume of 3.9 million units for FY2015. The increase was partially offset by decrease in sales from our certain customers due to their decrease in purchase orders to cater for their business needs.

Our sales from memory products increased by US\$20.7 million for FY2015 compared to that of FY2014 was mainly due to increase in sales volume of 12 million units from our certain customer due to their increase in purchase orders to cater for their business needs.

The average selling price decreased to US\$1.3 per unit for FY2015 from US\$1.4 per unit for FY2014. The decrease was mainly due to the decrease in unit selling price for our smart media display products to US\$2.1 per unit for FY2015 from US\$2.6 per unit for FY2014, as we did not offer new models for such product type which price showed a decreasing trend over time. The decrease was partially offset by the increase in average selling price of our intelligent broadcasting terminal products to US\$2.3 per unit for FY2015 from US\$2.0 per unit for FY2014 which was mainly due to products of new model offered to our customers for FY2015.

#### ***Cost of sales***

Cost of sales represented cost of inventories. Our cost of sales increased by US\$85.8 million or 22.7% to US\$463.1 million for FY2015 from US\$377.3 million for FY2014. Such increase was mainly due to increase in purchase which was in line with our increase in number of units sold.

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### ***Gross profit and gross profit margin***

As a result of the foregoing, our gross profit rose by US\$1.0 million or 4.9% from US\$21.2 million for FY2014 to US\$22.2 million for FY2015. Our gross profit margin decreased from 5.3% for FY2014 to 4.6% for FY2015 as we experienced decrease in gross profit margin of (i) our smart media display from 5.0% for FY2014 to 4.3% for FY2015 mainly as a result of decrease in its average selling price; and (ii) our intelligent broadcasting terminal products from 7.5% for FY2014 to 5.9% for FY2015 mainly due to increase in sales to our blue chip customers, in proportion to the total sales from intelligent broadcasting terminal products, who we generally offered a lower gross profit margin due to bulk purchase despite increase in its average selling price and the absence of one-off sales to our certain new SME customers with relatively higher gross profit margin as mentioned under “Review of Historical Results of Operation — FY2014 Compared to FY2013 — Revenue” in this section.

### ***Other income***

Other income increased by US\$1.3 million or 192.5% to US\$2.0 million for FY2015 from US\$0.7 million for FY2014. The increase in other income was mainly due to (i) increase in technical support services income of US\$1.2 million due to increase in number of order that required our technical support services from our supplier and related companies; and (ii) the increase in dividend and interest income from available-for-sale investments, which comprised of listed debt and unlisted investment funds in Hong Kong, of US\$0.1 million was mainly due to increase in our purchase in available-for-sale investments for FY2015.

### ***Other gains and losses***

Other losses increased by US\$0.7 million or 1,911.1% to US\$0.7 million for FY2015 from US\$36,000 for FY2014. The increase was mainly due to increase in net foreign exchange loss of US\$0.5 million as RMB depreciated against US\$ during the year. The increase was partially offset by the absence of forfeiture of deposits received from a customer of US\$0.2 million which was an one-off income in FY2014.

### ***Research and Development Expenses***

Research and development expenses decreased by US\$2.4 million or 52.7% to US\$2.1 million for FY2015 from US\$4.5 million for FY2014 mainly due to our effort in cost control by performing research and development by our own department while certain research and development projects were outsourced to certain external third parties in FY2014.

### ***Administrative expenses***

Administrative expenses increased by US\$1.9 million or 38.3% to US\$6.8 million for FY2015 from US\$4.9 million for FY2014 which was primarily due to increase in staff costs of US\$1.6 million due to increase in both staff number and salaries.

### ***Selling and Marketing Expenses***

Selling and marketing expenses remained relatively stable at US\$2.4 million and US\$2.6 million for FY2014 and FY2015, respectively.

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## FINANCIAL INFORMATION

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### ***Listing expenses***

Listing expenses amounted to US\$1.2 million for FY2015 as it had not been incurred in other years during the Track Record Period.

### ***Finance costs***

Finance costs increased by US\$0.8 million from US\$1.0 million for FY2014 to US\$1.8 million for FY2015. The increase was mainly due to increase in balances of average bank borrowings during FY2015.

### ***Income tax expense***

Income tax expense increased by US\$0.4 million or 25.4% to US\$2.1 million for FY2015 from US\$1.7 million for FY2014. The increase was mainly due to the increase in assessable income which was in line with increase in revenue. Our effective tax rate increased to 23.7% for FY2015 from 18.8% for FY2014 which was mainly as a result of increase in expenses not deductible for tax purpose primarily due to our Listing expenses.

### ***Profit for the year***

As a result of the foregoing, profit for the year decreased to US\$6.9 million for FY2015 from US\$7.4 million for FY2014. Our net profit margin also decreased from 1.9% for FY2014 to 1.4% for FY2015 mainly due to decrease in our gross profit margin from 5.3% for FY2014 to 4.6% for FY2015 and increase in Listing expenses of US\$1.2 million. The decrease was partially offset by decrease in our research and development expenses as a result of our effort in such cost control.

## **FY2014 Compared to FY2013**

### ***Revenue***

Our revenue increased by US\$115.9 million or 41.0% to US\$398.5 million for FY2014 from US\$282.6 million for FY2013 mainly as a result of (i) increase in sales of our smart media display products of US\$64.4 million; and (ii) increase in sales of our intelligent broadcasting terminal products of US\$25.2 million. The increase was partially offset by the decrease in our mobile terminal products of US\$3.5 million.

Our sales from smart media display products increased by US\$64.4 million for FY2014 compared to that of FY2013 was mainly due to increase in sales volume from 66 million units for FY2013 to 85 million units for FY2014. The increase was mainly contributed by (i) our largest customer in FY2014 of US\$36.6 million as a result of increased orders of 12.0 million units to cater for their own increase in demand due to new or increased sum of projects and wider range of products sold to them; (ii) our second largest customer in FY2014, which manufactures TV and its related products, of US\$14.6 million as a result of increased orders of 1.8 million units to cater for their own increase in demand; and (iii) from Customer C of US\$21.5 million who commenced procuring from us since second half of FY2014 which contributed 3.7 million units for FY2014. The increase was partially offset by decrease in sales from our certain customers due to their decrease in purchase orders to cater for their business needs.

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Our sales from intelligent broadcasting terminal products increased by US\$25.2 million for FY2014 compared to that of FY2013 was mainly due to increase in sales volume of 16 million units mainly due to increased orders from our certain existing customers and addition of new customers. During FY2014, we received certain one-off orders from certain of our new SME customers, amounted to US\$18.8 million. The average gross profit margin of such one-off sales was relatively higher at 10.3%. Being 33.6% of total sales of intelligent broadcasting terminal products, such gross profit margin of 10.3% was the main driving factor for the increase in gross profit margin to 7.5% for our intelligent broadcasting terminal products.

The average selling price decreased to US\$1.4 per unit for FY2014 from US\$1.6 per unit for FY2013. The slight decrease was mainly due to the decrease in unit selling price for our intelligent broadcasting terminal products to US\$2.0 per unit for FY2014 from US\$2.5 per unit for FY2013 as decrease in selling price of certain existing model of such products with the introduction of new model in FY2014. The decrease was partially offset by the increase in average selling price of our smart media display products to US\$2.6 per unit for FY2014 from US\$2.4 per unit for FY2013 which was mainly due to a relatively high selling price of our new model offered in FY2014.

### ***Cost of sales***

Cost of sales increased by US\$107.7 million or 39.9% to US\$377.3 million for FY2014 from US\$269.6 million for FY2013. Such increase was mainly due to increase in purchase which was in line with our increase in number of units sold.

### ***Gross profit and gross profit margin***

As a result of the foregoing, our gross profit rose by US\$8.3 million or 64.1% from US\$12.9 million for FY2013 to US\$21.2 million for FY2014. Our gross profit margin increased from 4.6% for FY2013 to 5.3% for FY2014, which was mainly due to (i) increase in gross profit margin of our smart media display products from 4.1% for FY2013 to 5.0% for FY2014 as a result of decrease in cost of inventories purchased; and (ii) increase in gross profit margin of our intelligent broadcasting terminal products from 4.4% for FY2013 to 7.5% for FY2014 as a result of our one-off sales of certain high margin products to our certain new SME customers as mentioned above in the paragraph "Review of Historical Results of Operation — FY2014 Compared to FY2013 — Revenue" in this section.

### ***Other income***

Other income remained relatively stable at US\$0.7 million for both FY2013 and FY2014.

### ***Other gains and losses***

Other losses decreased by US\$34,000 or 48.6% to US\$36,000 for FY2014 from US\$70,000 for FY2013. The decrease was mainly due to the forfeiture of deposits received from a customer of US\$0.2 million which was an one-off income in FY2014. The decrease was partially offset by increase in net foreign exchange gain of US\$0.1 million as RMB appreciated against US\$ during the year.

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## FINANCIAL INFORMATION

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### ***Research and development expenses***

Research and development expenses remained relatively stable at US\$4.8 million and US\$4.5 million for FY2013 and FY2014, respectively.

### ***Administrative expenses***

Administrative expenses increased by US\$1.1 million or 30.1% to US\$4.9 million for FY2014 from US\$3.8 million for FY2013. The increase was primarily due to increase in (i) staff cost of US\$0.5 million mainly as a result of increase in staff number and salaries; and (ii) provision of bad debts of US\$0.4 million as we provided general provision for certain overdue balances over 1 year.

### ***Selling and marketing expenses***

Selling and marketing expenses decreased by US\$1.8 million or 43.3% to US\$2.4 million for FY2014 from US\$4.2 million for FY2013 mainly due to absence of referral fee of US\$2.0 million paid to third parties for introducing us a number of new customers. Such referral fee was one-off expenses for FY2013 and have not taken place in other periods during the Track Record Period.

### ***Finance costs***

Finance costs increased by US\$0.6 million from US\$0.4 million for FY2013 to US\$1.0 million for the year ended 31 December 2014. The increase was mainly due to increase in balances of average bank borrowings during FY2014.

### ***Income tax expense***

Income tax expense increased by US\$1.3 million or 351.6% to US\$1.7 million for FY2014 from US\$0.4 million for FY2013. The increase was mainly due to increase in assessable income for FY2014. Our effective tax rate decreased from 74.4% for FY2013 to 18.8% for FY2014 as a result of loss incurred in our PRC subsidiary for FY2013.

### ***Profit for the year***

As a result of the foregoing, profit for the year increased by US\$7.3 million to US\$7.4 million for FY2014 from US\$0.1 million for FY2013. Our net profit margin increased from 0.05% for FY2013 to 1.9% for FY2014 which was mainly due to (i) increase in our gross profit margin from 4.6% for FY2013 to 5.3% for FY2014; and (ii) decrease in selling and marketing expenses for FY2014.

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### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Flow

Our primary uses of cash are for the payment of procurement of inventories from suppliers, staff costs, various operating expenses and have been funded through a combination of cash generated from our operations, bank borrowings and advance from related companies and directors. Upon completion of the Global Offering, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Global Offering for implementing our future plans as detailed under the section headed “Future Plans and Use of Proceeds” in this prospectus and no reliance on advances from our directors or related companies.

The following table summarises, for the periods indicated, our statements of cash flows:

	For the year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Net cash (used in) from operating activities . . .	(4,533)	(5,577)	(9,034)	8,483	5,154
Net cash (used in) from investing activities . . .	(2,159)	(3,419)	(4,184)	113	(4,926)
Net cash from (used in) financing activities . . .	7,151	7,943	15,603	(6,911)	751
Net increase (decrease) in cash and cash equivalents . . . . .	459	(1,053)	2,385	1,685	979
Cash and cash equivalents at beginning of the year/period . . . . .	2,307	2,782	1,737	1,737	4,137
Effect of foreign exchange rate changes . . . . .	16	8	15	3	(4)
Cash and cash equivalents at end of the year/period . . . . .	<u>2,782</u>	<u>1,737</u>	<u>4,137</u>	<u>3,425</u>	<u>5,112</u>

#### **Operating activities**

During our Track Record Period, our cash inflow from operating activities was principally from the receipt of proceeds from our sale of inventories. Our cash outflow used in operating activities was principally for procurement of inventories, staff cost and other expenses.



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For 1Q2016, we had net cash from operating activities of US\$5.2 million, mainly as a result of the profit before tax of US\$2.8 million generated this period, which was primarily due to decrease in trade and bills receivables of US\$9.7 million mainly due to settlement from our customers for the balances as at 31 December 2015. This was partially offset by the (i) decrease in trade payables of US\$3.8 million mainly due to the payment to our suppliers for balances as at 31 December 2015; and (ii) increase in deposits, prepayments and other receivables of US\$2.2 million mainly as a result of increase in value-added tax recoverable of US\$1.4 million due to our increased purchases of inventories from SMC Technology SZ which are available for future value-added tax deductions; and (iii) increase in inventories of US\$1.1 million due to purchase of inventories to cater for our sales.

For FY2015, we had net cash used in operating activities of US\$9.0 million, mainly as a result of the profit before tax of US\$9.0 million generated this year, which was primarily due to increase in trade and bills receivables of US\$42.8 million as we allowed certain of our customers with longer credit periods. This was partially offset by the (i) increase in trade payables of US\$21.2 million due to the increase in our purchases during the year to cater increase in expected orders; and (ii) increase in other payables and accrued charges of US\$4.7 million mainly as a result of an increase in deposits received from our customers of US\$1.4 million which was in line with increased orders and increase in accrued charges of US\$1.8 million mainly due to increase in accrued bonus to staff.

For FY2014, we had net cash used in operating activities of US\$5.6 million, mainly as a result of the profit before tax of US\$9.1 million generated this year, which was primarily due to (i) increase in trade and bills receivables of US\$9.8 million mainly as a result of increased revenue near the year end; and (ii) increase in inventories of US\$6.7 million in order to cater for customers' orders.

For FY2013, we had net cash used in operating activities of US\$4.5 million, mainly as a result of the profit before tax of US\$0.5 million generated this year, which was primarily due to increase in trade and bills receivables of US\$12.5 million as mainly as a result of increased revenue near the year end. This was partially offset by the increase in trade payables of US\$7.3 million due to the increase in our purchases during the year to cater for increased orders.

### ***Investing activities***

During the Track Record Period, our cash inflow from investing activities was principally proceeds from withdrawal of pledged bank deposits. Our cash outflow used in investing activities was principally for placement of pledged bank deposits and purchase of available-for-sale investments.

For 1Q2016, we had net cash used in investing activities of US\$4.9 million primarily attributable to (i) placement of pledged bank deposits of US\$5.0 million for securing our standby letter of credits; and (ii) increase in available-for-sale investments of US\$2.7 million due to purchase of investment funds. This was partially offset by the withdrawal of pledged bank deposits of US\$2.1 million.

For FY2015, we had net cash used in investing activities of US\$4.2 million primarily attributable to (i) placement of pledged bank deposits of US\$8.7 million for securing our bank borrowings; and (ii) purchase of available-for-sale investments of US\$4.4 million. This was partially offset by the withdrawal of pledged bank deposits of US\$8.2 million.

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For FY2014, we had net cash used in investing activities of US\$3.4 million primarily attributable to (i) placement of pledged bank deposits of US\$2.3 million for securing our bank borrowings; and (ii) upfront payment of a life insurance policy of US\$1.5 million. This was partially offset by the withdrawal of pledged bank deposits of US\$1.3 million.

For FY2013, we had net cash used in investing activities of US\$2.2 million primarily attributable to (i) placement of pledged bank deposits of US\$3.0 million for securing our bank borrowings. This was partially offset by the proceeds from disposal of available-for-sale investments of US\$0.8 million.

### ***Financing activities***

During the Track Record Period, our cash inflow from financing activities was principally from proceeds from bank borrowings. Our cash outflow used in financing activities was principally for the repayment of borrowings.

For the 1Q2016, we had net cash generated from financing activities of US\$0.8 million primarily attributable to (i) borrowings raised of US\$33.2 million for our expanded operations; (ii) fund arising from trade receivables factored with recourse of US\$65.4 million with our principal bankers; and (iii) advance from a Director of US\$4.4 million. This was partially offset by (i) repayment of borrowings of US\$32.1 million; (ii) repayment of trade receivables factored with recourse of US\$61.7 million with our principal bankers; (iii) repayment to a Director of US\$4.2 million; and (iv) dividend paid of US\$4.0 million.

For the FY2015, we had net cash generated from financing activities of US\$15.6 million primarily attributable to (i) fund arising from trade receivables factored with recourse of US\$224.7 million with our principal bankers, (ii) borrowings raised of US\$101.4 million for our expanded operations; and (iii) advance from a Director of US\$3.7 million. This was partially offset by (i) repayment of trade receivables factored with recourse of US\$211.1 million with our principal bankers; (ii) repayment of borrowings of US\$96.2 million; and (iii) repayment to a Director of US\$3.2 million.

For FY2014, we had net cash generated from financing activities of US\$7.9 million primarily attributable to (i) fund arising from trade receivables factored with recourse of US\$76.8 million with our principal bankers; and (ii) borrowings raised of US\$57.0 million for our expanded operations. This was partially offset by (i) repayment of trade receivables factored with recourse of US\$71.4 million; (ii) repayment of borrowings of US\$51.7 million; and (iii) repayment to our related companies and a Director of US\$5.6 million and US\$2.5 million, respectively.

For FY2013, we had net cash generated from financing activities of US\$7.2 million primarily attributable to (i) borrowings raised of US\$26.2 million for our expanded operations; (ii) advance from a Director and related companies of US\$6.3 million and US\$3.4 million, respectively; and (iii) net fund arising from trade receivables factored with recourse of US\$1.9 million with our principal bankers. This was partially offset by (i) repayment of borrowings of US\$25.8 million; and (ii) repayment to a Director of US\$2.4 million.

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Though we recorded operating cash outflow of US\$4.5 million, US\$5.6 million and US\$9.0 million for FY2013, FY2014 and FY2015, respectively, our Directors are of the view that we are able to meet our working capital and liquidity requirement for at least the next 12 months due to (i) our continuous effort to increase our credit limit from our major suppliers in order to reduce the impact of mismatch cash inflow and outflows of our operating activities; and (ii) our experience of increasing total banking facilities amounts to meet our operating needs. In January 2016, we had obtained additional banking facilities from one of our principal bankers of US\$3.0 million. Thus, taken into account the above considerations, our Directors are of the opinion that we will have sufficient funds to meet in full our financial obligations as and when they fall due.

### Net Current Assets

We recorded net current assets of US\$9.7 million, US\$14.9 million, US\$14.1 million, US\$14.4 million and US\$14.5 million as at 31 December 2013, 2014, 2015, 31 March 2016 and 31 July 2016, respectively. The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December			As at 31 March	As at 31 July
	2013	2014	2015	2016	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)
<b>Current assets</b>					
Inventories . . . . .	9,661	16,330	17,863	18,978	31,627
Trade and bills receivables . . . . .	32,032	41,521	84,222	74,407	93,643
Deposits, prepayments and other receivables .	1,398	898	1,192	3,396	5,015
Amounts due from directors . . . . .	10	843	381	–	–
Amounts due from related companies . . .	1,005	605	2,099	1,690	1,562
Tax recoverable . . . . .	3	–	–	–	–
Pledged bank deposits .	4,892	5,855	6,359	9,263	20,485
Bank balances and cash	2,782	1,737	4,137	5,112	4,769
	51,783	67,789	116,253	112,846	157,101
<b>Current liabilities</b>					
Trade payables . . . . .	26,070	24,881	46,281	42,395	70,379
Other payables and accrued charges . . . . .	5,408	6,491	11,264	10,605	9,434
Amounts due to directors	1,755	600	600	399	382
Amounts due to related companies . . . . .	530	653	–	–	–
Dividend payable . . . . .	–	–	4,000	–	3,000
Tax liabilities . . . . .	835	2,182	3,093	3,321	975
Borrowings . . . . .	7,490	18,104	36,889	41,698	58,447
	42,088	52,911	102,127	98,418	142,617
<b>Net current assets . . . . .</b>	9,695	14,878	14,126	14,428	14,484

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Our net current assets increased from US\$9.7 million as at 31 December 2013 to US\$14.9 million as at 31 December 2014. The increase was primarily due to (i) increase in trade and bills receivables and inventories of US\$9.5 million and US\$6.7 million, respectively, which was in line with the increase in our revenue; (ii) decrease in trade payables of US\$1.2 million. The increase was partially offset by the increase in borrowings of US\$10.6 million mainly due to our collateralised bank borrowings on trade receivables factored with recourse for our increase in purchase.

Our net current assets then decreased to US\$14.1 million as at 31 December 2015. The decrease was primarily due to (i) the increase in trade payables of US\$21.4 million mainly due to our increased purchase; (ii) the increase in borrowings of US\$18.8 million mainly due to our collateralised bank borrowings on trade receivables factored with recourse for our increase in purchase; and (iii) increase in other payables and accrued expenses of US\$4.8 million. The decrease was partially offset by increase in trade and bills receivables of US\$42.7 million as a result of increase in trade receivables which was in line with the increase in our revenue.

Our net current assets then increased to US\$14.4 million as at 31 March 2016. The increase was primarily due to (i) decrease in trade payables of US\$3.9 million due to our payments to suppliers in relation to the balances as at 31 December 2015; (ii) increase in balance of pledged bank deposits of US\$2.9 million for securing our standby letter of credits for our purchase of inventories; and (iii) increase in inventories of US\$1.1 million due to purchase of inventories to cater our sales. The increase was partially offset by (i) decrease in trade receivables of US\$9.8 million due to decrease in sales of 1Q2016 compared to the last quarter of FY2015 as a result of seasonality of sales and settlement from our customers for the balances as at 31 December 2015; and (ii) increase in borrowings of US\$4.8 million mainly due to our collateralised bank borrowings on trade receivables factored with recourse for our increase in purchase.

Our net current assets increased to US\$14.5 million as at 31 July 2016. The increase was primarily due to (i) increase in pledged bank deposits of US\$11.2 million for our increased standby letter of credit for our increased purchase; and (ii) increase in inventories of US\$12.6 million mainly as a result of increased purchase to cater our sales. The increase was partially offset by the (i) increase in trade payables of US\$28.0 million mainly as a result of increased purchase to cater our sales; and (ii) increase in borrowings of US\$16.7 million.

### **Current Liabilities**

The increase in our Group's current liabilities during the Track Record Period was mainly caused by increase in borrowings of our Group to fund our increased sales to customers to whom we granted credit. As sales and credit granted to customers increased, our Group used more borrowing to pay for our purchases from suppliers and repay our trade payables to support the increased sales.

The increase in our Group's bank borrowings, as set out in the section headed "Bank borrowings" in this section, comprise mainly collateralised bank borrowings on trade receivables factored with recourse, which indicates that our Group's current liabilities increased along with the increase in our sales to customer to whom we granted credit. In the event that our Group's sales did not increase, there would correspondingly have been less increase in our bank borrowings.

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As set out in the section headed “Trade and Bills Receivables” in this section, our Group’s average turnover days of trade and bills receivables increased to 47 days and 49 days in 2015 and 1Q2016, respectively, from 34 days in 2014 mainly due to the increase in trade and bills receivables as at 31 December 2015 as we allowed longer credit periods to some of our customers to 60 days after month end and one of such customers started to increase its purchase from our Group significantly since late FY2014. Though our trade and bills receivables slightly decreased by US\$9.8 million from 31 December 2015 to 31 March 2016, our turnover days increased to 49 days due to increase in trade and bills receivables as at 31 December 2015. Thus, the principal reason for the increase in turnover days of account receivables is not a general trend of longer delay in repayment by the customers to our Group. Settlement of trade and bills receivables as at 31 December 2015 and 31 March 2016 from the relevant customer which was provided with a longer credit period was 94.1% as at 31 March 2016 and 100% as at 30 June 2016.

As at 31 December 2013, 2014 and 2015 and 31 March 2016, provisions for individually impaired trade receivables were nil, US\$0.3 million, US\$0.1 million and US\$0.1 million, respectively. The trade receivables that are over 60 days overdue as at 31 December 2015 were US\$0.3 million, representing only 0.4% of the overall trade receivables as at 31 December 2015. Further, as at 31 March 2016, 96.4% of our Group’s trade receivables outstanding as at 31 December 2015 has been settled, while as at 31 July 2016, 99.6% of the trade receivables outstanding as at 31 March 2016 has been settled. The above illustrates that most of the Group’s trade receivables were subsequently settled by the customers and the Group maintained a low impairment rate for its trade receivables.

As set out in the section “Future Plans and Use of Proceeds” of this prospectus, our Group intends to use approximately HK\$23.6 million for our general working capital. Based on the above, our Directors are of the view that our Group will have sufficient funds to meet in full our Group’s financial obligations as and when they fall due.

### **Working Capital**

Our Directors confirm that, taking into consideration the financial resources presently available to us, including internally generated funds, the available banking facilities and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements over at least the next 12 months commencing from the date of this prospectus.

Save as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed “Future Plans and Use of Proceeds” in this prospectus.

## FINANCIAL INFORMATION

### DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Available-for-sale Investments

During the Track Record Period, we had invested in certain debt securities listed in Hong Kong and also unlisted investment funds. The following table sets out a breakdown of our available-for-sale investments as at the dates indicated:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Listed investments:				
– Debt securities listed in Hong Kong . . . . .	554	1,239	1,235	1,356
Unlisted investments:				
– Investment fund A . . . . .	1,132	1,142	1,060	1,081
– Investment fund B . . . . .	–	–	3,530	5,496
	1,686	2,381	5,825	7,933

Our listed debt securities in Hong Kong represented bonds and certificate of deposits listed in Hong Kong which was denominated in US\$ and RMB. For the balances as at 31 December 2015, they carried fixed interest at 3.3% and 5.1% with maturity in February 2016 and May 2019, respectively. During 1Q2016, we purchased listed debt securities in Hong Kong of RMB5 million, which carried fixed interest at 3.68% with maturity in October 2016. Our unlisted investments mainly represented unit trust investments which invest primarily in Asian bonds and other debt securities and unit trust investments which mainly invest Treasury Bonds and mortgaged-backed securities in the United States, and was denominated in US\$ and HK\$, carried yields ranged at 3.04% to 5.11% and carried no fixed terms as at 31 March 2016. Our available-for-sale investments increased from US\$1.7 million as at 31 December 2013 to US\$2.4 million as at 31 December 2014 mainly due to increase in listed debt securities listed in Hong Kong which was certificate of deposits of a listed company in Hong Kong. Our available-for-sale investments then further increased to US\$5.8 million and US\$7.9 million as at 31 December 2015 and 31 March 2016, respectively, mainly due to the increase in unlisted investment funds. Our available-for-sale investments as at each reporting date were arrived at with quoted price in active market or based on the net asset values of the funds, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses. Increase in its fair value as at each reporting date were credited to the investment revaluation reserves while decrease in fair value were charged to investment revaluation reserves. During the Track Record Period, all the available-for-sale investments were pledged as security for our bank borrowings.

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## FINANCIAL INFORMATION

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We generally make investments as requested by one of our principal bankers to provide pledged securities for obtaining bank borrowings. Investments made other than for such purpose must be approved by our board of Directors. We adopted a treasury and investment policy which set out overall principles as well as detailed approval processes of our investment activities. Such policy includes, among other things, the following:

- investments in moderate or high risk products (e.g. Moody's rating from B onwards) being prohibited;
- investments should be non-speculative and yield-earning in nature and the primary objectives of investment activities is to earn reasonable yield;
- investments should be undertaken only in situations where we have surplus cash not required for day to day operations in the next one to three months.

Our finance department is responsible for the initial assessment and analysis on the expected benefit and potential risk of our investment activities and compiling of relevant data and information from banks. Our investment decisions are made on a case by case basis and after due and careful consideration of a number of factors, including but not limited to the market conditions, the economic developments, the anticipated investment conditions, the investment cost, the duration of the investment and the expected benefit and potential loss of the investment. Despite no formal policy for the specific criteria for the selection of counterparty for our investment activities is noted, we only invest in debt securities and investment funds which are expected to have reasonable yield.

For investments of US\$1.0 million or below, formal approval must be obtained jointly from Chief Financial Officer and Chief Executive Officer before the execution or disposal of any investment while for investments over US\$1.0 million, formal approval must be obtained from Board of Directors. Our finance department is also responsible for reporting the status of our investment activities to the Directors. The report should include the total investment return.

### **Inventories**

Our inventories consist of finished goods we procured from our suppliers which are ready to be sold. To minimise the risk of building up inventories, we review our inventory levels and perform ageing analysis on a regular basis. We believe that maintaining appropriate levels of inventories helps us deliver our products to meet the market demands in a timely manner without straining our liquidity.

Our balance of inventories increased from US\$9.7 million as at 31 December 2013 to US\$16.3 million as at 31 December 2014, which was mainly attributable to increase in purchases to cater for expected increase in orders from our customers. Our balance of inventories increased to US\$17.9 million and US\$19.0 million as at 31 December 2015 and 31 March 2016, respectively, primarily as a result of increase in purchases to cater for expected increase in orders from our customers.

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We also periodically review our inventory levels for slow-moving inventories, obsolescence or decline in market value. Allowance is made when the net realisable value of inventories falls below the cost or any of the inventories is identified as obsolete. During the Track Record Period, allowance for inventories of US\$0.7 million, US\$0.2 million, US\$0.4 million and US\$0.4 million was recorded as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively.

The following table sets forth the turnover days of our inventories for the periods indicated.

	For the year ended 31 December			For the three months ended 31 March
	2013	2014	2015	2016
Average turnover days of inventories <sup>(1)</sup> .....	13	13	13	12

(1) Average turnover days of inventories for FY2013, FY2014 and FY2015 and 1Q2016 is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant year/period by cost of sales and multiplying by 365/90 days.

Our average turnover days of inventories remained stable at 13 days for all FY2013, FY2014 and FY2015 and 12 days for 1Q2016.

As at 31 July 2016, US\$16.8 million or 88.4% of our inventories as at 31 March 2016 had been sold or utilised.

### Trade and Bills Receivables

Our trade and bills receivables primarily consist of trade receivables from our customers.

The following table sets forth our trade and bills receivables as at the dates indicated:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Trade receivables .....	30,886	41,749	84,342	74,527
Less: Allowance for doubtful debts .....	–	(346)	(120)	(120)
Net .....	30,886	41,403	84,222	74,407
Bills receivables .....	1,146	118	–	–
	<u>32,032</u>	<u>41,521</u>	<u>84,222</u>	<u>74,407</u>



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## FINANCIAL INFORMATION

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Our trade and bills receivables increased from US\$32.0 million as at 31 December 2013 to US\$41.5 million as at 31 December 2014, and further increased to US\$84.2 million as at 31 December 2015, which was in line with the increase in our revenue. Our trade and bills receivables increased as at 31 December 2015 as we allowed a longer credit period to some of our customers to 60 days after month end and one of them started to have significant orders with us since late FY2014. Our high trade receivables as at each year end was also due to seasonality factor as most of our sales were normally due one or two months after each year end. Our trade and bills receivables then decreased to US\$74.4 million mainly due to settlement of trade receivables from our customers for the balances as at 31 December 2015 and our relatively slower increase in revenue and trade receivables for 1Q2016 compared to that of last quarter of FY2015 attributable to seasonality of sales.

Our trading terms with our customers are mainly on credit, except for new customers. Before accepting any new customers, our Group will apply an internal credit assessment policy to assess the potential customer's credit quality and define credit limit and credit period by customer. The credit period is generally for a period of 0 to 60 days for major customers. Each customer has a maximum credit limit. We seek to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. We typically do not require any collateral as security.

Our policy for impairment on trade receivables is based on an evaluation of collectability and aging analysis of the receivables that requires the use of judgment and estimates of our management. Provisions would apply to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Our management closely reviews the trade receivables balances and any overdue balances on an ongoing basis, and assessments are made by our management on the collectability of overdue balances. After fully considering the nature of trade receivables and their collectability on a case-by-case basis, we have made provisions for the impairment of certain long overdue trade receivables in order to ensure the quality of our assets. We adopted general provision on long overdue balances as at 31 December 2014 and specific provision as at 31 December 2015 and 31 March 2016. As at 31 December 2013, 2014 and 2015 and 31 March 2016, provisions for individually impaired trade receivables were nil, US\$0.3 million, US\$0.1 million and US\$0.1 million, respectively.

For FY2014 and FY2015, US\$25,000 and US\$409,000, respectively, was written off due to settlement of disputes with a customer or a relevant customer being wound up. The amounts were included in allowance for trade receivables as at 31 December 2014 and 2015, respectively. For the amounts written off in FY2015, we received partial settlements of the total amount.

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The following table sets forth the aging analysis of our trade receivables which are past due but not impaired, as at the dates indicated:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Overdue:</b>				
1–30 days .....	13,165	7,834	18,894	2,444
31–60 days .....	798	793	1,077	308
Over 60 days .....	1,404	–	322	206
<b>Total .....</b>	<b>15,367</b>	<b>8,627</b>	<b>20,293</b>	<b>2,958</b>

As at 31 December 2013, 2014, 2015 and 31 March 2016, trade receivables of US\$15.4 million, US\$8.6 million, US\$20.3 million and US\$3.0 million, respectively, were past due but not impaired with most of them being 1-30 days overdue. These related to customers for whom there is no significant financial difficulty and based on our experience, our Directors were of the view that no impairment allowance was necessary in respect of these overdue balances as there had not been significant change in credit quality of our customers and the balances were considered fully recoverable.

As at 31 July 2016, US\$74.1 million or 99.6% of our trade receivables outstanding as at 31 March 2016 were settled.

The table below sets forth a summary of average turnover days of trade receivables as at the dates indicated:

	For the year ended 31 December			For the three months ended
	2013	2014	2015	31 March
	2013	2014	2015	2016
Average turnover days of trade receivables <sup>(1)</sup> .....	34	34	47	49

(1) Average turnover days of trade receivables for FY2013, FY2014 and FY2015 and 1Q2016 is derived by dividing the arithmetic mean of the opening and closing balances of gross trade receivables for the relevant period by revenue and multiplying by 365 days/90 days.

Our average turnover days of trade receivables remained relatively stable at 34 days in both 2013 and 2014. Our average turnover days of trade receivables then increased to 47 days in 2015 and 49 days for 1Q2016, mainly due to increase in trade receivables as at 31 December 2015 and 31 March 2016 as we allowed a longer credit period to some of our customers to 60 days after month end and one of them started to have significant orders with us since late FY2014.

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### Deposits, Prepayments and Other Receivables

The following table sets forth the breakdown of our deposits, prepayments and other receivables as at the dates indicated:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Non-current portion:</b>				
Payments for life insurance policies .....	1,219	2,735	2,802	2,818
<b>Current portion:</b>				
Payments for life insurance policies .....	7	8	8	9
Deposit paid .....	720	374	388	431
Prepayments .....	87	248	86	568
Other receivables .....	584	268	710	998
Value-added tax recoverable .....	–	–	–	1,390
	<u>1,398</u>	<u>898</u>	<u>1,192</u>	<u>3,396</u>
Total .....	<u>2,617</u>	<u>3,633</u>	<u>3,994</u>	<u>6,214</u>

#### **Non-current portion**

Our non-current portion of other receivables represented the payments for one life insurance policy as at 31 December 2013 and two life insurance policies as at 31 December 2014 and 2015 and 31 March 2016. During the years ended 31 December 2013 and 2014, we entered into two separate life insurance policies with an insurance company to insure one of our Directors. We are the beneficiary and policy holder of such policies with the total insured sum of US\$5.0 million each. We were required to pay a single premium of US\$1.2 million and US\$1.5 million during FY2013 and FY2014, respectively, at inception of each of the policies. We, at any time, can withdraw cash based on the account value at the date of withdrawal. Our Directors believe that we will not terminate the policies nor withdraw cash prior to 15th policy year and 18th policy year for the respective policy. Thus, we classified our premium, the monthly policy expenses and insurance charges incurred as non-current or current portion of other receivables based on the terms set out in the life insurance policies.

Details of the terms of policies are set out in note 22 in Accountants' Report of Appendix I to this prospectus.

#### **Current portion**

Our current portion of deposits, prepayments and other receivables amounted to US\$1.4 million, US\$0.9 million, US\$1.2 million and US\$3.4 million as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively. Our current portion of deposits, prepayments and other receivables decreased as at 31 December 2014 mainly due to decrease in deposits of US\$0.3 million as a result of decreased deposit paid to our suppliers in order to secure some inventories to be purchased. The current portion of deposits, prepayments and other receivables then increased to US\$1.2 million as at 31 December 2015 mainly due to increase in our other receivables of US\$0.4 million primarily as a result of rebate from our suppliers which was in line with increases in our purchase. Our current portion of deposits, prepayments and other receivables then further increased to US\$3.4 million as at 31 March 2016 mainly as a result of (i) increase in value-added tax recoverable of US\$1.4 million due to our increased

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purchases of inventories from SMC Technology SZ which are available for future value-added tax deductions; and (ii) increase in prepayments of US\$0.5 million primarily due to prepayments for our Listing expenses.

### Trade and Other Payables and Accrued Charges

Trade and other payables and accrued charges as at 31 December 2013, 2014 and 2015 and 31 March 2016 were US\$31.5 million, US\$31.4 million, US\$57.5 million and US\$53.0 million, respectively, of which the breakdown is set out below:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables .....	26,070	24,881	46,281	42,395
Accrued expenses .....	1,514	3,796	5,573	4,001
Deposits received .....	2,634	1,122	2,497	3,585
Others .....	1,260	1,573	3,194	3,019
<b>Total .....</b>	<b>31,478</b>	<b>31,372</b>	<b>57,545</b>	<b>53,000</b>

### Trade payables

Our trade payables are derived primarily from payables relating to procurement of inventories.

Our trade payables decreased from US\$26.1 million as at 31 December 2013 to US\$24.9 million as at 31 December 2014, due to the earlier repayment and further increased to US\$46.3 million as at 31 December 2015. Such increase was in line with our increase in revenue. Our trade payables then decreased to US\$42.4 million as at 31 March 2016 mainly due to payment to our suppliers for the balances as at 31 December 2015.

Our creditors generally granted us credit periods of 0 to 60 days with certain amount of credit limit. We were required to pay on cash once our purchase exceeded the predetermined limits supported by certain amounts of stand by letter of credits for certain major suppliers. Such cash payment was normally used to settle earlier accounts payables with the respective suppliers. Thus, our trade payables as at year end may not increase in line with our increase in costs of sales depending on the (i) timing of repayment and (ii) amount of purchase on credit or on cash.

The table below sets forth, as at the end of reporting periods indicated, the ageing analysis of our trade payables:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
0–30 days .....	21,677	23,933	45,580	36,516
31–60 days .....	3,286	234	328	4,841
61–90 days .....	657	255	15	566
Over 90 days .....	450	459	358	472
<b>Total .....</b>	<b>26,070</b>	<b>24,881</b>	<b>46,281</b>	<b>42,395</b>

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The following table sets out the average trade payables turnover days for the Track Record Period:

	For the year ended 31 December			For the three months ended 31 March
	2013	2014	2015	2016
Average turnover days of trade payables <sup>(1)</sup> .....	31	25	28	29

(1) Average turnover days of trade payables for each of FY2013, FY2014 and FY2015 and 1Q2016 is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of sales and multiplying the resulting value by 365/90 days.

Average trade payables turnover days decreased from 31 days in 2013 to 25 days in 2014, which was because of our earlier payment as at 31 December 2014 as our purchase near year end exceeded the credit limit granted by our certain suppliers. Average trade payables turnover days increased to 28 days and 29 days in 2015 and 1Q2016, which was mainly due to increase in purchase which was in line with our increase in revenue.

As at 31 July 2016, US\$41.9 million or 98.8% of trade payables outstanding as at 31 March 2016 had been fully settled. Our Directors confirmed that during the Track Record Period up to the Latest Practicable Date, there was no material default in payment of trade payables.

### ***Other payables and accrued charges***

Our other payables and accrued charges mainly represent accrued payroll and welfare, rebates to customers, deposits received from our customers and others. Other payables increased from US\$5.4 million as at 31 December 2013 to US\$6.5 million as at 31 December 2014, which was mainly attributable to increase in accrued expenses of US\$2.3 million as a result of increase in rebates to our customers of US\$2.2 million mainly due to increase in sales during FY2014. Other payables further increased to US\$11.3 million as at 31 December 2015, which was mainly attributable to increase in deposits received from our customer of US\$1.4 million which was in line with increased orders and increase in accrued expenses of US\$1.8 million mainly due to increase in accrued bonus to staff. The amount then decreased to US\$10.6 million as at 31 March 2016 mainly due to decrease in accrued expenses of US\$1.6 million primarily resulted from payment of bonus to our staff in February 2016.

### **Amounts Due from/to Related Companies/Directors**

Our amounts due from/to related companies amounted to approximately US\$1.0 million, US\$0.6 million, US\$2.1 million and US\$1.7 million; and US\$0.5 million, US\$0.7 million, nil and nil as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively. The amounts were mainly for advances to us and repayment from us.

Our amounts due from/to directors amounted to US\$10,000, US\$0.8 million, US\$0.4 million and nil; and US\$1.8 million, US\$0.6 million, US\$0.6 million and US\$0.4 million as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively. The amounts were mainly for advances to us and repayment from us.

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All our amounts due from/to related parties/directors were unsecured, interest-free and repayable on demand, except for the amounts due from/to related companies of US\$1.0 million, US\$0.5 million, US\$0.8 million and US\$0.8 million; and US\$72,000, nil, nil and nil as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively, being trade nature, all the amounts will be settled before Listing. For further details of related party transactions and balances, please refer to Notes 24 and 25 of the Accountants' Report in Appendix I to this prospectus.

### CAPITAL EXPENDITURES

Our capital expenditures have principally consisted of expenditures on acquisitions of property, plant and equipment in our operations. During the Track Record Period, we incurred capital expenditures of US\$0.3 million, US\$0.4 million, US\$0.2 million and US\$4,000, respectively, majority of which came from acquisition of furniture and fixture and motor vehicles primarily used for our operations. Between 31 March 2016 and the Latest Practicable Date, we did not make any material capital expenditures.

For the year ending 31 December 2016, we estimate that the capital expenditures will amount to US\$1.0 million primarily for purchasing equipment and software for improving our e-commerce platform and improving warehouse facilities and logistic system.

Our projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for further information.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Global Offering, cash generated from our operating activities and proceeds from borrowings and notes. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

### PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

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### CONTRACTUAL AND CAPITAL COMMITMENTS

#### Operating Lease Commitments

As at the end of the reporting periods during the Track Record Period, we had commitments for future minimum lease payments in respect of offices and warehouse under non-cancellable operating lease arrangements, which fall due as follows:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Within one year . . . . .	577	522	784	688
In the second to fifth year inclusive . . . . .	185	266	227	103
Total . . . . .	762	788	1,011	791

#### Capital Commitments

We had no capital commitments, which were not provided for in our consolidated financial statements during the Track Record Period.

#### INDEBTEDNESS

The following table sets out our total debts as at 31 December 2013, 2014, 2015, 31 March 2016 and 31 July 2016:

	As at 31 December			As at 31 March	As at 31 July
	2013	2014	2015	2016	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Secured and guaranteed bank borrowings	1,710	1,181	1,823	1,100	580
Secured and guaranteed import and export loans . . . . .	3,880	7,639	14,249	16,063	18,326
Collateralised bank borrowings on trade receivables factored with recourse, secured and guaranteed . . . . .	1,900	7,224	20,817	24,535	39,541
	7,490	16,044	36,889	41,698	58,447
Other borrowings, unsecured and unguaranteed . . . . .	–	2,060	–	–	–
Total borrowings . . . . .	7,490	18,104	36,889	41,698	58,447
Amounts due to directors, unsecured and unguaranteed . . . .	1,755	600	600	399	382
Amounts due to related companies (non-trade), unsecured and unguaranteed . . . . .	458	653	–	–	–
	9,703	19,357	37,489	42,097	58,829

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The following table sets out the range of effective interest rates for our borrowings as at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 31 March	As at 31 July
	2013	2014	2015	2016	2016
Variable-rate per annum:					
Bank borrowings . . .	2.08%–8.30%	2.13%–5.25%	2.68%–5.25%	2.68%–5.25%	2.68%–5.25%
Other borrowings . . .	N/A	10.8%	N/A	N/A	N/A

### **Bank borrowings**

The following table sets forth the repayment schedule of our borrowings as at 31 December 2013, 2014, 2015, 31 March 2016 and 31 July 2016:

	As at 31 December			As at 31 March	As at 31 July
	2013	2014	2015	2016	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Carrying amounts of borrowings (according to scheduled repayment term)					
– within one year . . . . .	6,718	17,389	36,386	41,249	58,070
– in the second year . . . . .	478	206	204	204	204
– in the third to fifth years . . . . .	294	509	299	245	173
	<u>7,490</u>	<u>18,104</u>	<u>36,889</u>	<u>41,698</u>	<u>58,447</u>
Carrying amounts that contain a repayable on demand clause . . . . .	<u>7,490</u>	<u>16,044</u>	<u>36,889</u>	<u>41,698</u>	<u>58,447</u>

The following table sets out the borrowings that were pledged with certain of our assets as at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 31 March	As at 31 July
	2013	2014	2015	2016	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Pledged bank deposits . . . . .	4,892	5,855	6,359	9,263	20,485
Trade receivables . . . . .	2,098	7,982	23,002	27,785	44,081
Available-for-sale investments . . . . .	1,686	2,381	5,825	7,933	8,053
Life insurance policies . . . . .	<u>1,226</u>	<u>2,743</u>	<u>2,810</u>	<u>2,827</u>	<u>2,870</u>



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Our bank borrowings were guaranteed by Mr. Tian, Mr. Tian's spouse, Mr. Wong, pledged by their properties and certain financial assets of our Group as at 31 July 2016, being the latest practicable date for the purpose of this indebtedness statement. At the close of business on 31 July 2016, we had outstanding bank borrowings of US\$58.4 million.

All pledges and guarantees provided by our Controlling Shareholders and Mr. Wong on our Group's bank borrowings will be fully released upon Listing.

Our bank borrowings increased from US\$7.5 million as at 31 December 2013 to US\$16.0 million as at 31 December 2014, to US\$36.9 million as at 31 December 2015 and further to US\$41.7 million as at 31 March 2016. This was primarily due to increase in secured import and export loans and collateralised bank borrowings on trade receivables factored with recourse for our expansion in business.

Our borrowings increased to US\$58.4 million as at 31 July 2016. This was primarily attributable to increase in collateralised bank borrowings on trade receivables factored with recourse of US\$15.0 million mainly due to increased borrowings raised for purchases to cater our sales.

As at 31 July 2016, being the latest practicable date for the purpose of indebtedness statement, we had aggregate banking facilities of US\$114.3 million, of which US\$25.3 million was unutilised. We are not committed to draw down the unutilised amount.

The total amount, unutilised amount and utilisation rate of our Group's banking facilities (excluding standby letter of credit) as at 31 December 2013, 31 December 2014, 31 December 2015, 31 March 2016 and 31 July 2016 are set out below:

At:	Banking facilities		
	Total amount	Unutilised amount	Utilisation rate
	(US\$ million)	(US\$ million)	(%)
31 December 2013.....	12.8	6.9	45.7
31 December 2014.....	18.9	4.1	78.5
31 December 2015.....	44.3	9.3	79.1
31 March 2016.....	47.3	6.7	85.8
30 April 2016.....	52.6	6.5	87.6
31 July 2016.....	73.1	15.3	79.1

Our Group intends to use the unutilised banking facilities (excluding the amount of standby letter of credit) of US\$15.3 million for general working capital.

### **Bank covenants**

As at 31 December 2013, 2014 and 2015 and 31 March 2016, the banking facilities contain various covenants which include the maintenance of certain financial ratios and restrictions on the maximum amounts due from a director and related companies. Our Directors have reviewed the covenants compliance and represented that we were not aware of any breach during the Track Record Period.

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### ***Other borrowings***

During the Track Record Period, we had other borrowings from our forwarder, who is an independent third party that arranged the logistics for some of our stock and provided custom services to us. The amounts were unsecured and interest bearing at fixed rate of 0.9% within a maturity period of 30 days. On 15 July 2014, we entered into a loan arrangement with such forwarder in order to settle our accounts payables which a bank would take around a month to approve. Thus, we borrowed such amount on 30 December 2014 and repaid on 6 January 2015 for short term repayment reason. The amount were fully repaid in FY2015 and no other borrowings was noted during the Track Record Period.

During the Track Record Period, our Directors confirmed that we did not experience any delay or default in repayment of bank or other borrowings or any payables nor experience any difficulty in obtaining banking facilities with terms that are commercially acceptable to us. As at the date of this prospectus, we did not have any plan for material external debt financing.

### **Contingent Liabilities**

As at 31 July 2016, being the latest practicable date for the purpose of indebtedness statement, we did not have any material contingent liabilities or guarantees.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at Latest Practicable Date, for the purpose of this indebtedness statement, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities.

### **OFF-BALANCE SHEET ARRANGEMENT**

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

### **TRANSACTIONS WITH RELATED PARTIES**

With respect to the related party transactions set forth in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to us than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	For the year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
				(unaudited)	
Gross Profit Margin (%) <sup>(1)</sup> . . . . .	4.6	5.3	4.6	4.5	4.6
Net Profit Margin (%) <sup>(2)</sup> . . . . .	0.05	1.9	1.4	0.8	1.6
Return on equity (%) <sup>(3)</sup> . . . . .	1.0	35.9	29.7	N/A	N/A
Return on total assets (%) <sup>(4)</sup> . . . . .	0.2	10.0	5.5	N/A	N/A
Interest coverage (times) <sup>(5)</sup> . . . . .	2.4	10.4	6.2	4.0	5.2
	As at 31 December			As at 31 March	
	2013	2014	2015	2016	
Current ratio <sup>(6)</sup> . . . . .	1.2	1.3	1.1	1.1	
Gearing ratio (%) <sup>(7)</sup> . . . . .	57.5	88.0	158.8	162.8	
Net debt to equity ratio (%) <sup>(8)</sup> . . . . .	36.2	79.5	141.0	142.9	

**Notes:**

- (1) Gross profit margin for FY2013, FY2014, FY2015 and 1Q2016 was calculated on gross profit divided by turnover for the respective years/periods. See the section headed "Review of Historical Results of Operation" for more details on our gross profit margins.
- (2) Net profit margin for FY2013, FY2014, FY2015 and 1Q2016 was calculated on profit for the year divided by turnover for the respective year/period. See the section headed "Review of Historical Results of Operation" for more details on our net profit margins.
- (3) Return on equity for FY2013, FY2014 and FY2015 was calculated based on the profit for the year for the respective years divided by the total equity as at the end of the respective years and multiplied by 100%.
- (4) Return on total assets for FY2013, FY2014 and FY2015 was calculated based on the profit for the respective years divided by the total assets as at the end of the respective years and multiplied by 100%.
- (5) Interest coverage for FY2013, FY2014, FY2015 and 1Q2016 was calculated based on profit before interest and tax for the respective years/periods divided by interest as at the end of the respective years/periods.
- (6) Current ratios as at 31 December 2013, 2014 and 2015 and 31 March 2016 were calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.
- (7) Gearing ratios as at 31 December 2013, 2014 and 2015 and 31 March 2016 were calculated based on the total interest-bearing borrowings as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.
- (8) Net debt to equity ratios as at 31 December 2013, 2014 and 2015 and 31 March 2016 was calculated based on net debts (being total interest-bearing borrowings net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective dates.

### Return on Equity

Our return on equity was 1.0%, 35.9% and 29.7% for FY2013, FY2014 and FY2015, respectively. The increase from FY2013 to FY2014 was mainly due to increase in profit for the year as a result of increased revenue. The decrease from FY2014 to FY2015 was mainly due to (i) decrease in gross profit margin from 5.3% for FY2014 to 4.6% for FY2015; and (ii) increase in Listing expenses of US\$1.2 million.

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## FINANCIAL INFORMATION

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### Return on Total Assets

Our return on total assets was 0.2%, 10.0% and 5.5% for FY2013, FY2014 and FY2015, respectively. The increase for FY2014 was primarily attributable to increase in profit for the year as a result of increased revenue. Despite the increase in our profit for the year as a result of increased revenue, our return on total assets decreased for FY2015 as a result of (i) decrease in gross profit margin from 5.3% for FY2014 to 4.6% for FY2015, (ii) increase in Listing expenses of US\$1.2 million, and (iii) increase in our total assets mainly due to increase in accounts receivables as we allow a longer credit period to certain of our customers.

### Interest Coverage

Our interest coverage was 2.4 times, 10.4 times, 6.2 times and 5.2 times for FY2013, FY2014 and FY2015 and 1Q2016, respectively. The increase for FY2014 was primarily due to our increase in the profit before finance costs and income tax mainly as a result of our increased revenue. The interest coverage decreased for FY2015 and 1Q2016 mainly due to the higher extent of increase in finance costs compared to the increase in profit before finance costs and income tax expenses.

### Current Ratio

Our current ratio was 1.2, 1.3, 1.1 and 1.1 as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively, which remained relatively stable.

### Gearing Ratio

Our gearing ratio was 57.5%, 88.0%, 158.8% and 162.8% as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively. The continuous increase in our gearing ratio during Track Record Period was mainly due to the increase in our total borrowings for our expanded operation. During the Track Record Period, our Group repaid our trade payables with (i) trade receivables collected from our customers and (ii) collateralised bank borrowings on trade receivables factored with recourse, as set out in the section headed "Mismatch in Turnover Days for our Accounts Receivables and Accounts Payables" in this section.

During the seven months ended 31 July 2016, our Group has obtained additional banking facility in the amount of US\$35.4 million, and our gearing ratio as at 31 July 2016 was 227%. As the increased banking facilities are mainly standby letters of credit and collateralised bank borrowings on trade receivables factored with recourse, our Directors are of the opinion that we will have sufficient funds to meet in full our financial obligations as and when they fall due. With a view to better control the risks associated with increasing gearing ratio, we will continue to (i) negotiate with our major suppliers to increase our credit limit; and (ii) monitor the level of our liquidity and cashflow and take it into account when considering the credit terms that we may grant to our customers; and (iii) as set out in the section "Future Plans and Use of Proceeds" in the Prospectus, we intend to use approximately HK\$23.6 million for our general working capital.

### Net Debt to Equity Ratio

Our net debt to equity ratio was 36.2%, 79.5%, 141.0% and 142.9% as at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively. The continuous increase in our net debt to equity ratio during Track Record Period was mainly due to the increase in our total borrowings for our expanded operation.

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## FINANCIAL INFORMATION

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### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as currency, interest rate, other price, credit and liquidity risks.

#### Currency Risk

Our Group entities have foreign currency denominated monetary assets and monetary liabilities which expose us to foreign currency risk. Our Directors believe we do not have significant foreign exchange exposures and will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the foreign exchange exposures become significant.

For FY2013, FY2014 and FY2015 and 1Q2016, a group entity, of which its functional currency is RMB had amount due from immediate holding company which is denominated in US\$. These intragroup balances are approximately nil, US\$4.1 million, US\$31.9 million and US\$20.2 million, respectively.

#### Sensitivity analysis

The following table details our sensitivity to a 5% increase and decrease in US\$ against RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including the bank balances, variable-rate pledged bank deposits and borrowings and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where US\$ weaken 5% against RMB. For a 5% strengthening of US\$ against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Profit for the year/period . . . . .	35	(165)	(1,317)	(827)

#### Interest Rate Risk

We are exposed to fair value interest rate risk in relation to its fixed-rate available-for-sale investments.

We are exposed to cash flow interest rate risk in relation to payments for life insurance policies, bank balances, variable-rate pledged bank deposits and borrowings. Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on payments for life insurance policies, bank balances and pledged bank deposits and the borrowings.

Our exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Our cash flow interest rate is mainly concentrated on the fluctuation of London Interbank Offered Rate and Hong Kong Interbank Offered Rate arising from our borrowings. We currently do not have interest rate risk hedging policy. However, our Directors closely monitor the exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

## FINANCIAL INFORMATION

The sensitivity analyses below have been determined based on the exposure to interest rates for payments for life insurance policies, bank balances, variable-rate pledged bank deposits and borrowings for the Relevant Periods. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates.

	As at 31 December			As at 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Increase (decrease) in profit for the year/period . . . . .	19	(27)	(92)	(93)
	19	(27)	(92)	(93)

Our Directors considered the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of each reporting period does not reflect the exposure during the Relevant Periods.

### Other Price Risk

We are exposed to price risk through its available-for-sale investments. Our Directors manage this exposure by maintaining a portfolio of investments with different risks.

### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date. If the prices of the respective available-for-sale investments had been 5%, 5% and 5% higher/lower, other comprehensive income for FY2013, FY2014 and FY2015 and 1Q2016 would increase/decrease by US\$84,000, US\$0.1 million, US\$0.3 million and US\$0.4 million, respectively as a result of the changes in fair value of available-for-sale investments.

In the opinion of Directors, the sensitivity analysis is not representative of our price risk as it only reflects the impact of price changes to available-for-sale investments held at the end of each reporting period but not the exposure during the Track Record Periods.

### Credit Risk

At the end of each reporting period, our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties provided by us is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position. We are exposed to concentration of credit risk as at 31 December 2013, 2014 and 2015 and 31 March 2016 on trade and bills receivables from our top five major customers amounting to US\$18.4 million, US\$30.0 million, US\$70.3 million and US\$58.4 million, respectively and accounted for 57%, 72%, 84% and 79% of our total trade and bills receivables. Our major customers are mainly well-known television manufacturers in the PRC.

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## FINANCIAL INFORMATION

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In order to minimise the credit risk, our Directors have delegated a team responsible for determination of credit limits and credit periods, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Directors review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our management considers that our credit risk is significantly reduced.

We have concentration of credit risk on payments for life insurance policies on an insurance company. Our Directors consider the counterparty is financial institution with good reputation and we consider that the credit risk is insignificant. The credit risk on our liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

### Liquidity Risk

In the management of the liquidity risk, we monitor and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by our Directors to finance our operations and mitigate the effects of fluctuations in cash flows. Our Directors monitor the utilisation of borrowings and amounts due to directors.

Bank borrowings with a repayment on demand clause is included in the “repayable on demand or less than 3 months” time band in the above maturity analysis. As at 31 December 2013, 2014 and 2015 and 31 March 2016, the aggregate carrying amount of these bank borrowings amounted to approximately US\$7.5 million, US\$16.0 million, US\$36.9 million and US\$41.7 million, respectively. Taking into account our financial position, our Directors do not believe that it is probable that the bank will exercise their discretionary right to demand immediate repayment. Our Directors believe that such bank borrowings of our Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the bank borrowing agreement.

For further details, please refer to Note 7 of the Accountants’ Report in Appendix I to this prospectus.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

### LISTING EXPENSES

The total Listing expenses (based on the mid-point of the Offer Price range) are estimated to be approximately US\$4.7 million. In FY2015 and 1Q2016, we incurred Listing expenses of approximately US\$1.5 million and US\$0.7 million, respectively, in connection with the Global Offering. By the completion of the Global Offering, we expect to further incur Listing expenses of approximately US\$2.5 million, among which an estimated amount of approximately US\$1.3 million is to be recognised as expenses and the remaining is expected to be charged to equity.

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## FINANCIAL INFORMATION

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### DIVIDEND

During the Track Record Period, no dividend has been paid or declared by our Company since its date of incorporation. The dividends declared and paid by SMC International HK to its shareholders was nil, nil, US\$4.0 million and nil for FY2013, FY2014, FY2015 and 1Q2016, respectively. Our Group does not have a dividend policy. The declaration of dividends by our Company is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Islands Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC and Hong Kong. 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 the generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our PRC operating subsidiaries may also be subject to any restrictive covenant in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we or they may enter into in the future.

Any dividends that may be declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividends in Hong Kong dollars.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

### DISTRIBUTABLE RESERVES

Our Company was incorporated on 22 October 2015 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at the Latest Practicable Date.

### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see the section "Unaudited Pro Forma Financial Information" in Appendix II for our unaudited pro forma adjusted combined net tangible assets.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there have not been any material adverse changes in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this prospectus. As far as we are aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely.



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## FUTURE PLANS AND USE OF PROCEEDS

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### BUSINESS STRATEGIES

Please refer to the section headed “Business — Our Strategies” in this prospectus for detailed description of our business strategies.

### USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$2.08 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK\$236.2 million, assuming that Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner over a period of two to three years after Listing:

- (i) approximately 10%, or HK\$23.6 million, will be used for hiring additional staff for sales and marketing and business development, and improvement of warehouse facilities, with the aim of reaching out to more potential customers and potential suppliers, expanding our product portfolio and improving the operational efficiency of the warehouse facilities of our Group to cater for our business growth in future, including:
  - approximately 7.5%, or HK\$17.7 million, will be used for hiring around 20 additional personnel from the date of the Listing to the year ending 31 December 2017 and around 15 further additional personnel for the two years ending 31 December 2019, for sales, marketing and business development to cover new customers, expand new supplier relationships and develop new product segments;
  - approximately 2.5%, or HK\$5.9 million, will be used for improving the facilities in our leased warehouse and our logistic system. We intend to use (a) approximately HK\$1.9 million for improving and expanding computer server facilities to increase the operation efficiency of, and cater for the upgrade and expansion in, the logistics functions of our ERP system set out below; and (b) approximately HK\$2.65 million for upgrading and expanding the logistics functions of our ERP system to cater for the expansion in our business operations; and (c) approximately HK\$1.35 million for implementing and enhancing the security system and temperature and humidity control equipment of our warehouse facilities. We intend that the proceeds will generally be used from the date of Listing to the year ending 31 December 2017;
- (ii) approximately 20%, or HK\$47.23 million, will be used for advertising and organising marketing activities for the promotion of our e-commerce platform, Smart-Core Planet and our new products, with the aim of enhancing our brand awareness, expanding our SME customer base and cultivating start-up customers for sustainable business growth, including:
  - approximately 6%, or HK\$14.16 million, for the promotion of our e-commerce platform, Smart-Core Planet, our brand and products by placing advertisements and keyword search promotion in industry websites and advertisements on paper media such as industry magazines or journals, with the aim of increasing traffic to our e-commerce platform;

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## FUTURE PLANS AND USE OF PROCEEDS

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- approximately 8%, or HK\$18.89 million, in sponsoring and/or co-organising activities with industry organisations, participating in trade fairs and industry exhibitions in Hong Kong, the PRC and overseas to promote our e-commerce platform, Smart-Core Planet, our brand and products, and participating in trade fairs or exhibitions overseas to develop business with new potential suppliers;
- approximately 2.7%, or HK\$6.38 million, for providing incentives and rewards, such as development kits, to new registered users, users that place order on our e-commerce platform and/or new followers of our WeChat, with the aim of attracting more registered users, active users and followers on our e-commerce platform and WeChat platform;
- approximately 3.3%, HK\$7.79 million, for implementing our Smart-Core Planet, including co-organising and sponsoring activities such as conferences and related activities with incubators, interest groups and technical institutes, developing dedicated website and WeChat platform for Smart-Core Planet, providing development kits to start-up entities, and developing engineering solutions and providing application support to entrepreneurs and start up entities through Smart-Core Planet.

We intend that about 7.2% of the proceeds will be used from the date of the Listing to the year ending 31 December 2017 to maximise the marketing effect and the remaining amount will be used proportionately in 2018 and 2019;

- (iii) approximately 20%, or HK\$47.23 million, will be used for enhancing, further developing and maintaining our e-commerce platform and improving our technology infrastructure, including:
- approximately 4%, or HK\$9.45 million, will be used for hiring around 10 additional staff from the date of Listing to the year ending 31 December 2017 and around 5 further additional staff for the two years ending 31 December 2019, to develop, enhance and maintain our e-commerce platform;
  - approximately 6%, or HK\$14.17 million, will be used for hiring 15 additional staff from the date of the Listing to the year ending 31 December 2017 and around 5 further additional staff for the two years ending 31 December 2019, to develop software for data mining, and for monitoring and analysing supplier and customer data;
  - approximately 10%, or HK\$23.61 million, will be used for purchasing equipment and software for improving our technology infrastructure from the date of Listing to the year ending 31 December 2018. We intend to use:
    - approximately 4.3%, or HK\$10.15 million, for developing and enhancing our e-commerce platform and implementing big data analysis by purchasing software to enrich the functionality of our e-commerce platform, developing mobile applications, and purchasing hardware and software for data-mining and big data analysis;

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## FUTURE PLANS AND USE OF PROCEEDS

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- approximately 1.4%, or HK\$3.31 million, for upgrading and enhancing our ERP system and office automation system to allow full integration between our e-commerce platform and our internal ERP system and logistic software systems. The upgrade and enhancement may include purchasing of human resources module, project management module and business intelligence integration system;
  - approximately 2.9%, or HK\$6.84 million, for purchasing and upgrading the hardware of our technology infrastructure by acquiring and/or upgrading our general computer equipment, network data server, core network equipment, exchange server, improving computer facilities of our offices to enhance data security and renting additional data servers for supplemental and off-site data back up storage; and
  - approximately 1.4%, or HK\$3.31 million, for purchasing and upgrading software such as general office software, engineering software, internet security, firewall and mail exchange software system.
- (iv) approximately 10%, or HK\$23.6 million, will be used for research and development, with the aim of keeping ourselves and our customers abreast of latest technology, enhancing customer loyalty and promote new products, including using approximately 9%, or HK\$21.3 million for hiring around 15 additional application engineers from the date of Listing to the year ending 31 December 2017 and around 10 further additional application engineers for the two years ending 31 December 2019. We intend to use the remaining amount for purchasing equipment, components and materials for research and development needs and funding the development of engineering solutions from the date of Listing to the year ending 31 December 2019; and
- (v) approximately 30%, or HK\$70.9 million, will be used for funding potential acquisition of, or investment in, business or companies in e-commerce industry or electronics industry including:
- approximately 10%, or HK\$23.62 million, will be used for funding potential acquisition of, or investment in, e-commerce related business or companies. With the investment amount of approximately HK\$24 million, the Directors intend to acquire or invest in an e-commerce company that has a team of 10 to 20 staff and principally engages in design and development of e-commerce platform; and
  - approximately 20%, or HK\$47.23 million, will be used for funding potential acquisition of, or investment in, IC company, independent design house and IC and other electronic components distributor. For IC companies, our Directors consider that suitable targets are expected to be with a value in an approximate range of US\$20 million to US\$150 million such that our Group would be able to acquire approximately 2% to 5% interest with an investment of approximately US\$1 million to US\$3 million, subject to identifying an appropriate target. For independent design houses, our Directors consider that suitable potential targets are expected to be with a value in an approximate range of HK\$100 million to HK\$300 million, such that our Group will be able to acquire

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## FUTURE PLANS AND USE OF PROCEEDS

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approximately 5% to 10% interest with investment in the amount of approximately HK\$10 million to HK\$15 million, subject to identifying an appropriate target. For IC and other electronic distributors, our Directors consider companies with distributorship for a number of product lines and solid business operations to be suitable targets, with size in an approximate range of HK\$100 million to HK\$300 million, and we intend to acquire approximately 5% to 10% shareholding of such company with an investment amount of HK\$10 million to HK\$15 million, subject to identifying an appropriate target.

The investment amounts and shareholding percentages set out above are the preliminary intentions of our Directors, which may be influenced by market conditions and subject to changes due to reasons such as, whether suitable targets that meet our Group's selection criteria can be identified, the valuation of identified targets that we consider to be appropriate and attractive, results of our Directors' further review and consideration of the industry dynamics, negotiation between our Group and the potential targets etc. As at the Latest Practicable Date, we have not identified any specific suitable target for such acquisition or investment, and is not engaged in any discussion with any potential targets. In the event that any investment target is identified, and the investment constitutes notifiable transactions of our Group, we will disclose such investment and obtain approval from our then Shareholders in compliance with applicable Listing Rules.

Our Group expects to identify potential targets, conduct due diligence on such potential targets and negotiate investment terms with such potential targets after the Listing, which we expect may require from a few months to over one year. Subject to our Group identifying appropriate target(s), our Directors expect that the due diligence and negotiation will take place in 2017, and the relevant transactions would be completed thereafter or in 2018. Notwithstanding that the proceeds are not expected to be immediately applied towards M&A activities, our Directors consider that it is necessary for our Group to have the financial resources ready once an appropriate target is identified, and it is important that such funding would be readily available to our Group so that our Group can capture investment opportunities and complete the investment(s) or acquisition(s) that our Directors consider appropriate in the event that potential targets which meet our selection criteria are identified earlier than expected; and

- (vi) the remaining amount of approximately HK\$23.6 million, representing not more than 10% of the net proceeds, will be used for our general working capital.

If the final Offer Price (assuming the Over-allotment Option is not exercised) is set at (i) the lowest; or (ii) the highest of the indicative Offer Price, the net proceeds from the Global Offering are estimated to be (i) approximately HK\$198.5 million or (ii) approximately HK\$273.8 million respectively. In such event, the estimated net proceeds are intended to be used in the same proportions as disclosed above.

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## FUTURE PLANS AND USE OF PROCEEDS

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If the Over-allotment Option is exercised in full, the estimated net proceeds from the Global Offering will increase to (i) approximately HK\$230.7 million (assuming that the final Offer Price is set at the lowest of the indicative Offer Price), (ii) approximately HK\$271.6 million (assuming that the final Offer Price is set at the mid-point of the indicative Offer Price), and (iii) approximately HK\$314.9 million (assuming that the final Offer Price is set at the highest of the indicative Offer Price) respectively, we intend to apply the additional net proceeds from the exercise of the Over-allotment Option in the same proportions as disclosed above.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or our new projects to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions for so long as it is in our best interests.

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## CORNERSTONE INVESTORS

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### THE CORNERSTONE INVESTMENT

We have entered into cornerstone investment agreements with Hong Kong Huicong International Group Limited (“**Hong Kong Huicong**”), Hanhua Hongkong Holdings Limited (“**Hanhua Hongkong**”) and Golden Supreme International Limited (“**Golden Supreme**”) (together the “**Cornerstone Investors**” and each a “**Cornerstone Investor**”) and the Joint Global Coordinators, pursuant to which:

- (i) Hong Kong Huicong has agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be purchased for an aggregate amount of US\$4.0 million (equivalent to approximately HK\$31.0 million);
- (ii) Hanhua Hongkong has agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be purchased for an aggregate amount of US\$2.0 million (equivalent to approximately HK\$15.5 million); and
- (iii) Golden Supreme has agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be purchased for an aggregate amount of US\$1.0 million (equivalent to approximately HK\$7.75 million) (together with (i) and (ii) above, the “**Cornerstone Investment**”).

The aggregate amount of the Cornerstone Investment will be approximately HK\$54.2 million.

Assuming an Offer Price of HK\$1.77, HK\$2.08 and HK\$2.39 (being the minimum, mid-point and maximum of the indicative Offer Price range stated in this prospectus):

- (i) the total number of Shares to be subscribed for by Hong Kong Huicong, for an aggregate amount of US\$4.0 million (equivalent to approximately HK\$31.0 million), would be 17,514,000, 14,902,000 and 12,970,000 Shares, respectively, representing approximately 3.5%, 3.0% and 2.6%, respectively of our Shares in issue upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) or approximately 3.4%, 2.9% and 2.5%, respectively, of our Shares in issue upon completion of the Global Offering (assuming the Over-allotment Option is exercised in full);
- (ii) the total number of Shares to be subscribed for by Hanhua Hongkong, for an aggregate amount of US\$2.0 million (equivalent to approximately HK\$15.5 million), would be 8,756,000, 7,450,000 and 6,484,000 Shares, respectively, representing approximately 1.8%, 1.5% and 1.3%, respectively of our Shares in issue upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) or approximately 1.7%, 1.4% and 1.2%, respectively, of our Shares in issue upon completion of the Global Offering (assuming the Over-allotment Option is exercised in full); and
- (iii) the total number of Shares to be subscribed for by Golden Supreme, for an aggregate amount of US\$1.0 million (equivalent to approximately HK\$7.75 million), would be 4,378,000, 3,724,000 and 3,242,000 Shares, respectively, representing approximately 0.9%, 0.7% and 0.6%, respectively of our Shares in issue upon

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## CORNERSTONE INVESTORS

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completion of the Global Offering (assuming the Over-allotment Option is not exercised) or approximately 0.8%, 0.7% and 0.6%, respectively, of our Shares in issue upon completion of the Global Offering (assuming the Over-allotment Option is exercised in full).

The Cornerstone Investment forms part of the International Placing. The number of Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Shares between the International Placing and the Hong Kong Public Offer in the event of over-subscription under the Hong Kong Public Offer as described in “Structure of the Global Offering — The Hong Kong Public Offer — Reallocation and Clawback”.

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and not an existing Shareholder and is independent of each other, our Company, our connected persons and their respective associates. The Offer Shares to be subscribed for by the Cornerstone Investors will be counted towards the public float of our Company and will rank *pari passu* in all respects with the other fully paid Offer Shares then in issue and to be listed on the Stock Exchange. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any board representation in our Company, and will not become a Substantial Shareholder of our Company upon the Listing.

Other than the subscription pursuant to the cornerstone investment agreements, the Cornerstone Investors have agreed not to subscribe for any Offer Shares under the Global Offering.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around 6 October 2016.

### THE CORNERSTONE INVESTORS

The information about the Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Investment.

#### Hong Kong Huicong

Hong Kong Huicong International Group Limited is a company incorporated under the laws of the BVI with limited liability. It is a wholly-owned subsidiary of HC International, Inc. (“**HCII**”), whose shares are listed in on the Main Board of the Stock Exchange (stock code: 2280). HCII and its subsidiaries are domestic B2B e-commerce operators in the PRC, principally engaged in, among other things, providing industrial search result prioritising services through its B2B website and offering IT-related product information; providing trading and agency services through its online-to-online trading platform; and micro-credit internet financing business through its joint venture; providing lease financing services.

#### Hanhua Hongkong

Hanhua Hongkong is a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Hanhua Financial Holding Co., Ltd.\* (瀚華金控股份有限公司) (“**Hanhua Financial**”), a company listed on the Main Board of the Stock Exchange (stock code: 3903). Hanhua Financial is a company incorporated in the PRC, which principally offers

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## CORNERSTONE INVESTORS

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comprehensive financial service solutions to SMEs, micro-enterprises and individuals through credit guarantee, SME lending, internet financial services, financial factoring, capital investment and management, and finance leasing.

### **Golden Supreme**

Golden Supreme is a company incorporated in Hong Kong with limited liability on 16 March 1993. Its ultimate holding company is Supreme Electronics Co., Ltd., which is incorporated in Taiwan and is listed on the Taiwan Stock Exchange Corporation (stock code: 8112). Golden Supreme, which focuses on consumer electronics products, is principally engaged in the trading of electronic components. It is an authorized distributor of numerous global brands in Greater China region, which are mainly engaged in sales of memory and thin-film-transistor (TFT) panel products.

### **CONDITIONS PRECEDENT**

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into, become effective and having become unconditional (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) no later than the respective time and date specified therein;
- (b) neither of the Underwriting Agreements having been terminated;
- (c) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and that such approval not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated under the Global Offering or under the respective cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of the transactions contemplated under the Global Offering or under the respective cornerstone investment agreement; and
- (e) the respective representations, warranties, acknowledgements, undertakings and confirmations of the relevant Cornerstone Investor and our Company are (as of the date of the respective cornerstone investment agreement) and will be (as of the Closing Date (as defined in the relevant cornerstone investment agreement)) accurate and true in all material respects and not misleading and that there is no material breach of the respective cornerstone investment agreement on the part of the relevant Cornerstone Investor and our Company.



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## CORNERSTONE INVESTORS

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### RESTRICTIONS ON DISPOSAL BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of each of our Company, the Joint Global Coordinators and the Sole Sponsor, it will not at any time during the period of six months following the Listing Date dispose of (as defined in the respective cornerstone investment agreement) any of the Shares to be subscribed for by it pursuant to the respective cornerstone investment agreement.

Each Cornerstone Investor may transfer the Shares so subscribed in certain limited circumstances, such as transfer to a wholly-owned subsidiary of such Cornerstone Investor, provided prior to such transfer, that such wholly-owned subsidiary undertakes in writing to, and such Cornerstone Investor undertakes in writing to procure that such wholly-owned subsidiary will, abide by the restrictions on disposals imposed on such Cornerstone Investor.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

DBS Asia Capital Limited  
Haitong International Securities Company Limited  
GF Securities (Hong Kong) Brokerage Limited  
Fortune (HK) Securities Limited  
Guotai Junan Securities (Hong Kong) Limited

### INTERNATIONAL UNDERWRITERS

DBS Asia Capital Limited  
Haitong International Securities Company Limited  
GF Securities (Hong Kong) Brokerage Limited  
Fortune (HK) Securities Limited  
Guotai Junan Securities (Hong Kong) Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offer

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering 12,500,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- (a) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and DBS (for itself and on behalf of the other Underwriters)),

the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer, on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and DBS (for itself and on behalf of the other Hong Kong Underwriters), the Global Offering will not proceed and will lapse.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

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## UNDERWRITING

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### ***Grounds for termination***

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares will be subject to termination by notice in writing to our Company from the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Joint Global Coordinators:
  - (i) that any statement contained in any of this prospectus and the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any material respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or
  - (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute a material omission therefrom; or
  - (iii) any material breach of any of the obligations imposed or to be imposed upon any of our Company, our Controlling Shareholders, Mr. Wong, Insight or our executive Directors (collectively, the “**Warrantors**”) under the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
  - (iv) any event, act or omission which gives or is likely to give rise to any material liability of any of our Warrantors pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement or under the International Underwriting Agreement and which liability will have a material adverse effect on the business or financial or trading position of our Company and its subsidiaries as a whole; or
  - (v) any material adverse change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group (“**Group Company**”); or
  - (vi) our Company withdraws any of the Relevant Documents or the Global Offering; or

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## UNDERWRITING

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- (vii) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
  - (viii) that a petition or an order is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation) in or affecting any of Hong Kong, the PRC, the United States, the Cayman Islands, the European Union (or any member thereof) (the “**Specific Jurisdictions**”); or
  - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal (including, without limitation, foreign investment laws), regulatory, currency (including, without limitation, exchange control or the implementation of any exchange control or currency exchange rates (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency)), taxation, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
  - (iii) a materialisation of any of the risks set out in the “Risk Factors” section; or

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## UNDERWRITING

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- (iv) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq Global Market, the Nasdaq National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
- (v) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgment(s), decree(s) or ruling(s) of any governmental authority (“**Law(s)**”), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of the Specific Jurisdictions; or
- (vi) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vii) any material litigation or claim of any third party being threatened or instigated against any Group Company or any of the Warrantors; or
- (viii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director or a member of the senior management of our Company in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action (including but not limited to him or her being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company); or
- (ix) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Global Offering; or
- (x) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Global Offering; or
- (xi) material non-compliance of any Group Company of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other Laws applicable to the Global Offering; or
- (xii) our Company issues or is required to issue a supplement or amendment to the Prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC); or

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## UNDERWRITING

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- (xiii) a valid demand by any creditor for repayment or payment of any material indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity; or
- (xiv) any loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xv) a portion of the orders in the bookbuilding process, which is considered by the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) in its absolute opinion to be material, at the time the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled,

which in each case individually or in aggregate in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) and after consultation with our Company:

- (a) has or is or will or may or could be expected to have material adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, results of operation, financial, trading or other condition or position or prospects or risks of our Company or our Group or any Group Company or on any present or prospective shareholder of our Company in his, her or its capacity as such; or
- (b) has or will or may have or could be expected to have material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or
- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

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## UNDERWRITING

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### ***Undertakings given to the Stock Exchange pursuant to the Listing Rules***

#### *By our Company*

We have undertaken to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

#### *By our Controlling Shareholders*

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that except pursuant to the Global Offering, the Over-allotment Option or the Stock Borrowing Agreement, it shall not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it is shown to beneficially own in this prospectus (the “**Relevant Shares**”); or
- (b) in the period of a further six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any securities in our Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

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## UNDERWRITING

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*By Mr. Wong and Insight*

Each of Mr. Wong and Insight has undertaken to us and to the Stock Exchange that except pursuant to the Global Offering, the Over-allotment Option or the Stock Borrowing Agreement, he/it shall not in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it is shown to beneficially own in this prospectus.

Each of Mr. Wong and Insight has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any securities in our Company beneficially owned by he/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from the pledgee or charge that any of our pledged or charged securities beneficially owned by he/it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of Mr. Wong and Insight and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

### ***Undertakings given to the Hong Kong Underwriters***

#### *Undertakings by our Company*

Our Company has undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the exercise of any options granted or to be granted under the Share Option Scheme and the Shares which may be issued upon the Awards which may be granted under the Share Award Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create a pledge, charge, lien, mortgage, option, restriction, right of first



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## UNDERWRITING

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refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also undertaken that it will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

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## UNDERWRITING

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### *By our Controlling Shareholders*

Each of our Controlling Shareholders has undertaken jointly and severally to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters):

- (i) at any time during the First Six-Month Period, it/he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the “**Controlled Entities**”) shall not,
  - (a) sell, offer to sell, agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities with a depository in connection with the issue of depository receipts; or
  - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; or
  - (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or
  - (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, each of the Controlling Shareholders shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, such Controlling Shareholder would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholder cease to be “Controlling Shareholders” (as defined in the Listing Rules) of our Company; and

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## UNDERWRITING

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- (iii) in the event that it/he/she or any of its/his/her Controlled Entities enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it/he/she shall take, and shall procure the Controlled Entities to take, all reasonable steps to ensure that it/he/she will not create a disorderly or false market for any Shares or other securities of our Company.

Each of the Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he/she will:

- (i) when it/he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

*By Mr. Wong and Insight*

Each of Mr. Wong and Insight has undertaken to each of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that except pursuant to the Global Offering, the Over-allotment Option or the Stock Borrowing Agreement, he/it shall not in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or Encumbrances in respect of, any of our securities that it is shown to beneficially own in this prospectus.

Each of Mr. Wong and Insight has further undertaken to each of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any securities in our Company beneficially owned by he/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by he/it will be disposed of, immediately inform us in writing of such indications.

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## UNDERWRITING

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### ***Underwriters' interests in our Group***

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as at the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

### ***The Sole Sponsor's Independence***

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

### **The International Placing**

#### ***International Placing***

In connection with the International Placing, we expect to enter into the International Underwriting Agreement on the Price Determination Date with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares initially being offered pursuant to the International Placing. Please refer to the section headed "Structure of the Global Offering — The International Placing" in this prospectus.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Joint Global Coordinators for themselves and on behalf of the other International Underwriters from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offer to require us to issue and allot up to an aggregate of 18,750,000 additional Offer Shares, representing 15% of the Offer Shares initially available under the Global Offering and at the Offer Price, to cover, among other things, any over-allocations in the International Placing, if any.

### **Total Commission and Expenses**

We will pay the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) an underwriting commission of 2.8% of the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer (excluding any International Placing Shares reallocated to the Hong Kong Public Offer and any Hong Kong Offer Shares reallocated to the International Placing), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to

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## UNDERWRITING

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the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters, but not the Hong Kong Underwriters. In addition, we may, at our discretion, pay to any one or more of the Underwriters an additional total incentive fee of up to 1.2% of the aggregate Offer Price of the Offer Shares from the Global Offering, including proceeds from the exercise of the Over-allotment Option.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$2.08 (being the mid-point of the stated range of the Offer Price between HK\$1.77 and HK\$2.39), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to HK\$36.7 million in total and are payable by us.

### **Indemnity**

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters (for itself and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

### **Restrictions on the Offer Shares**

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. The Global Offering comprises (assuming the Over-allotment Option is not exercised):

- (i) the Hong Kong Public Offer of an initial 12,500,000 Hong Kong Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the paragraph headed “The Hong Kong Public Offer”; and
- (ii) the International Placing of an initial 112,500,000 International Placing Shares, subject to adjustment and the Over-allotment Option as mentioned below, outside the U.S. (including to professional, institutional and other investors within Hong Kong) in offshore transactions in reliance on Regulation S or pursuant to another exemption from the registration requirements under the U.S. Securities Act.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offer or apply for or indicate an interest for Offer Shares under the International Placing, but cannot do both. Our Directors and the Joint Global Coordinators will take all reasonable steps to identify any multiple applications under the Hong Kong Public Offer and the International Placing which are not allowed and are bound to be rejected. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to professional and institutional investors in Hong Kong. The International Placing will involve selective marketing of Offer Shares to professional, institutional and other investors expected to have a sizeable demand for Shares in Hong Kong and other jurisdictions outside the U.S. in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Placing 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 before 30 September 2016.

The number of Shares to be offered under the Hong Kong Public Offer and the International Placing may be subject to reallocation as described in the paragraph headed “Pricing and Allocation” below.

References in this prospectus to applications, Application Forms, application monies or the procedure for application refer solely to the Hong Kong Public Offer.

### PRICING AND ALLOCATION

#### Pricing

The Offer Price is expected to be fixed by an agreement between us and DBS (for itself and on behalf of the Underwriters) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 30 September 2016 and in any event no later than 12:00 noon on Wednesday, 5 October 2016 and the Offer Shares are expected to be allocated shortly

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## STRUCTURE OF THE GLOBAL OFFERING

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thereafter. If for any reason, we and DBS (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price, the Global Offering will not proceed and will lapse.

The Offer Price will be not more than HK\$2.39 per Offer Share and is expected to be not less than HK\$1.77 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as explained below.

**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.**

### **Reduction in Offer Price Range and/or Number of Offer Shares**

If, based on the level of interest expressed by prospective professional, institutional investors and other during the book-building process, the Joint Global Coordinators (for themselves and on behalf of the Underwriters), with our consent, considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may be reduced 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 Offer.

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 last day for lodging applications under the Hong Kong Public Offer, expected to be on Friday, 30 September 2016, cause to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notice(s) of the reduction in the number of Offer Shares and/or the indicative offer price range. Such notice(s) will also be available at the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.smart-core.com.hk](http://www.smart-core.com.hk). Such notice(s) will also include confirmation or revision, as appropriate, of the working capital statement, the offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction(s). Before submitting applications for Hong Kong Offer Shares, 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 Offer.

Upon the issuance of such notice, the revised number of Offer Shares and/or the revised offer price range will be final and conclusive. The Offer Price, if agreed upon, will be fixed within such revised offer price range. In the absence of any notice of a reduction in the indicative offer price range and/or the number of Offer Shares stated in this prospectus being published on or before the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon, will under no circumstances be set outside the offer price range stated in this prospectus, and the number of Offer Shares will under no circumstances be fewer than the number stated in this prospectus.

### **Allocation**

The Offer Shares to be offered in the Hong Kong Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offering at the discretion of the Joint Global Coordinators.

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## STRUCTURE OF THE GLOBAL OFFERING

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Allocation of our Offer Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, 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 Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional and other investors and is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares 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 the ballot may not receive any Hong Kong Offer Shares.

The net proceeds from the Global Offering accruing to us are estimated to be approximately HK\$236.2 million, assuming an Offer Price of HK\$2.08 per Offer Share (being the mid-point of the stated offer price range of HK\$1.77 to HK\$2.39 per Offer Share) and after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming that the Over-allotment Option is not exercised.

### **Announcement of Offer Price and Basis of Allocations**

The Offer Price under the Global Offering, the level of indications of interest in the International Placing, and the level of applications and the results of and basis of allocations under the Hong Kong Public Offer are expected to be announced on Thursday, 6 October 2016 in South China Morning Post (in English) and Hong Kong Economics Times (in Chinese), on our website ([www.smart-core.com.hk](http://www.smart-core.com.hk)) (in English and Chinese) and on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and in a variety of channels in the manner described in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus. You should note that our website, and all information contained in our website, does not form part of this prospectus.

### **CONDITIONS OF THE HONG KONG PUBLIC OFFER**

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offer will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including an additional 18,750,000 Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to commencement of dealing in the Shares on the Stock Exchange;



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## STRUCTURE OF THE GLOBAL OFFERING

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- (ii) the Offer Price having been duly determined between us and DBS (for itself and on behalf of the Underwriters), and the execution and delivery of the Price Determination Agreement on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators (for themselves and on behalf of the Underwriters)) and not having been terminated in accordance with the terms of the respective Underwriting Agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (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 which is 30 days after the date of this prospectus.

If for any reason the Offer Price is not agreed by 12:00 noon on Wednesday, 5 October 2016 between us and DBS (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offer to be published by us in South China Morning Post (in English) and Hong Kong Economics Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned to the applicants, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance.

The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

**Share certificates for the Hong Kong Offer Shares are expected to be issued on Thursday, 6 October 2016 but will only become valid certificates of title at 8:00 a.m. on Friday, 7 October 2016, the date of commencement of dealings in the Shares, 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” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.**

### THE HONG KONG PUBLIC OFFER

We are initially offering 12,500,000 Hong Kong Offer Shares at the Offer Price, representing 10% of the 125,000,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offer will represent 2.5% of our total

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## STRUCTURE OF THE GLOBAL OFFERING

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issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allotted Offer Shares in the International Placing.

### Applications

Each applicant under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the Application Form or applying online through the **White Form eIPO** service or the **electronic application instruction** to HKSCC submitted by him or her, that he or she, and any person(s) for whose benefit he or she is making the application (if any), have not indicated an interest for or taken up and will not indicate an interest for or take up any International Placing Shares, and such applicant's application will be rejected if this undertaking and/or confirmation is breached and/or untrue.

Our Company, our Directors, the Sole Sponsor and the Joint Global Coordinators will take reasonable steps to identify and reject applicants under the Hong Kong Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offer.

The Joint Global Coordinators, for themselves and on behalf of the Underwriters, may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offer, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that he or she is excluded from any application for Shares under the Hong Kong Public Offer.

The Offer Price will be not more than HK\$2.39 per Offer Share and is expected to be not less than HK\$1.77 per Offer Share. Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum Offer Price of HK\$2.39 on each Hong Kong Offer Share plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee on each Hong Kong Offer Share. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$2.39 per Offer Share, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offer.

### Allocation

The total number of Offer Shares available for subscription under the Hong Kong Public Offer (after taking into account any reallocation and clawback referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B (subject to adjustment

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## STRUCTURE OF THE GLOBAL OFFERING

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of odd lot size). The Hong Kong Offer Shares in pool A 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 (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) or less. The Hong Kong Offer Shares in pool B 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 (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) and up to the value of pool B. For this purpose, the “subscription price” for the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the 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.

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offer, in relation to both pool A and pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares 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 the ballot may not receive any Hong Kong Offer Shares. Multiple or suspected multiple applications within either pool or between pools and any application for more than 6,250,000 Hong Kong Offer Shares, being 50% of the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offer, will be rejected.

### **Reallocation and Clawback**

The allocation of Offer Shares between the Hong Kong Public Offer and the International Placing is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available for subscription under the Hong Kong Public Offer, the total number of Offer Shares available under the Hong Kong Public Offer will be increased to 37,500,000, 50,000,000 and 62,500,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Shares will be allocated to pool A and pool B. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Placing to the Hong Kong Public Offer to satisfy valid applications under the Hong Kong Public Offer.

If the Hong Kong Public Offer is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE INTERNATIONAL PLACING

The International Placing will consist of initially 112,500,000 Shares and is subject to adjustment and the Over-allotment Option, to be offered outside the United States (within the meaning of Regulation S under the U.S. Securities Act) in reliance on Regulation S under the U.S. Securities Act, including to professional, institutional and other investors in Hong Kong. The International Placing will be subject to, among other matters, the Hong Kong Public Offer becoming unconditional.

Pursuant to the International Placing, the International Underwriters will conditionally place our Shares with professional, institutional and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” above and based on a number of factors, including the level and timing of demand, 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 its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base to the benefit of our Company and our Shareholders as a whole.

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators for themselves and on behalf of the International Underwriters.

Pursuant to the Over-Allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offer, to require us to issue and allot up to an aggregate of 18,750,000 additional Offer Shares (representing 15% of the Offer Shares initially available under the Global Offering), at the same price per Offer Share under the International Placing to cover over-allocations in the International Placing, if any. If the Over-Allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of our enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-Allotment Option. In the event that the Over-Allotment Option is exercised, an announcement will be made.

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through any person acting for it, up to 18,750,000 Shares (being the maximum number of Shares which may be issued or sold upon exercise of the Over-allotment Option) from Smart IC pursuant to the Stock Borrowing Agreement, and/or acquire Shares from other sources, including the exercise of the Over-allotment Option.

If such stock borrowing arrangement with Smart IC is entered into, it will only be effected by the Stabilising Manager or any person acting for it for settlement of over-allocation in the

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## STRUCTURE OF THE GLOBAL OFFERING

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International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Smart IC or its nominees, as the case may be, on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the day on which the Over-allotment Option is exercised in full, or (iii) such earlier time as may be agreed in writing between the Stabilising Manager and Smart IC. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Smart IC by the Stabilising Manager or any person acting for it in relation to such stock borrowing arrangement.

### STABILISATION

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

In connection with the Global Offering, the Stabilising Manager or any person acting for it, on behalf of the International Underwriters, may, to the extent permitted by applicable laws in Hong Kong, over-allocate and/or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer. The stabilising action which may be taken by the Stabilising Manager or any person acting for it may include primary and ancillary stabilising actions such as purchasing or agreeing to purchase any of the Offer Shares, exercising the Over-allotment Option, stock borrowing, establishing a short position in the Shares, liquidating long positions in the Shares or offering or attempting to do any such actions. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity. Any such stabilising activities will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilising) Rules. Such stabilisation, if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager or any person acting for it, and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares which may be issued or sold upon exercise of the Over-allotment Option, being 18,750,000 Shares, which is 15% of our Offer Shares initially available under the Global Offering and before the exercise of the Over-allotment Option.

The Stabilising Manager or any person acting for it, may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

- (a) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of our Shares; and/or
- (b) in connection with any action described in paragraph (a) above:

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## STRUCTURE OF THE GLOBAL OFFERING

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- (i) (A) over-allocate our Shares; or  
(B) sell or agree to sell our Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of our Shares;
- (ii) exercise the Over-allotment Option so as to purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (i) above;
- (iii) sell or agree to sell any of our Shares acquired by it in the course of the stabilising action referred to in paragraph (a) above in order to liquidate any position that has been established by such action; and/or
- (iv) offer or attempt to do anything as described in paragraph (b)(i)(B), (b)(ii) or (b)(iii) above.

The Stabilising Manager or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares, and there is no certainty as to the extent to which or the time period for which it or any person acting for it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilising Manager or any person acting for it, which may have an adverse impact on the market price of our Shares.

Stabilisation cannot be used to support the price of our Shares for longer than the stabilisation period, which begins on the day on which dealings in our Shares commence on the Stock Exchange and ends on the last trading day before the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer which will be 30 October 2016. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore their market price, could fall. Our Company will ensure or procure that a public announcement will be made within seven days after the end of the stabilising period in compliance with the Securities and Futures (Price Stabilising) Rules.

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

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to an aggregate of 18,750,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Joint Global Coordinators for themselves and on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means.

In particular, for the purpose of settlement of over-allocations in connection with the International Placing, the Stabilising Manager may borrow up to 18,750,000 Shares, under the stock borrowing arrangement. The stock borrowing arrangement will be effected in compliance

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## STRUCTURE OF THE GLOBAL OFFERING

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with all applicable laws, rules and regulatory requirements. No payments or other benefit will be made to Smart IC by the Joint Global Coordinators in relation to the stock borrowing arrangement.

### **DEALING ARRANGEMENTS**

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 7 October 2016, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 7 October 2016. Our Shares will be traded in board lots of 2,000 Shares each.

### **UNDERWRITING ARRANGEMENTS**

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between DBS (for itself and on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or around the Price Determination Date, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing.

The underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, 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** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators 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** service for the Hong Kong Offer Shares.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### 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 am on Tuesday, 27 September 2016 to 12:00 noon on Friday, 30 September 2016 from:

- (i) the office of the Hong Kong Underwriters:

DBS Asia Capital Limited  
17/F, The Center  
99 Queen's Road Central  
Hong Kong

Haitong International Securities Company Limited  
22/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

GF Securities (Hong Kong) Brokerage Limited  
29–30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

Fortune (HK) Securities Limited  
35/F, Office Tower, Convention Plaza  
No. 1 Harbour Road, Wanchai  
Hong Kong

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

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) any of the sub-branches of the following receiving bank:

### Bank of Communications Co., Ltd. Hong Kong Branch

	<u>Sub-Branch</u>	<u>Address</u>
Hong Kong Island . .	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	Chai Wan Sub-Branch	G/F., 121–121A Wan Tsui Road, Chai Wan Cinema Building, Chai Wan
Kowloon . . . . .	Tsim Sha Tsui Sub-Branch	Shop Nos. 1–3 on G/F., CFC Tower, 22–28 Mody Road, Tsim Sha Tsui
	Wong Tai Sin Sub-Branch	Shop N118, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin
New Territories . . . .	Shatin Sub-Branch	Shop No. 193, Level 3, Shatin Lucky Plaza, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 am on Tuesday, 27 September 2016 until 12:00 noon on Friday, 30 September 2016 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 "Bank of Communications (Nominee) Co. Ltd. — Smart-Core Holdings Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the sub-branches of the receiving bank listed above, at the following times:

- 9:00 am to 5:00 pm, Tuesday, 27 September 2016
- 9:00 am to 5:00 pm, Wednesday, 28 September 2016
- 9:00 am to 5:00 pm, Thursday, 29 September 2016
- 9:00 am to 12:00 noon, Friday, 30 September 2016

The application lists will be opened from 11:45 a.m. to 12:00 noon on Friday, 30 September 2016, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 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** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any 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 Hong Kong Companies 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 our Company, the Joint Global Coordinators, 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 Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving bank, the Joint Global Coordinators, 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 our Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (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) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any 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 fulfilled the criteria mentioned in "Personal Collection" section in the Prospectus 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 our Company and the Joint Global Coordinators 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.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 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** service 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** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **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** service.

#### 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 am on Tuesday, 27 September 2016 until 11:30 am on Friday, 30 September 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 30 September 2016 or such later time under the “10. Effect of Bad Weather on the Opening of the Application 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** service 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** service or by any other means, all of your applications are liable to be rejected.

#### Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Companies 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

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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“SMART-CORE HOLDINGS LIMITED” **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 Earth (HK).

### 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 +852 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 authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators 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;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (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;
  - 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 Placing;
  - (if the electronic application are given for your benefit) 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 authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Global Coordinators 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;
  - authorise our Company to place HKSCC Nominees' name on our 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 our Company, the Joint Global Coordinators, 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 our Company, our Hong Kong Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- 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 our 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 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 Hong Kong Companies 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 our Company's announcement of the Hong Kong Public Offer 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 our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Hong Kong Companies 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.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 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 am to 8:30 pm<sup>(1)</sup>, Tuesday, 27 September 2016
- 8:00 am to 8:30 pm<sup>(1)</sup>, Wednesday, 28 September 2016
- 8:00 am to 8:30 pm<sup>(1)</sup>, Thursday, 29 September 2016
- 8:00 am<sup>(1)</sup> to 12:00 noon, Friday, 30 September 2016

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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CCASS Investor Participants can input **electronic application instructions** from 9:00 am on Tuesday, 27 September 2016 until 12:00 noon on Friday, 30 September 2016 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 30 September 2016, the last application day or such later time as described in the paragraph headed “10. 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 Hong Kong Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the 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** service 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. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service 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

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 Friday, 30 September 2016.

### 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** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 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 Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to 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 am and 12:00 noon on Friday, 30 September 2016. 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 am and 12:00 noon.

If the application lists do not open and close on Friday, 30 September 2016 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

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares on Thursday, 6 October 2016 in South China Morning Post (in English) and Hong Kong Economics Times (in Chinese) on our Company’s website at [www.smart-core.com.hk](http://www.smart-core.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.smart-core.com.hk](http://www.smart-core.com.hk) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Thursday, 6 October 2016;
- from the designated results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) with a "search by ID" function on a 24-hour basis from 8:00 am on Thursday, 6 October 2016 to 12:00 midnight on Wednesday, 12 October 2016;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 am and 10:00 pm from Thursday, 6 October 2016 to Sunday, 9 October 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 6 October 2016 to Saturday, 8 October 2016 at all the receiving bank's designated sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the 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 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 our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 our Company or its agents exercise their discretion to reject your application:**

Our Company, the Joint Global Coordinators, 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 of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(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 Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- our Company or the Joint Global Coordinators 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 Offer.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.39 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offer” 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 Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, 6 October 2016.

### 14. DESPATCH/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 Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the 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 favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the 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 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

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 Thursday, 6 October 2016. 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 the Listing Date 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.

### **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 Hong Kong Share Registrar, 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 am to 1:00 pm on Thursday, 6 October 2016 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 authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 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 Thursday, 6 October 2016, 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 Thursday, 6 October 2016, 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



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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account as stated in your Application Form on Thursday, 6 October 2016, 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 Offer shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner described in "11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 6 October 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer 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 service***

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 the Hong Kong Share Registrar, 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 am to 1:00 pm on Thursday, 6 October 2016, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, 6 October 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *(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 Thursday, 6 October 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in "11. Publication of Results" above on Thursday, 6 October 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 6 October 2016 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 Thursday, 6 October 2016. 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 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 Thursday, 6 October 2016.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

27 September 2016

The Directors  
Smart-Core Holdings Limited

DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Smart-Core Holdings Limited (the “Company”, formerly known as Smart-Core Cloud Group Limited) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2015 and the three months ended 31 March 2016 (the “Relevant Periods”) (the “Financial Information”) for inclusion in the prospectus of the Company dated 27 September 2016 (the “Prospectus”) in connection with the proposed initial listing of the Company’s shares (the “Listing”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company, which acts as an investment holding company, was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands on 22 October 2015. Pursuant to a group reorganisation as more fully explained in the section headed “History, Reorganisation and Group Structure” in the Prospectus (the “Group Reorganisation”), the Company became the holding company of the companies now comprising the Group on 24 February 2016.

Particulars of the Company’s subsidiaries at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital (note)	Equity interest attributable to the Group				At date of this report	Principal activities
				At 31 December		At 31 March	2016		
				2013	2014	2015			
Smart-Core International Company Limited (“SMC International HK”)	Hong Kong (“HK”) 26 April 2005	HK	Ordinary shares HK\$10,000,000	90%	90%	90%	100%	100%	Trading of electronic products
Smart-Core Cloud Limited (“SMC Cloud HK”)	HK 16 June 2014	HK	Ordinary shares HK\$1,000,000	N/A	90%	90%	100%	100%	Trading of electronic products
深圳市芯智科技有限公司 (“SMC Technology SZ”)	People’s Republic of China (the “PRC”) 6 February 2005	the PRC	Registered capital Renminbi (“RMB”) 8,500,000	90%	90%	90%	100%	100%	Trading of electronic products

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital (note)	Equity interest attributable to the Group					Principal activities
				At 31 December			At 31 March	At date of this report	
				2013	2014	2015	2016		
深圳市芯智雲信息技術有限公司 ("SMC Cloud SZ") . . . . .	the PRC 4 December 2015	the PRC	Registered capital RMB1,000,000	N/A	N/A	90%	100%	100%	Trading of electronic products

*Note:* Details and movement of share/paid-in capital are set out in note 30.

All the subsidiaries now comprising the Group have adopted 31 December as the financial year end date.

SMC International HK and SMC Cloud HK are wholly-owned and held directly by the Company. SMC Technology SZ and SMC Cloud SZ are indirectly held by the Company.

The statutory consolidated financial statements of SMC International HK (which holds subsidiary, SMC Technology SZ) for each of the years ended 31 December 2013 and 2014 (the "SMC International HK 2013 and 2014 Consolidated Financial Statements"), which are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), respectively, were audited by D.C. (CPA) & Associates, Certified Public Accountants in Hong Kong.

We have acted as the statutory auditor of SMC International HK for the year ended 31 December 2015 and undertaken an independent audit on its statutory consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA, which is prepared in accordance with HKFRS issued by the HKICPA.

The statutory financial statements of SMC Technology SZ for each of the two years ended 31 December 2013 and 2014 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprise established in the PRC and were audited by 深圳日浩會計師事務所 Shenzhen Rihao Certified Public Accountants\*.

The statutory financial statements of SMC Technology SZ for the year ended 31 December 2015 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprise established in the PRC and were audited by 中聯會計師事務所有限公司深圳分所 Zhonglian Certified Public Accountants Co., Ltd. Shenzhen Office\*.

We have also acted as the statutory auditor of SMC Cloud HK (which holds subsidiary, SMC Cloud SZ) for the period from 16 June 2014 (date of incorporation) to 31 December 2014 and the year ended 31 December 2015.

No audited financial statements have been prepared for the Company and SMC Cloud SZ since their respective dates of incorporation, as they were established/incorporated in jurisdiction where there are no statutory audit requirements or have not reached their first reporting requirements since incorporation.

\* The English names are for identification purposes only.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with accounting policies which conform with HKFRSs (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with HKSA issued by the HKICPA and carried out procedures which we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis of presentation set out in note 2 of Section A below. No adjustments were considered necessary to the Underlying Financial Statements in preparing the Financial Information for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group as at 31 December 2013, 2014 and 2015 and 31 March 2016 and of the Company as at 31 December 2015 and 31 March 2016, and of the consolidated financial performance and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the three months ended 31 March 2015 together with the notes thereon (the "March 2015 Financial Information") have been extracted from the Group's unaudited consolidated financial information for the same period which was prepared by the Directors solely for the purpose of this report. We have conducted our review on the March 2015 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by HKICPA. Our review of the March 2015 Financial Information 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 HKSA 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 March 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the March 2015 Financial information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform to HKFRSs.

## A. FINANCIAL INFORMATION

## Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December			For the three months ended 31 March	
		2013	2014	2015	2015	2016
		US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Revenue .....	8	282,552	398,516	485,371	80,594	145,309
Cost of sales .....		(269,633)	(377,319)	(463,145)	(76,988)	(138,633)
Gross profit .....		12,919	21,197	22,226	3,606	6,676
Other income .....	9	743	684	2,001	214	122
Other gains and losses ...	10	(70)	(36)	(724)	145	133
Research and development expenses .		(4,772)	(4,503)	(2,129)	(796)	(592)
Administrative expenses ..		(3,788)	(4,929)	(6,817)	(1,365)	(1,534)
Selling and marketing expenses .....		(4,159)	(2,359)	(2,608)	(672)	(799)
Listing expenses .....		–	–	(1,157)	–	(505)
Finance costs .....	11	(365)	(965)	(1,750)	(283)	(671)
Profit before tax .....	12	508	9,089	9,042	849	2,830
Income tax expense .....	14	(378)	(1,707)	(2,140)	(182)	(452)
Profit for the year/period ..		130	7,382	6,902	667	2,378
<b>Other comprehensive (expenses) income</b>						
<i>Items that may be reclassified subsequently to profit or loss:</i>						
Exchange difference arising on translation of foreign operations ..		21	4	15	3	(40)
Fair value (loss) gain on available-for-sale investments .....		(63)	47	(267)	(35)	37
Total comprehensive income for the year/period .....		88	7,433	6,650	635	2,375

Note	Year ended 31 December			For the three months ended 31 March		
	2013	2014	2015	2015	2016	
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000	
Profit for the year/period attributable to:						
Owners of the Company .	117	6,644	6,096	600	2,230	
Non-controlling interests.	13	738	806	67	148	
	<u>130</u>	<u>7,382</u>	<u>6,902</u>	<u>667</u>	<u>2,378</u>	
Total comprehensive income for the year/period attributable to:						
Owners of the Company .	79	6,690	5,869	571	2,230	
Non-controlling interests.	9	743	781	64	145	
	<u>88</u>	<u>7,433</u>	<u>6,650</u>	<u>635</u>	<u>2,375</u>	
Earnings per share, basic (US cents) . . . . .	16	0.038	2.053	1.806	0.178	0.632



## Statements of Financial Position

	Notes	The Group				The Company	
		At 31 December			At	At 31	At
		2013	2014	2015	31 March	December	31 March
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Non-current assets</b>							
Investments in subsidiaries . . . . .	17	–	–	–	–	–	20,514
Property, plant and equipment . . . . .	18	420	587	478	427	–	–
Available-for-sale investments . . . . .	19	1,686	2,381	5,825	7,933	–	–
Deposits, prepayments and other receivables . . . . .	22	1,219	2,735	2,802	2,818	–	–
		<u>3,325</u>	<u>5,703</u>	<u>9,105</u>	<u>11,178</u>	<u>–</u>	<u>20,514</u>
<b>Current assets</b>							
Inventories . . . . .	20	9,661	16,330	17,863	18,978	–	–
Trade and bills receivables . . . . .	21	32,032	41,521	84,222	74,407	–	–
Deposits, prepayments and other receivables . . . . .	22	1,398	898	1,192	3,396	49	554
Amounts due from directors . . . . .	24	10	843	381	–	–	–
Amounts due from related companies . . . . .	25	1,005	605	2,099	1,690	–	–
Tax recoverable . . . . .		3	–	–	–	–	–
Pledged bank deposits . . . . .	26	4,892	5,855	6,359	9,263	–	–
Bank balances and cash . . . . .	26	2,782	1,737	4,137	5,112	–	101
		<u>51,783</u>	<u>67,789</u>	<u>116,253</u>	<u>112,846</u>	<u>49</u>	<u>655</u>
<b>Current liabilities</b>							
Trade payables . . . . .	27	26,070	24,881	46,281	42,395	–	–
Other payables and accrued charges . . . . .	28	5,408	6,491	11,264	10,605	791	1,346
Amounts due to directors . . . . .	24	1,755	600	600	399	–	–
Amounts due to related companies . . . . .	25	530	653	–	–	–	–
Amounts due to subsidiaries . . . . .	35	–	–	–	–	415	986
Dividend payable . . . . .		–	–	4,000	–	–	–
Tax liabilities . . . . .		835	2,182	3,093	3,321	–	–
Borrowings . . . . .	29	7,490	18,104	36,889	41,698	–	–
		<u>42,088</u>	<u>52,911</u>	<u>102,127</u>	<u>98,418</u>	<u>1,206</u>	<u>2,332</u>
<b>Net current assets (liabilities) . . . . .</b>							
		<u>9,695</u>	<u>14,878</u>	<u>14,126</u>	<u>14,428</u>	<u>(1,157)</u>	<u>(1,677)</u>
		<u>13,020</u>	<u>20,581</u>	<u>23,231</u>	<u>25,606</u>	<u>(1,157)</u>	<u>18,837</u>

	Notes	The Group			The Company		
		At 31 December			At 31 March	At 31 December	At 31 March
		2013	2014	2015	2016	2015	2016
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Capital and reserves</b>							
Share/paid-in capital . . . . .	30	1,154	1,269	1,269	–	–	–
Reserves . . . . .		10,564	17,254	19,523	25,606	(1,157)	18,837
Equity (deficiency of equity) attributable to owners of the Company . . . . .		11,718	18,523	20,792	25,606	(1,157)	18,837
Non-controlling interests . . .	34	1,302	2,058	2,439	–	–	–
		<u>13,020</u>	<u>20,581</u>	<u>23,231</u>	<u>25,606</u>	<u>(1,157)</u>	<u>18,837</u>

## Consolidated Statements of Changes in Equity

	Attributable to owners of the Company									
	Share/ paid-in capital	Share premium	Other reserve (note 2)	Statutory reserves (note 1)	Exchange reserve	Investment revaluation reserves	Retained earnings	Total	Non- controlling interest	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2013 . . . . .	1,154	–	–	5	(2)	26	10,456	11,639	1,293	12,932
Profit for the year . . . . .	–	–	–	–	–	–	117	117	13	130
Exchange difference arising on translation . . . . .	–	–	–	–	19	–	–	19	2	21
Fair value loss on available-for-sale investments . . . . .	–	–	–	–	–	(57)	–	(57)	(6)	(63)
Profit and total comprehensive income recognised for the year . . . . .	–	–	–	–	19	(57)	117	79	9	88
At 31 December 2013 . . . . .	1,154	–	–	5	17	(31)	10,573	11,718	1,302	13,020
Profit for the year . . . . .	–	–	–	–	–	–	6,644	6,644	738	7,382
Exchange difference arising on translation . . . . .	–	–	–	–	4	–	–	4	–	4
Fair value gain on available-for-sale investments . . . . .	–	–	–	–	–	42	–	42	5	47
Profit and total comprehensive income recognised for the year . . . . .	–	–	–	–	4	42	6,644	6,690	743	7,433
Transfer to statutory reserves . . . . .	–	–	–	7	–	–	(7)	–	–	–
Issue of shares of a subsidiary (note 30) . . . . .	115	–	–	–	–	–	–	115	13	128
At 31 December 2014 . . . . .	1,269	–	–	12	21	11	17,210	18,523	2,058	20,581
Profit for the year . . . . .	–	–	–	–	–	–	6,096	6,096	806	6,902
Exchange difference arising on translation . . . . .	–	–	–	–	14	–	–	14	1	15
Fair value loss on available-for-sale investments . . . . .	–	–	–	–	–	(241)	–	(241)	(26)	(267)
Profit and total comprehensive income recognised for the year . . . . .	–	–	–	–	14	(241)	6,096	5,869	781	6,650
Transfer to statutory reserves . . . . .	–	–	–	12	–	–	(12)	–	–	–
Dividend recognised as distribution (note 15) . . . . .	–	–	–	–	–	–	(3,600)	(3,600)	(400)	(4,000)

	Attributable to owners of the Company									
	Share/ paid-in capital	Share premium	Other reserve (note 2)	Statutory reserves (note 1)	Exchange reserve	Investment revaluation reserves	Retained earnings	Total	Non- controlling interest	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 31 December 2015 . . . . .	1,269	–	–	24	35	(230)	19,694	20,792	2,439	23,231
Profit for the period . . . . .	–	–	–	–	–	–	2,230	2,230	148	2,378
Exchange difference arising on translation . . . . .	–	–	–	–	(38)	–	–	(38)	(2)	(40)
Fair value gain on available-for-sale investments . . . . .	–	–	–	–	–	38	–	38	(1)	37
Profit and total comprehensive income recognised for the period . . . . .	–	–	–	–	(38)	38	2,230	2,230	145	2,375
Issue of new shares (note 30) . . . . .	–	20,514	–	–	–	–	–	20,514	–	20,514
Adjustments arising from the Group Reorganisation . . . . .	(1,269)	–	1,802	–	–	–	–	533	(2,584)	(2,051)
Deemed distribution to Controlling Shareholders (as defined in note 2). . . . .	–	–	–	–	–	–	(18,463)	(18,463)	–	(18,463)
At 31 March 2016 . . . . .	–	20,514	1,802	24	(3)	(192)	3,461	25,606	–	25,606
At 1 January 2015 (audited) . . . . .	1,269	–	–	12	21	11	17,210	18,523	2,058	20,581
Profit for the period . . . . .	–	–	–	–	–	–	600	600	67	667
Exchange difference arising on translation . . . . .	–	–	–	–	2	–	–	2	1	3
Fair value loss on available-for-sale investments . . . . .	–	–	–	–	–	(31)	–	(31)	(4)	(35)
Profit and total comprehensive income recognised for the period . . . . .	–	–	–	–	2	(31)	600	571	64	635
As 31 March 2015 (unaudited). . . . .	1,269	–	–	12	23	(20)	17,810	19,094	2,122	21,216

**Notes:**

- Pursuant to the relevant laws in the PRC, the Group's subsidiaries established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements to the reserve funds (including the general reserve fund and enterprise development fund where appropriate). The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the subsidiary and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the subsidiary. The enterprise development fund can only be used for development and is not available for distribution to shareholder.
- Other reserve represents (i) the combined share capital of SMC International HK and SMC Cloud HK acquired by the Company at the time of the Group Reorganisation; (ii) the difference between the amounts by which the non-controlling interest was adjusted and the consideration paid to acquire the additional interests in subsidiaries.

## Consolidated Statements of Cash Flows

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
<b>OPERATING ACTIVITIES</b>					
Profit before tax . . . . .	508	9,089	9,042	849	2,830
Adjustments for:					
Depreciation of property, plant and equipment . . . . .	152	238	257	63	56
Finance costs . . . . .	365	965	1,750	283	671
Loss on disposal of property, plant and equipment . . . . .	17	22	–	–	–
Allowance for doubtful debts . . . (Reversal of allowance)	–	371	183	–	–
Allowance for inventories . . . . .	(83)	59	248	–	–
Dividend and interest income from available-for-sale investments . . . . .	(103)	(78)	(180)	(32)	(52)
Interest income from life insurance policies . . . . .	(49)	(79)	(109)	(27)	(27)
Bank interest income . . . . .	(11)	(19)	(13)	(1)	(1)
Operating cash flows before movements in working capital . .	796	10,568	11,178	1,135	3,477
Decrease (increase) in inventories	43	(6,722)	(1,745)	(7,801)	(1,122)
(Increase) decrease in trade and bills receivables . . . . .	(12,457)	(9,848)	(42,818)	8,985	9,702
(Increase) decrease in deposits, prepayments and other receivables . . . . .	(791)	538	(116)	(184)	(2,194)
Decrease (increase) in amounts due from related companies . . . .	231	449	(247)	100	(26)
Increase (decrease) in trade payables . . . . .	7,281	(1,195)	21,231	4,455	(3,800)
Increase (decrease) in other payables and accrued charges . .	631	1,062	4,712	2,110	(659)
Increase (decrease) in amounts due to related companies . . . . .	72	(72)	–	262	–
Cash (used in) from operations . . .	(4,194)	(5,220)	(7,805)	9,062	5,378
Income tax paid . . . . .	(339)	(357)	(1,229)	(579)	(224)
<b>NET CASH (USED IN) FROM   OPERATING ACTIVITIES . . . . .</b>	<b>(4,533)</b>	<b>(5,577)</b>	<b>(9,034)</b>	<b>8,483</b>	<b>5,154</b>

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
<b>INVESTING ACTIVITIES</b>					
Dividend and interest income of available-for-sale investments . . .	103	78	180	32	52
Placement of pledged bank deposits . . . . .	(2,967)	(2,269)	(8,705)	(1,948)	(5,000)
Purchase of property, plant and equipment . . . . .	(270)	(433)	(162)	(94)	(4)
Proceeds from disposal of available-for-sale investments . . .	762	–	645	645	647
Withdrawal of pledged bank deposits . . . . .	202	1,306	8,201	3,636	2,096
Interest received . . . . .	11	19	13	1	1
Purchase of available-for-sale investments . . . . .	–	(648)	(4,356)	(2,159)	(2,718)
Upfront payment of a life insurance policy . . . . .	–	(1,472)	–	–	–
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES . . . . .</b>	<b>(2,159)</b>	<b>(3,419)</b>	<b>(4,184)</b>	<b>113</b>	<b>(4,926)</b>
<b>FINANCING ACTIVITIES</b>					
New borrowings raised . . . . .	26,163	57,006	101,389	14,842	33,194
Advance from a director . . . . .	6,291	477	3,657	410	4,401
Advances from related companies .	3,373	5,762	434	157	478
Fund arising from trade receivables factored with recourse . . . . .	1,900	76,763	224,728	42,981	65,444
Repayment of trade receivables factored with recourse . . . . .	–	(71,439)	(211,135)	(45,734)	(61,726)
Proceeds from issuance of new shares . . . . .	–	–	–	–	20,514
Repayment of borrowings . . . . .	(25,793)	(51,716)	(96,197)	(16,573)	(32,103)
Deemed distribution to shareholders and payment to acquire additional interest in subsidiaries . . . . .	–	–	–	–	(20,514)
Repayment to a director . . . . .	(2,432)	(2,465)	(3,195)	(643)	(4,221)
Dividend paid . . . . .	–	–	–	–	(4,000)
Repayment to related companies .	(1,986)	(5,608)	(2,328)	(2,068)	(45)
Interest paid . . . . .	(365)	(965)	(1,750)	(283)	(671)
Issue of shares of a subsidiary . . .	–	128	–	–	–
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES . . . . .</b>	<b>7,151</b>	<b>7,943</b>	<b>15,603</b>	<b>(6,911)</b>	<b>751</b>

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> .....	459	(1,053)	2,385	1,685	979
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD</b> .....	2,307	2,782	1,737	1,737	4,137
Effect of foreign exchange rate changes .....	16	8	15	3	(4)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD</b> Represented by bank balances and cash .....	<u>2,782</u>	<u>1,737</u>	<u>4,137</u>	<u>3,425</u>	<u>5,112</u>

**NOTES TO THE FINANCIAL INFORMATION****1. General**

The Company was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands on 22 October 2015. The Company changed its name from "Smart-Core Cloud Group Limited" to "Smart-Core Holdings Limited" with effect from the passing of the special resolution by all of the then shareholders of the Company on 8 August 2016. Its registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is located at 30/F, Enterprise Square Two, 3 Sheung Yuet Road, Kowloon Bay, HK.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the trading of electronics products.

The Financial Information is presented in United States Dollar ("US\$"), which is the same as the functional currency of the Company.

**2. Basis of presentation of financial information**

Prior to the Group Reorganisation, the trading of electronic products was carried out by the subsidiaries of Smart-Core Holdings Limited ("Smart-Core Samoa"), the holding company of all entities now comprising the Group which was incorporated in Samoa and beneficially owned by Mr. Tian Wei Dong ("Mr. Tian"), Mr. Wong Tsz Leung ("Mr. Wong") and Mr. Liu Hong Bing ("Mr. Liu") as to 60%, 30% and 10%, respectively. Smart-Core Samoa is jointly controlled by Mr. Tian and Mr. Wong in respect of the Group's business and all the group entities now comprising the Group historically and throughout the Relevant Periods (collectively be referred to as the "Controlling Shareholders"). Smart-Core Samoa does not form part of the Group.

To rationalise the corporate structure in preparation for the Listing on the Main Board of the Stock Exchange, the entities comprising the Group underwent the Group Reorganisation. The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 22 October 2015 to act as the holding company of the Group for the Listing on Stock Exchange. The authorised share capital of the Company was US\$50,000 dividend into 5,000,000,000 ordinary shares of US\$0.00001 each. On the date of incorporation, one share was allotted and issued to Mapcal Limited (the subscriber) and such share was transferred to Smart IC Limited at par value on the same date. On 7 November 2015, the Company allotted and issued 5,999 new shares to Smart IC Limited, which is wholly owned by Mr. Tian, 3,000 new shares to Insight Limited, which is wholly owned by Mr. Wong and 1,000 new shares to Epart Limited, which was wholly owned by Mr. Liu. Smart IC Limited, Insight Limited and Epart Limited owns 60%, 30% and 10% equity interest in the Company, respectively.

On 1 February 2016, Epart Limited transferred all the equity interests in the Company held to Smart IC Limited for a cash consideration of US\$0.01 which was determined based on the par value of the sale shares. The consideration was paid on 1 February 2016 and the transfer was completed on the same date. Upon completion of the transfer, the Company was held as to 70% and 30% in Smart IC Limited and Insight Limited, respectively.



On 24 February 2016, the Company allotted and issued 7,000 shares to Smart IC Limited and 3,000 shares to Insight Limited for a consideration of US\$14,359,834.30 and US\$6,154,214.70, respectively, which were fully paid in cash.

As part of the Group Reorganisation, on 24 February 2016, the Company entered into an equity transfer agreement to acquire all shares of SMC International HK and SMC Cloud HK from Smart-Core Samoa for a total cash consideration of US\$20,514,049 and US\$1, respectively. This payment is regarded as deemed distribution to the Controlling Shareholders to the extent of the amount attributable of US\$18,463,000 and the remainder as consideration for the acquisition of the non-controlling interest in the subsidiaries.

Further details of the Group Reorganisation are set out in the section headed "History, Reorganisation and Group Structures" in the Prospectus. Upon completion of the Group Reorganisation, the Company became the ultimate holding company of the Group on 24 February 2016. The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity, accordingly, the Financial Information has been prepared under the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the Company had always been the holding company of the Group throughout the Relevant Periods. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Relevant Periods include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2013, 2014 and 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure has been in existence those dates taking into account the respective dates of incorporation or establishment, where applicable.

As SMC International HK and SMC Cloud HK was under the common control of the Controlling Shareholders, equity interest held by Mr. Liu during the years ended 31 December 2013, 2014 and 2015 and for the period from 1 January 2016 up to the date of the completion of the Group Reorganisation on 24 February 2016 is presented as non-controlling interest in the Financial Information.

### **3. Application of Hong Kong Financial Reporting Standards**

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has applied Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are effective for the Group's annual accounting periods beginning on 1 January 2016 throughout the Relevant Periods.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

***New and revised HKFRSs in issue but not yet effective***

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Lease <sup>3</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers <sup>1</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

Except as described below, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group's financial performance and positions and/or on the disclosures to the Group's Financial Information.

***HKFRS 9 Financial Instruments***

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified

dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised; and
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may result in potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs. Currently, the directors of the Company is in the midst of assessing the financial impact of the application of HKFRS 9 and a reasonable estimate of the effect will be available once the detailed review is completed.

#### ***HKFRS 15 Revenue from Contracts with Customers***

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may affect the timing of recognition of the amounts reported and the disclosures made in the Financial Information. Currently, the directors of the Company is in the midst of assessing the financial impact of the application of HKFRS 15 and a reasonable estimate of the effect will be available once the detailed review is completed.

### **HKFRS 16 Leases**

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Total operating lease arrangements and commitments of the Group in respect of office premises as at 31 March 2016 amounted to approximately US\$734,000, the directors of the

Company do not expect the adoption of HKFRS 16 would result in significant impact on the Group's result but it is expected that certain portion of these lease commitments will be required to be recognised in the statement of financial position as lease liabilities.

#### 4. Significant accounting policies

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below except for certain financial instruments that are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

#### ***Basis of Consolidation***

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests has a deficit balance.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

#### ***Merger accounting for business combination involving entities under common control***

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

#### ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business and net of discounts and returns.

Revenue from the sales of goods is recognised when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Technical support services income are recognised when the relevant services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### ***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### ***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) using exchange rate prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under exchange reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### ***Retirement benefits costs***

Payments to the defined contribution retirement benefit plan and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

### ***Taxation***

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.



The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income as directly in equity, respectively.

### ***Property, plant and equipment***

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

### ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less estimated cost necessary to make the sale.

### ***Financial instruments***

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

*Financial assets*

Financial assets are classified into the following specified categories: available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, amounts due from directors, amounts due from related companies, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance account. When a trade and bills receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increased in fair value subsequent to an impairment loss is recognised in other comprehensive income and

accumulated under the heading of investment revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequent reversed through profit or loss if an increase in fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

#### Financial liabilities

Financial liabilities (including trade payables, other payables and accrued charges, amounts due to directors, amounts due to related companies and borrowings) are subsequently measured at amortised cost, using the effective interest method.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

***Impairment on tangible assets***

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

***Borrowing costs***

Borrowing costs which are not capitalised to qualifying assets are recognised in profit or loss in the period in which they are incurred.

***Research and development expenditure***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

#### **5. Key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the coming twelve months, are described below.

#### ***Estimated impairment of trade and bills receivables***

Management estimates the recoverability of trade and bills receivables based on objective evidence. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate compounded at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2013, 2014 and 2015 and 31 March 2016, the carrying amounts of trade and bills receivables of the Group was approximately US\$32,032,000, US\$41,521,000, US\$84,222,000 and US\$74,407,000, less of allowance of doubtful debts of nil, US\$346,000, US\$120,000 and US\$120,000, respectively. Details are set out in note 21.

***Net realisable value of inventories***

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated cost necessary to make the sale. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market condition. The Group will reassess the estimation at the end of each reporting period.

As at 31 December 2013, 2014 and 2015 and 31 March 2016, the carrying amounts of inventories of the Group were approximately US\$9,661,000, US\$16,330,000, US\$17,863,000 and US\$18,978,000, less of allowance of US\$669,000, US\$190,000, US\$438,000 and US\$438,000, respectively. Details are set out in note 20.

***Income Tax Provision and Corresponding Penalty***

During the year ended 31 December 2015, the directors of the Company has identified certain errors in the statutory financial statements of a group entity incorporated in Hong Kong for the years ended 31 December 2012 and prior periods and the year ended 31 December 2014, and consequently those statutory financial statements were restated and reissued. The Group then voluntarily submitted the revised tax computations of the relevant group entity to the Inland Revenue Department of Hong Kong ("IRD") for the years of assessment 2012/2013 and 2014/2015 based on the revised assessable profits calculated based on the reissued statutory financial statements. The additional tax provision for the year ended 31 December 2012 and prior periods, and the year ended 31 December 2014 amounted to US\$770,000 and US\$834,000, respectively, was recognised in the consolidated financial statements. As the Group may have understated its assessable profits and/or made an incorrect tax returns or statement to the IRD for the relevant years of assessment, it may be liable for penalty, the amount of which accordingly to the penalty policy of the IRD would be at a maximum of (i) a fine of HK\$10,000 (equivalent to US\$1,290) to HK\$50,000 (equivalent to US\$6,450) for each offense; (ii) trebling the amount of tax undercharged or would have been undercharged; and (iii) imprisonment for 6 months to 3 years. However, the penalty may be less than the maximum level if the Group can prove to the satisfaction of the Commissioner of the IRD that there is reasonable excuse for committing the offense and the Company does not have any willful intention to omit/understate the profit in question.

In addition to making additional tax provision for the relevant year as discussed above, the directors of the Company have also considered reasonably possible penalty that may be imposed by the IRD on the Group as at each of the reporting date, if any, arising from omission or understatement of assessment profits for the years of assessment 2012/2013 and 2014/2015 by the relevant group entity. After seeking professional advice, the directors of the Company understand that the reasonably possible penalty, if any, is likely to be at the level of 30% of the amount of tax undercharged and HK\$10,000 (equivalent to US\$1,290) for each offense, that is, US\$231,000 and US\$250,000 for the year ended 31 December 2012 and 31 December 2014, respectively, and relevant provisions were made and included in administrative expenses in the profit or loss for the relevant years. The directors of the Company believe that adequate provision has been made against the potential penalty. However, the ultimate penalty may be different from the amounts provided, such difference will be charged to profit or loss in the period during which such a determination is made.

## 6. Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders and maintaining an adequate capital structure. The Group's overall strategy remained unchanged throughout the Relevant Periods.

The capital structure of the Group consists of debts, which include borrowings and amounts due to directors and related companies, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends and new shares issues as well as the issue of new debts and redemption of existing debts.

## 7. Financial instruments

### 7a. Categories of financial instruments

#### The Group

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Financial assets</b>				
Loans and receivables (including bank balances and cash) . . . . .	42,663	53,823	100,940	94,576
Available-for-sale investments . . . . .	1,686	2,381	5,825	7,933
	<u>44,349</u>	<u>56,204</u>	<u>106,765</u>	<u>102,509</u>
<b>Financial liabilities</b>				
Amortised cost . . . . .	37,152	45,739	91,733	88,801
	<u>37,152</u>	<u>45,739</u>	<u>91,733</u>	<u>88,801</u>

### 7b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and bills receivables, deposits and other receivables, amounts due from directors, amounts due from related companies, pledged bank deposits, bank balances and cash, trade payables, other payables and accrued charges, amounts due to directors, amounts due to related companies and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.



*Market risk*

## Currency risk

The group entities have foreign currency denominated monetary assets and monetary liabilities which expose the Group to foreign currency risk. The directors of the Company believe the Group does not have significant foreign exchange exposures and will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the foreign exchange exposures become significant.

The carrying amounts of the foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

	Assets				Liabilities			
	At 31 December			At 31 March	At 31 December			At 31 March
	2013	2014	2015	2016	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Hong Kong Dollar ("HK\$")	450	52	52	48	1,085	260	1,116	447
Renminbi ("RMB") . . . . .	829	195	310	430	–	–	–	–

For the years ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2016, a group entity, of which its functional currency is RMB had amount due from immediate holding company which is denominated in US\$. These intragroup balances are approximately nil, US\$4,145,000, US\$31,858,000 and US\$20,235,000, respectively.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in US\$ against RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including the bank balances, variable-rate pledged bank deposits and borrowings and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive/(negative) number below indicates an increase/(decrease) in post-tax profit where US\$ weaken 5% against RMB. For a 5% strengthening of US\$ against the relevant currency, there would be an equal and opposite impact on the profit.

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Profit for the year/period (note) .	35	(165)	(1,317)	(827)

Note:

This is mainly attributable to the exposure outstanding on bank balances, variable-rate pledged bank deposits, borrowings and intra-group balances at the end of the respective reporting period.

The directors of the Company considered the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during the Relevant Periods.

For the exposure to the fluctuation in United States dollar against Hong Kong dollar, as Hong Kong dollar is pegged to United States dollar, the directors of the Company are of opinion that such exposure is insignificant and no sensitivity analysis is presented.

#### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate available-for-sale investments.

The Group is exposed to cash flow interest rate risk in relation to payments for life insurance policies, bank balances, variable-rate pledged bank deposits and borrowings. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on payments for life insurance policies, bank balances and pledged bank deposits and the borrowings.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate is mainly concentrated on the fluctuation of London Interbank Offered Rate and Hong Kong Interbank Offered Rate arising from the Group's borrowings. The Group currently does not have interest rate risk hedging policy. However, the directors of the Company closely monitor the exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

The sensitivity analyses below have been determined based on the exposure to interest rates for payments for life insurance policies, bank balances, variable-rate pledged bank deposits and borrowings for the Relevant Periods. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year/period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates.

	At 31 Decmeber			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Increase (decrease) in profit for the year/period . . . . .	19	(27)	(92)	(93)

If interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's other comprehensive income would decreases/increase by US\$3,000, US\$6,000, US\$6,000 and US\$7,000 for the years ended 31 December 2013, 2014 and 2015 and for the three months ended 31 March 2016 mainly as a result of the changes in the fair value of debt securities included in available-for-sale investments.

The directors of the Company considered the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of each reporting period does not reflect the exposure during the Relevant Periods.

#### Other price risk

The Group is exposed to price risk through its available-for-sale investments. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risks.

### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date.

If the prices of the respective available-for-sale investments had been 5%, 5%, 5% and 5% higher/lower, other comprehensive income for the years ended 31 December 2013, 2014 and 2015 and for the three months ended 31 March 2016 would increase/decrease by US\$84,000, US\$119,000, US\$291,000 and US\$397,000, respectively as a result of the changes in fair value of available-for-sale investments.

In the opinion of directors of the Company, the sensitivity analysis is not representative of the Group's price risk as it only reflects the impact of price changes to available-for-sale investments held at the end of each reporting period but not the exposure during the Relevant Periods.

### *Credit risk*

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

The Group is exposed to concentration of credit risk as at 31 December 2013, 2014 and 2015 and 31 March 2016 on trade and bills receivables from the Group's top five major customers amounting to US\$18,375,000, US\$30,038,000, US\$70,329,000 and US\$58,420,000, respectively and accounted for 57%, 72%, 84% and 79% of the Group's total trade and bills receivables. The major customers of the Group are mainly leading brand-name consumer electronic product manufacturing companies in the PRC.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the directors of the Company review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on payments for life insurance policies on an insurance company. The directors of the Company consider the counterparty is financial institution with good reputation and the Group considers that the credit risk is insignificant.

The credit risk on liquid funds of the Group is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The directors of the Company monitors the utilisation of borrowings and amounts due to directors.

The following table details the Group's remaining contractual maturity for its financial liabilities which has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from weighted average interest rate at the end of each reporting period.

## Liquidity table

	Weighted average effective interest rate	Repayable on demand or less than 3 months	Total undiscounted cash flows	Carrying amount
	%	US\$'000	US\$'000	US\$'000
<b>At 31 December 2013</b>				
Trade payables . . . . .	–	26,070	26,070	26,070
Other payables and accrued charges	–	1,307	1,307	1,307
Amounts due to directors . . . . .	–	1,755	1,755	1,755
Amounts due to related companies . . .	–	530	530	530
Bank borrowings – variable rate . . . .	3.1	7,490	7,490	7,490
		<u>37,152</u>	<u>37,152</u>	<u>37,152</u>
<b>At 31 December 2014</b>				
Trade payables . . . . .	–	24,881	24,881	24,881
Other payables and accrued charges	–	1,501	1,501	1,501
Amount due to a director . . . . .	–	600	600	600
Amount due to a related company . . .	–	653	653	653
Bank borrowings – variable rate . . . .	3.0	16,044	16,044	16,044
Other borrowing – fixed rate . . . . .	10.8	2,060	2,060	2,060
		<u>45,739</u>	<u>45,739</u>	<u>45,739</u>
<b>At 31 December 2015</b>				
Trade payables . . . . .	–	46,281	46,281	46,281
Other payables and accrued charges	–	3,963	3,963	3,963
Dividend payables . . . . .	–	4,000	4,000	4,000
Amount due to a director . . . . .	–	600	600	600
Bank borrowings – variable rate . . . .	3.2	36,889	36,889	36,889
		<u>91,733</u>	<u>91,733</u>	<u>91,733</u>

	Weighted average effective interest rate	Repayable on demand or less than 3 months	Total undiscounted cash flows	Carrying amount
	%	US\$'000	US\$'000	US\$'000
<b>At 31 March 2016</b>				
Trade payables . . . . .	–	42,395	42,395	42,395
Other payables and accrued charges	–	4,309	4,309	4,309
Amount due to a director . . . . .	–	399	399	399
Bank borrowings – variable rate . . . . .	3.7	41,698	41,698	41,698
		<u>88,801</u>	<u>88,801</u>	<u>88,801</u>

Bank borrowings with a repayment on demand clause is included in the “repayable on demand or less than 3 months” time band in the above maturity analysis. As at 31 December 2013, 2014 and 2015 and 31 March 2016, the aggregate carrying amount of these bank borrowings amounted to approximately US\$7,490,000, US\$16,044,000, US\$36,889,000 and US\$41,698,000, respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the bank will exercise their discretionary right to demand immediate repayment. The directors of the Company believe that such bank borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the bank borrowing agreement.

For the purpose of managing liquidity risk, the directors of the Company reviews the expected cash flows information of the Group’s bank borrowings based on the scheduled repayment dates set out in the bank borrowing agreement as set out in the table below:

	Weighted average effective interest rate					Total undiscounted cash flows	Carrying amount
		Less than 3 months	3 months to 1 year	1 to 2 years	3 to 5 years		
	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Bank borrowings</b>							
As at 31 December							
2013 . . . . .	3.1	6,362	426	484	299	7,571	7,490
As at 31 December							
2014 . . . . .	3.0	15,122	342	210	517	16,191	16,044
As at 31 December							
2015 . . . . .	3.2	36,527	180	207	304	37,218	36,889
As at 31 March 2016 . . . . .	3.7	<u>41,452</u>	<u>180</u>	<u>207</u>	<u>249</u>	<u>42,088</u>	<u>41,698</u>

### 7c. Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values at the end of each reporting period.

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

*Fair value measurement of the Group's financial assets that are measured at fair value on a recurring basis*

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at				Fair value hierarchy	Valuation technique(s) and key input(s)
	31.12.2013	31.12.2014	31.12.2015	31.3.2016		
1) Listed available-for-sale investments (note 19) . . . . .	Listed debt securities in HK: US\$554,000	Listed debt securities in HK: US\$1,239,000	Listed debt securities in HK: US\$1,235,000	Listed debt securities in HK: US\$1,356,000	Level 1	Quoted price in active market
2) Unlisted available-for-sale investments (note 19) . . . . .	Unit trust funds US\$1,132,000	Unit trust funds US\$1,142,000	Unit trust funds US\$4,590,000	Unit trust funds US\$6,577,000	Level 2	Based on the net asset values of the funds, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses

There were no transfers between Level 1 and 2 during the Relevant Periods.

## 8. Revenue and Segment Information

The Group's revenue represents the fair value of the amounts received and receivable from the sales of integrated circuit and other electronic components in HK and the PRC net of discounts and returns, during the Relevant Periods.

For the purpose of resource allocation and assessment of segment performance, the executive directors of the Company, being the chief operating decision maker, focuses and reviews on the overall results (i.e. revenue and gross profit) and financial position of the Group as a whole which are prepared based on the same accounting policies set out in note 4. Accordingly, the Group has only one single operating segment and no further analysis of the single segment is presented.

### **Geographical information**

The Group principally operates in HK and the PRC.

The following table provides an analysis of the Group's sales by geographical market based on the jurisdictions where the relevant group entities were set up, which are also their place of operations during the Relevant Periods, irrespective of the origin of goods/services.

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

*Revenue from external customers based on location of operations of the relevant group entities*

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
HK .....	275,103	371,629	433,261	72,606	130,123
The PRC .....	7,449	26,887	52,110	7,988	15,186
	<u>282,552</u>	<u>398,516</u>	<u>485,371</u>	<u>80,594</u>	<u>145,309</u>

*Non-current assets*

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2016	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
HK .....	175	342	239	206	
The PRC .....	245	245	239	221	
	<u>420</u>	<u>587</u>	<u>478</u>	<u>427</u>	

*Information about major customers*

Revenue from customers in respect of sales of goods of the Relevant Periods contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Customer 1 .....	64,578	101,180	143,993	25,412	38,387
Customer 2 .....	57,380	75,181	82,104	14,208	18,533
	<u>121,958</u>	<u>176,361</u>	<u>226,097</u>	<u>39,620</u>	<u>56,920</u>

## 9. Other income

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Dividend and interest income from available-for-sale investments . . .	103	78	180	32	52
Bank interest income . . . . .	11	19	13	1	1
Technical support services income . . . . .	531	399	1,641	97	–
Interest income from life insurance policies . . . . .	49	79	109	27	27
Others . . . . .	49	109	58	57	42
	<u>743</u>	<u>684</u>	<u>2,001</u>	<u>214</u>	<u>122</u>

## 10. Other gains and losses

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Loss on disposal of property, plant and equipment . . . .	(17)	(22)	–	–	–
Forfeiture of deposits received from a customer . . . . .	–	197	–	–	–
Net foreign exchange (loss) gain . . . .	(53)	(211)	(724)	145	133
	<u>(70)</u>	<u>(36)</u>	<u>(724)</u>	<u>145</u>	<u>133</u>



## 11. Finance costs

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Interests on:					
Bank borrowings	365	890	1,750	283	671
Other borrowing from an independent third party (note 29) . . . . .	–	75	–	–	–
	<u>365</u>	<u>965</u>	<u>1,750</u>	<u>283</u>	<u>671</u>

## 12. Profit before tax

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Profit before tax has been arrived at after charging:					
Directors' emoluments (note 13) . . . . .	191	311	372	56	89
Salaries and other allowances . . .	2,841	3,310	4,016	1,010	1,047
Discretionary bonus . . . . .	1,515	1,665	2,831	729	720
Retirement benefit scheme contributions, excluding those of directors . . .	457	548	669	154	182
Total staff costs .	<u>5,004</u>	<u>5,834</u>	<u>7,888</u>	<u>1,949</u>	<u>2,038</u>

**APPENDIX I**
**ACCOUNTANTS' REPORT**

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Auditor's remuneration . .	13	15	38	–	–
Depreciation of property, plant and equipment	152	238	257	63	56
Cost of inventories recognised as an expense . . .	269,633	377,319	463,145	76,988	138,633
Allowance for doubtful debts (included in administrative expenses) . . . .	–	371	183	–	–
Minimum lease payments under operating leases in respect of office premises	611	628	805	183	212
(Reversal of allowance) allowance for inventories recognised (included in cost of sales) .	(83)	59	248	–	–

## 13. Directors', chief executive's and employees' emoluments

*Directors*

The executive directors of the Company were appointed on 22 October 2015 as to Mr. Tian, Mr. Wong and Mr. Liu and on 16 March 2016 as to Mr. Xie Yi. Details of the emoluments paid or payable to the directors and the chief executive of the Company (including emoluments for the services as employees/directors of the group entities prior to becoming the executive directors of the Company) by the group entities during the Relevant Periods are as follows:

	Fee	Salaries and other allowance	Discretionary bonus	Retirement benefit scheme contributions	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Year ended</b>					
<b>31 December 2013</b>					
Executive directors:					
Mr. Tian . . . . .	–	93	–	12	105
Mr. Wong . . . . .	–	49	–	2	51
Mr. Liu . . . . .	–	32	–	3	35
	–	174	–	17	191
<b>Year ended</b>					
<b>31 December 2014</b>					
Executive directors:					
Mr. Tian . . . . .	–	92	57	13	162
Mr. Wong . . . . .	–	44	26	2	72
Mr. Liu . . . . .	–	46	27	4	77
	–	182	110	19	311
<b>Year ended</b>					
<b>31 December 2015</b>					
Executive directors:					
Mr. Tian . . . . .	–	119	31	11	161
Mr. Wong . . . . .	–	78	25	2	105
Mr. Liu . . . . .	–	71	31	4	106
	–	268	87	17	372

	Fee	Salaries and other allowance	Discretionary bonus	Retirement benefit scheme contributions	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Three months ended 31 March 2015 (unaudited)</b>					
Executive directors:					
Mr. Tian . . . . .	–	26	–	3	29
Mr. Wong . . . . .	–	12	–	1	13
Mr. Liu . . . . .	–	13	–	1	14
	–	51	–	5	56

	Fee	Salaries and other allowance	Discretionary bonus	Retirement benefit scheme contributions	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Three months ended 31 March 2016</b>					
Executive directors:					
Mr. Tian . . . . .	–	34	–	2	36
Mr. Wong . . . . .	–	23	–	1	24
Mr. Liu . . . . .	–	20	–	1	21
Mr. Xie Yi . . . . .	–	7	–	1	8
	–	84	–	5	89

The executive directors' emoluments shown above were mainly for their services as directors and the chief executive in connection with the management of the affairs of the Group.

*Note:* The discretionary bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

Mr. Tian is the chief executive of the Company, and his emoluments disclosed above include those services rendered by him as chief executive.

**Employees**

The five highest paid individuals of the Group included one, three, three, three (unaudited) and three directors for the years ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2015 and 2016, respectively, details of their emoluments are set out above. The emoluments of the remaining four, two, two, two (unaudited) and two individuals for the years ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2015 and 2016, respectively, are as follows:

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Salaries and other allowances . . . .	112	58	106	15	31
Discretionary bonus . . . . .	150	106	57	11	6
Retirement benefit scheme contributions . .	7	3	3	1	1
	<u>269</u>	<u>167</u>	<u>166</u>	<u>27</u>	<u>38</u>

Their emoluments were fell within the following bands:

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	Number of employees	Number of employees	Number of employees	Number of employees (unaudited)	Number of employees
HK\$Nil to HK\$1,000,000 (equivalent to US\$Nil to US\$129,032) . .	<u>4</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to joint or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Relevant Periods.

## 14. Income tax expense

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
<b>Current tax:</b>					
Hong Kong					
Profits Tax . . . .	378	1,700	2,125	182	452
PRC Enterprise					
Income Tax					
("PRC EIT") . . .	–	7	15	–	–
	<u>378</u>	<u>1,707</u>	<u>2,140</u>	<u>182</u>	<u>452</u>

The Company was incorporated in the Cayman Islands and is exempted from income tax.

The applicable tax rate of the subsidiaries in HK is 16.5% for the Relevant Periods.

Under the Law of the PRC on Enterprise Income tax (the "EIT Law") and Implementation Regulation of The EIT Law, the tax rate of entities established in the PRC is 25% during the Relevant Periods. As SMC Technology SZ has been accredited as a "High and New Technology Enterprise" by the relevant authorities in Shenzhen, it is entitled to a reduced tax rate of 15% for PRC EIT during the Relevant Periods and up to 2016. Accordingly, the PRC EIT is calculated at 15% on the assessable profit of SMC Technology SZ for the Relevant Periods.

The tax charge for the Relevant Periods can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Profit before tax . . . . .	508	9,089	9,042	849	2,830
Tax charge at Hong Kong Profits Tax Rate of 16.5% . . . . .	84	1,500	1,492	140	467
Tax effect of expenses not deductible for tax purpose . . . . .	23	146	337	11	92
Tax effect of income not taxable for tax purpose	(11)	(10)	(53)	(34)	(122)
Tax effect of tax losses not recognised . . . . .	284	92	346	60	13
Utilisation of tax losses previously not recognised . . . . .	–	–	–	–	(3)
Effect of different tax rates of subsidiaries operating in other jurisdictions . . . . .	–	(1)	(2)	–	–
Others . . . . .	(2)	(20)	20	5	5
Tax charge for the year/period . . . . .	378	1,707	2,140	182	452

At 31 December 2013, 2014 and 2015 and 31 March 2016, the Group has unused tax losses of US\$1,724,000, US\$2,223,000, US\$4,244,000 and US\$4,306,000 available for offset against future profits, respectively. No deferred tax asset has been recognised due to the unpredictability of future profit streams in the respective entities. Included in unrecognised tax losses are losses of US\$1,724,000, US\$499,000, US\$640,000 and US\$717,000 that will expire in 2019, 2020, 2021 and 2022, respectively. Other losses may be carried forward indefinitely.

During the year ended 31 December 2015, the directors of the Company have identified certain errors in the statutory financial statements of a group entity incorporated in Hong Kong for the years ended 31 December 2012 and prior periods and for the year ended 31 December 2014, and consequently those statutory financial statements were restated and reissued. The Group then voluntarily submitted the revised tax computations of the relevant group entity to the IRD for the years of assessment 2012/2013 and 2014/2015 based on the revised assessable profits calculated based on the reissued statutory financial statements. The additional tax provision for the years ended 31 December 2012 and prior periods, and the year ended 31 December 2014 amounted to US\$770,000 and US\$834,000, respectively, was recognised in the consolidated financial statements.

In addition to making additional tax provision for the relevant year as discussed above, the directors of the Company have also considered reasonably possible penalty that may be imposed by the IRD on the Group as at each of the reporting date, if any, arising from omission or understatement of assessment profits for the years of assessment 2012/2013 and 2014/2015 by the relevant group entity. After seeking professional advise, the directors of the Company understand that the reasonably possible penalty, if any, is likely to be at the level of 30% of the amount of tax undercharged and HK\$10,000 (equivalent to US\$1,290) for each offense, that is, US\$231,000 and US\$250,000 for the years ended 31 December 2012 and 31 December 2014, respectively, and relevant provisions were made and included in administrative expenses in the profit or loss for the relevant years. The directors believe that adequate provision has been made against the potential penalty.

### 15. Dividends

No dividend has been declared or paid by the Company since its date of incorporation. However, during the Relevant Periods, SMC International HK made the following distributions to its then shareholders:

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Dividends declared and paid/payable to shareholders by SMC International HK . . . . .	–	–	4,000	–	–

The rate of dividends and the number of shares ranking for the above dividends are not presented as such information is not meaningful having regard to the purpose of this report.



**16. Earnings per share**

The calculation of the basic earnings per share attributable to the owners of the Company for the Relevant Periods is based on the following data:

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
<b>Earnings</b>					
Profit for the year/period attributable to owners of the Company for the purpose of basic earnings per share . . . . .	117	6,644	6,096	600	2,230
<b>Number of ordinary shares</b>					
Weighted average number of ordinary shares for the purpose of basic earnings per share . . . . .	306,818,182	323,546,077	337,500,000	337,500,000	352,747,253

The number of ordinary shares for the purpose of calculating basic earnings per share for the Relevant Periods has been adjusted for the effect of (i) the Group Reorganisation and the capitalisation issue arising from the listing of shares of the Company that are deemed to have become effective since 1 January 2013; and (ii) the capital contributions by shareholders during the Relevant Periods.

No diluted earnings per share for the Relevant Periods was presented as there were no potential ordinary shares in issue during the Relevant Periods.

**17. Investment in subsidiaries*****The Company***

	As at 31 December 2015	At 31 March 2016
	US\$'000	US\$'000
Unlisted equity investment, at cost . . . . .	–	20,514

## 18. Property, plant and equipment

	Leasehold improvements	Furniture and fixtures	Motor vehicles	Total
	US\$'000	US\$'000	US\$'000	US\$'000
<b>COST</b>				
As at 1 January 2013	40	400	371	811
Exchange alignment	–	8	9	17
Additions	17	91	162	270
Written off	(22)	–	–	(22)
As at 31 December 2013	35	499	542	1,076
Exchange alignment	–	(6)	(7)	(13)
Additions	28	156	249	433
Written off	(35)	–	–	(35)
As at 31 December 2014	28	649	784	1,461
Exchange alignment	–	(13)	(12)	(25)
Additions	56	106	–	162
As at 31 December 2015	84	742	772	1,598
Exchange alignment	–	2	1	3
Additions	–	4	–	4
As at 31 March 2016	84	748	773	1,605
<b>DEPRECIATION</b>				
As at 1 January 2013	10	227	263	500
Exchange alignment	–	4	5	9
Provided for the year	8	69	75	152
Written off	(5)	–	–	(5)
As at 31 December 2013	13	300	343	656
Exchange alignment	–	(3)	(4)	(7)
Provided for the year	8	75	155	238
Written off	(13)	–	–	(13)
As at 31 December 2014	8	372	494	874
Exchange alignment	–	(5)	(6)	(11)
Provided for the year	21	103	133	257
As at 31 December 2015	29	470	621	1,120
Exchange alignment	–	1	1	2
Provided for the period	5	22	29	56
As at 31 March 2016	34	493	651	1,178
<b>CARRYING VALUES</b>				
As at 31 December 2013	22	199	199	420
As at 31 December 2014	20	277	290	587
As at 31 December 2015	55	272	151	478
As at 31 March 2016	50	255	122	427

The property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their residual value, as follows:

Leasehold improvements	5 years or over the lease term, whichever is shorter
Furniture and fixtures	5 years
Motor vehicles	5 years

#### 19. Available-for-sale investments

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Listed investments:				
– Debt securities listed in HK	554	1,239	1,235	1,356
Unlisted investments:				
– Investment fund A ( <i>Note i</i> )	1,132	1,142	1,060	1,081
– Investment fund B ( <i>Note ii</i> )	–	–	3,530	5,496
	<u>1,686</u>	<u>2,381</u>	<u>5,825</u>	<u>7,933</u>

*Notes:*

- (i) The investment fund A represents unit trust investments which invest primarily in Asian bonds and other debt securities.
- (ii) The investment fund B represents unit trust investments which mainly invest Treasury Bonds and mortgage-backed securities in the United States.

At 31 December 2013, 2014 and 2015 and 31 March 2016, all the available-for-sale investments of the Group have been pledged as security for the bank borrowings of the Group (note 29).

#### 20. Inventories

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Electronic components held for resale	10,330	16,520	18,301	19,416
Less: Allowance for inventories	(669)	(190)	(438)	(438)
	<u>9,661</u>	<u>16,330</u>	<u>17,863</u>	<u>18,978</u>

The movements in the allowance of inventories are as follows:

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
At beginning of year/period . . . .	752	669	190	438
(Reversal of) allowance recognised in profit and loss . . .	(83)	59	248	–
Written off . . . . .	–	(538)	–	–
At end of year/period . . . . .	<u>669</u>	<u>190</u>	<u>438</u>	<u>438</u>

Cost of inventories recognised as an expense includes the above (reversal of) allowance recognised in profit or loss in respect of write-downs of inventories to net realisable value (recovery of inventories due to subsequent sale of the relevant inventory items).

## 21. Trade and bills receivables

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Trade receivables . . . . .	30,886	41,749	84,342	74,527
Less: Allowance for doubtful debts . . . . .	–	(346)	(120)	(120)
Net . . . . .	30,886	41,403	84,222	74,407
Bills receivables . . . . .	1,146	118	–	–
	<u>32,032</u>	<u>41,521</u>	<u>84,222</u>	<u>74,407</u>

The Group allows credit period of 0 to 90 days to its customers. The aged analysis of the Group's trade receivables, net of allowance, based on invoice date at the end of each reporting period are as follows:

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
0–30 days . . . . .	20,400	34,757	57,750	55,798
31–60 days . . . . .	9,583	4,050	17,727	10,741
61–90 days . . . . .	900	1,841	7,526	6,910
91–180 days . . . . .	593	785	953	770
Over 180 days . . . . .	556	88	266	188
	<u>32,032</u>	<u>41,521</u>	<u>84,222</u>	<u>74,407</u>

At 31 December 2013 and 2014, bills receivables represent bank drafts received from customers that are non-interest bearing and due within 90 days.

Included in the Group's trade receivables are debtors with a carrying amount of US\$15,367,000, US\$8,627,000, US\$20,293,000 and US\$2,958,000 at 31 December 2013, 2014 and 2015 and 31 March 2016, respectively, which are past due but not impaired as at the end of respective reporting periods. As there has not been a significant change in credit quality and a substantial amount of these debts were subsequently settled, the amounts are still considered recoverable.

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Overdue:				
1–30 days . . . . .	13,165	7,834	18,894	2,444
31–60 days . . . . .	798	793	1,077	308
Over 60 days . . . . .	1,404	–	322	206
	<u>15,367</u>	<u>8,627</u>	<u>20,293</u>	<u>2,958</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The majority of the Group's trade receivables that are past due but not impaired are from customers with good credit quality with reference to respective settlement history. The Group does not hold any collateral over these balances.

In determining the recoverability of trade and bill receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of each of the reporting period.

#### Movement in the allowance for doubtful debts

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
At beginning of year/period . . . .	–	–	346	120
Impairment losses recognised in profit or loss . . . . .	–	371	183	–
Amount written off as uncollectible . . . . .	–	(25)	(409)	–
At end of year/period . . . . .	<u>–</u>	<u>346</u>	<u>120</u>	<u>120</u>

Included in allowance for doubtful debts at 31 December 2014 and 2015 are individually impaired trade receivables amounting to US\$371,000 and US\$183,000, respectively. The management has reviewed the repayment history of these long overdue customers, considering their deteriorating credit quality and no amount expected to be settled subsequent to the end of the reporting period, and accordingly, full impairment was recognised.

Further, the management of the Group has determined that trade receivables amounting to US\$25,000 and US\$409,000, which had been fully impaired, were written off during the year ended 31 December 2014 and 2015, respectively due to the wound up of or settlement of disputes with customers.

## 22. Deposits, prepayments and other receivables

## The Group

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Deposits .....	720	374	388	431
Payments for life insurance policies ( <i>note</i> ) .....	1,226	2,743	2,810	2,827
Prepayments .....	87	248	86	568
Other receivables .....	584	268	710	998
Value-added tax recoverable ...	–	–	–	1,390
	<u>2,617</u>	<u>3,633</u>	<u>3,994</u>	<u>6,214</u>
Analysed as:				
Non-current .....	1,219	2,735	2,802	2,818
Current .....	1,398	898	1,192	3,396
	<u>2,617</u>	<u>3,633</u>	<u>3,994</u>	<u>6,214</u>

*Note:*

In January 2012, the Group entered into a life insurance policy with an insurance company to insure a director of the Company (the "First Policy"). Under this policy, the Group is the beneficiary and policy holder and the total insured sum is US\$5,000,000. The Group is required to pay a single premium of US\$1,168,000 at inception. The Group can, at any time, withdraw cash based on the account value of the policy ("Account Value") at the date of withdrawal, which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus any charges made in accordance with the terms and conditions of the policy. If withdrawal is made between the 1st to 15th policy year, there is a specified amount of surrender charge deducted from Account Value. This insurance company will pay the Group a guaranteed interest rate of 4.4% per annum for the first year and a variable return per annum afterwards (with minimum guaranteed interest rate of 3% per annum) during the effective period of the policy.

During the year ended 31 December 2014, the Group has entered into a life insurance policy with the same insurance company to insure the same director of the Company (the "Second Policy"). Under this policy, the Group is the beneficiary and policy holder and the total insured sum is US\$5,000,000. The Group is required to pay a single premium of US\$1,472,000 at inception. The Group can, at any time, withdraw cash based on the Account Value at the date of withdrawal, which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus any charges made in accordance with the terms and conditions of the policy. If withdrawal is made between the 1st to 18th policy year, there is a specified amount of surrender charge deducted from Account Value. This insurance company will pay the Group a guaranteed interest rate of 4.2% per annum for the first year and a variable return per annum afterwards (with minimum guaranteed interest rate of 2% per annum) during the effective period of the policy.

At the inception date of the policies, the upfront payment paid by the Group included a fixed policy premium charge and a deposit. Monthly policy expense and insurance charges will be incurred over the insurance period with reference to the terms set out in the life insurance policy. The policy premium, expense and insurance charges are recognised in profit or loss over the expected life of the policies and the deposit placed is carried at amortised cost using the effective interest method. As represented by the directors of the Company, the Group will not terminate the policies nor withdraw cash prior to 15th policy year for the First Policy and 18th policy year for the Second Policy and the expected life of the policies remained unchanged from the initial recognition.

## The Company

The deposits, prepayments and other receivables of the Company as at 31 December 2015 and March 2016 represent the prepayment and deferral for listing expenses.

**23. Transfer of financial assets**

The following were the Group's trade receivables that were factored to banks on a fully recourse basis. As the Group has not transferred the significant risk and rewards relating to these trade receivables, it continues to recognise the full carrying amount of these trade receivables and has recognised the cash received on the transfer as a secured borrowing (note 29). These financial assets are carried at amortised cost in the consolidated statement of financial position.

	Trade invoices discounted to banks with full recourse			
	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Carrying amount of transferred assets .....	2,098	7,982	23,002	27,785
Carrying amount of associated liabilities .....	(1,900)	(7,224)	(20,817)	(25,284)
Net position .....	198	758	2,185	2,501

**24. Amounts due from (to) directors**

Directors	Terms	Maximum amount outstanding during							
		At 31 December			At 31 March	31 December		31 March	
		2013	2014	2015	2016	2013	2014	2015	2016
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Amounts due from directors (non-trade balances)</b>									
Mr. Tian .....	Unsecured, interest-free and repayable on demand	–	833	371	–	–	833	833	371
Mr. Wong ...	Unsecured interest-free and repayable on demand	10	10	10	–	10	10	10	10
		10	843	381	–				
<b>Amounts due to directors (non-trade balances)</b>									
Mr. Tian .....	Unsecured, interest-free and repayable on demand	1,155	–	–	399				
Mr. Liu .....	Unsecured, interest-free and repayable on demand	600	600	600	–				
		1,755	600	600	399				

As represented by the directors of the Company, the amounts are expected to be settled before the listing of the Company's shares on the Stock Exchange.

## 25. Amounts due from (to) related companies

	At 31 December			At 31	Maximum amount outstanding during			
				March	31 December			31 March
	2013	2014	2015	2016	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Amounts due from related companies</b>								
深圳市志鼎科技								
有限公司								
– Trade balance								
<i>(notes i, iii(a))</i> . . . . .	205	88	619	543	N/A	N/A	N/A	N/A
– Non-trade balance								
<i>(notes i, iv)</i> . . . . .	–	49	–	56	–	49	49	56
Power-Core Limited								
– Trade balance								
<i>(notes i, iii(b))</i> . . . . .	397	–	–	–	N/A	N/A	N/A	N/A
– Non-trade balance								
<i>(notes i, iv)</i> . . . . .	34	33	396	–	34	34	396	396
Wisdom Fortune Corporation Limited . . . . .								
– Non-trade balance								
<i>(notes i, iv)</i> . . . . .	–	1	–	–	–	1	1	–
Smart-Core Samoa								
– Non-trade balance								
<i>(notes i, iv)</i> . . . . .	–	–	934	839	–	–	934	934
芯智股份有限公司								
– Trade balance								
<i>(notes ii, iii(a))</i> . . . . .	369	434	150	252	N/A	N/A	N/A	N/A
	<u>1,005</u>	<u>605</u>	<u>2,099</u>	<u>1,690</u>				
<b>Amounts due to related companies</b>								
Smart-Core Samoa								
– Non-trade balance								
<i>(notes i, iv)</i> . . . . .	458	653	–	–				
Wisdom Fortune Corporation Limited								
– Trade balance								
<i>(notes i, iii(c))</i> . . . . .	72	–	–	–				
	<u>530</u>	<u>653</u>	<u>–</u>	<u>–</u>				



*Notes:*

- (i) Mr. Tian, Mr. Wong and Mr. Liu are the shareholders of these related companies.
- (ii) Mr. Tian is the shareholder of the related company.
- (iii) The amount is of trade nature, unsecured, non-interest bearing and with a credit period of 0 to 60 days.
- (a) At 31 December 2013, 2014, 2015 and 31 March 2016, the balance is aged within 30 days, within 61 to 180 days, within 30 days and within 30 days, respectively.
- (b) At 31 December 2013, the balance is aged within 30 days.
- (c) At 31 December 2013, the balance is aged within 30 days.
- (iv) The amounts are of non-trade nature, unsecured, non-interest bearing and repayable on demand. The remaining amount will be settled before the listing of the Company's shares on the Stock Exchange.

**26. Pledged bank deposits/bank balances and cash*****The Group***

The pledged bank deposits of the Group are pledged to banks for securing bank borrowings (note 29). The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The pledged bank deposits/bank balances carry interest at market rates as follows:

	At 31 December			At 31 March
	2013	2014	2015	2016
Range of interest rate per annum:				
Pledged bank deposits . . . . .	0.001%–0.2%	0.001%–0.2%	0.001%–0.2%	0.001%–0.2%
Bank balances and cash . . . . .	0.0017%–0.01%	0.0017%–0.01%	0.0017%–0.01%	0.0017%–0.01%

The carrying amounts of the Group's pledged bank deposits and bank balances and cash denominated in currencies other than functional currencies of the relevant group entities at each of the reporting date are as follows:

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
HK\$ . . . . .	450	52	52	48
RMB . . . . .	829	195	310	430

***The Company***

The bank balances and cash of the Company as at 31 March 2016 represent the bank balances carry interest at market rates as 0.01%.

**27. Trade payables**

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables .....	26,070	24,881	46,281	42,395

The credit period on trade purchases is 0 to 60 days.

Ageing analysis of the Group's trade payables based on invoice date at the end of each reporting period is as follows:

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
0–30 days .....	21,677	23,933	45,580	36,516
31–60 days .....	3,286	234	328	4,841
61–90 days .....	657	255	15	566
Over 90 days .....	450	459	358	472
	26,070	24,881	46,281	42,395

**28. Other payables and accrued charges****The Group**

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Accrued expenses .....	1,514	3,796	5,573	4,001
Deposits received from customers .....	2,634	1,122	2,497	3,585
Other payables .....	1,260	1,573	3,194	3,019
	5,408	6,491	11,264	10,605

**The Company**

The other payables and accrued charges of the Company as at 31 December 2015 and March 2016 represents the accrued expenses for listing expenses.

## 29. Borrowings

The variable-rate bank and other borrowings are repayable as follows:

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Secured bank borrowings (note a) . . . . .	1,710	1,181	1,823	1,100
Secured import and export loans (note a) . . . . .	3,880	7,639	14,249	16,063
Collateralised bank borrowings on trade receivables factored with recourse (note a) . . . . .	1,900	7,224	20,817	24,535
	7,490	16,044	36,889	41,698
Other borrowing (note b) . . . . .	–	2,060	–	–
	7,490	18,104	36,889	41,698
Carrying amounts of repayable (according to scheduled repayable term):				
– within one year . . . . .	6,718	17,389	36,386	41,249
– in the second year . . . . .	478	206	204	204
– in the third to fifth years . . .	294	509	299	245
	7,490	18,104	36,889	41,698
Carrying amounts that contain a repayable on demand clause (shown under current liabilities) . . . . .	7,490	16,044	36,889	41,698

The banking facilities contain various covenants which include the maintenance of certain financial ratios and restrictions on the maximum amounts due from a director and related companies. The directors of the Company have reviewed the covenants compliance and represented that they were not aware of any breach during the Relevant Periods.

## Notes:

(a) As at 31 December 2013, the secured bank borrowings and secured import and export loans are secured by (i) personal guarantees from Mr. Tian, and Mr. Wong and supported by legal charge over their properties; (ii) a guarantee given by government of Hong Kong Special Administrative Region under the Special Loan Guarantee Scheme; (iii) available-for-sale investments of US\$1,686,000 (note 19); (iv) life insurance policies (note 22); (v) pledged bank deposits; and (vi) trade receivables.

As at 31 December 2014, the secured bank borrowings and secured import and export loans are secured by (i) personal guarantees from Mr. Tian, and Mr. Wong and supported by legal charge over their residential properties; (ii) available-for-sale investments of US\$2,381,000 (note 19); (iii) life insurance policies (note 22); (iv) pledged bank deposits; and (v) trade receivables.

As at 31 December 2015, the secured bank borrowings and secured import and export loans are secured by (i) personal guarantees from Mr. Tian and his spouse, and Mr. Wong and supported by legal charge over their properties; (ii) available-for-sale investments of US\$5,825,000 (note 19); (iii) life insurance policies (note 22); (iv) pledged bank deposits; and (v) trade receivables.

As at 31 March 2016, the secured bank borrowings and secured import and export loans are secured by (i) personal guarantees from Mr. Tian and his spouse, and Mr. Wong and supported by legal charge over their properties; (ii) available-for-sale investments of US\$7,933,000 (note 19); (iii) life insurance policies (note 22); (iv) pledged bank deposits; and (v) trade receivables.

- (b) During the year ended 31 December 2014, the Group had obtained a revolving borrowing facility from an independent third party which was unsecured and bore interest at a fixed rate of 0.9% for each 30-day loan period.

The effective interest rates (which are also equal to contracted interest rates) of the Group's borrowings are as follows:

	At 31 December			At 31 March
	2013	2014	2015	2016
Interest rates per annum:				
Bank borrowings –				
variable rates . . . . .	2.08%–8.30%	2.13%–5.25%	2.68%–5.25%	2.68%–5.25%
Other borrowing –				
fixed rates . . . . .	<u>N/A</u>	<u>10.8%</u>	<u>N/A</u>	<u>N/A</u>

The carrying amounts of the Group's borrowings denominated in currencies other than functional currencies of the relevant group entities at the reporting date are as follows:

	At 31 December			At 31 March
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
HK\$ . . . . .	<u>1,085</u>	<u>260</u>	<u>1,116</u>	<u>447</u>

### 30. Share/paid-in capital

#### The Group

At 1 January 2013 and 31 December 2013, the capital represents the share capital of SMC International HK of HK\$10,000,000 (equivalent to US\$1,282,000).

At 31 December 2014, the capital represents the aggregate share capital of SMC International HK and SMC Cloud HK of HK\$10,000,000 (equivalent to US\$1,282,000) and HK\$1,000,000 (equivalent to US\$128,000), respectively.

At 31 December 2015, the capital represents the aggregate share capital of SMC International HK, SMC Cloud HK and the Company of HK\$10,000,000 (equivalent to US\$1,282,000), HK\$1,000,000 (equivalent to US\$128,000) and US\$0.1, respectively.

At 31 March 2016, the share capital represents the issued share capital of the Company.

**The Company**

	<u>Number of shares</u>	<u>Amount</u>
		US\$'000
Ordinary shares of US\$0.00001 each		
Authorised:		
At 22 October 2015 (date of incorporation)		
and 31 December 2015 .....	5,000,000,000	50,000
Issued and fully paid:		
Issue of share at date of incorporation .....	1	–
Issue of new shares during the period .....	9,999	–
At 31 December 2015 .....	10,000	–
Issue of new shares .....	10,000	–
At 31 March 2016.....	20,000	–
		US\$'000
Show in the Financial Information as.....		–

The Company was incorporated in the Cayman Islands on 22 October 2015 with an authorised share capital of US\$50,000 divided into 5,000,000,000 ordinary shares with a par value of US\$0.00001 per share. On the date of incorporation, one share was allotted and issued to the subscriber, which was transferred to Smart IC Limited at par value on the same date. On 7 November 2015, the Company allotted and issued 5,999 new shares to Smart IC Limited, 3,000 new shares to Insight Limited and 1,000 new shares to Epart Limited.

On 24 February 2016, the Company allotted and issued additional 7,000 shares to Smart IC Limited and 3,000 shares to Insight Limited for a consideration of US\$14,359,834.30 and US\$6,154,214.70, respectively, which were fully paid in cash and a share premium of US\$20,514,000 is resulted accordingly.

**31. Operating Lease Commitments*****The Group as lessee***

At the end of each of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<u>At 31 December</u>			<u>At 31 March</u>
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Within one year .....	577	522	784	688
In the second to fifth year inclusive .....	185	266	227	103
	762	788	1,011	791

The leases are generally negotiated for a lease term of two years at fixed rentals.

**32. Retirement benefit plans****HK**

The Group operates a scheme under Mandatory Provident Fund Schemes ("MPF Scheme") for its qualifying employees in HK. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of a specified amount or 5% of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees. The total contribution to MPF Scheme and charged to profit or loss amounted to US\$13,000, US\$19,000, US\$25,000, US\$7,000 (unaudited) and US\$8,000 for the years ended 31 December 2013, 2014 and 2015 and for the three months ended 31 March 2015 and 2016, respectively.

**The PRC**

The employees of the Group's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are US\$461,000, US\$548,000, US\$661,000, US\$152,000 (unaudited) and US\$178,000 for the years ended 31 December 2013, 2014 and 2015 and for the three months ended 31 March 2015 and 2016, respectively.

**33. Related party disclosures****(I) Transactions**

The Group had the following transactions with related parties during the Relevant Periods:

Name of related parties	Nature of transaction	Year ended 31 December			For the three months ended 31 March	
		2013	2014	2015	2015	2016
		US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Wisdom Fortune Corporation Limited	Sales of goods	404	203	6	6	–
(note i)	Purchases of goods	476	600	2,268	–	–
深圳市志鼎科技有 限公司 (note i)	Sales of goods	175	27	66	24	9
	Technical support services income	–	–	1,202	–	–
	Technical support services fee	–	483	–	–	–
Power-Core Limited (note i)	Sales of goods	6,563	8,213	261	261	–
	Technical support services income	396	99	–	–	–
芯智股份有限公司 (note ii)	Sale of goods	3,391	792	203	37	135
	Purchases of goods	386	352	–	–	–

**Notes:**

- (i) Mr. Tian, Mr. Wong and Mr. Liu are shareholders of these related companies.  
(ii) Mr. Tian is shareholder of the related company.

**(II) Balances and other transactions**

Details of balances and other transactions with related parties are set out in notes 24 and 25. Personal guarantees provided by Mr. Tian and Mr. Wong in respect of borrowings of the Group are disclosed in note 29(a).

**(III) Compensation of key management personnel**

The remuneration of directors of the Company and other members of key management was as follows:

	Year ended 31 December			For the three months ended 31 March	
	2013	2014	2015	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)	US\$'000
Short term benefits . . . . .	436	456	518	77	121
Post-employment benefits . . . . .	24	22	20	6	6
	<u>460</u>	<u>478</u>	<u>538</u>	<u>83</u>	<u>127</u>

The remuneration of key management personnel is determined by the management of the Company having regard to the performance of individuals and market trends.

**34. Non-controlling interests**

During the three years ended 31 December 2013, 2014 and 2015, the amount represents the 10% equity interest held by the non-controlling shareholder of SMC International HK and SMC Cloud HK. On 24 February 2016, as part of the Group Reorganisation as disclosed in Note 2, the Company entered into an equity transfer agreement to acquire all shares of SMC International HK and SMC Cloud HK from Smart-Core Samoa for a total cash consideration of US\$20,514,049 and US\$1, respectively. Upon the completion of the equity transfer agreement on the same date, the Company is deemed to acquire the non-controlling interests and therefore, the Company owned the entire equity interest in SMC International HK and SMC Cloud HK.

**35. Amounts due to subsidiaries*****The Company***

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

**36. Reserves of the Company**

	<u>Share premium</u>	<u>Accumulated losses</u>	<u>Total</u>
	US\$'000	US\$'000	US\$'000
At 22 October 2015 (date of incorporation) . . . . .	–	–	–
Loss and total comprehensive expenses for the period . . . . .	–	(1,157)	(1,157)
At 31 December 2015 . . . . .	–	(1,157)	(1,157)
Loss and total comprehensive expenses for the period . . . . .	–	(520)	(520)
Issue of shares. . . . .	20,514	–	20,514
At 31 March 2016. . . . .	<u>20,514</u>	<u>(1,677)</u>	<u>18,837</u>



**B. SUBSEQUENT EVENTS**

Pursuant to the written resolutions of all shareholders of the Company dated 1 April 2016, a final dividend of US\$3,000,000 was declared to its shareholders whose names appeared on its register members as at the close of business of 31 March 2016.

Pursuant to the written resolutions of all shareholders of the Company passed on 19 September 2016, the Company has adopted a share award scheme (the "Share Award Scheme") and conditionally adopted a share option scheme (the "Share Option Scheme"). The principal terms of the Share Award Scheme and the Share Option Scheme are set out in section headed "Statutory and General Information — D. Employee Incentive Schemes" in Appendix IV to the Prospectus.

Pursuant to the written resolutions of all shareholders of the Company passed on 19 September 2016, conditional upon the crediting of the Company's share premium account as a result of the issue of the offer shares pursuant to the global offering, the directors of the Company were authorised to capitalise an amount of US\$3,749.80 standing to the credit of the share premium account of the Company by applying such sum towards the paying up in full at par a total of 374,980,000 shares for allotment and issue to the shareholders as of 30 June 2016, on a pro rata basis. The shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing shares of the Company.

**C. DIRECTORS' REMUNERATION**

Under the arrangements presently in force, the aggregate remuneration excluding discretionary bonus, if any, of the Company's directors for the year ending 31 December 2016 is approximately US\$395,000.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group, the Company or its subsidiaries in respect of any period subsequent to 31 March 2016.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

The information set out in this Appendix does not form part of the accountants' report on the financial information of the Group for the three years ended 31 December 2015 and the three months ended 31 March 2016 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, our Company's Reporting Accountants, as set out in Appendix I to this prospectus (the "Accountants' Report"), and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group as if the Global Offering had taken place on 31 March 2016.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group had the Global Offering been completed on 31 March 2016 or any future date.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2016 as shown in the accountants' report on the financial information for each of the three years ended 31 December 2015 and the three months ended 31 March 2016 of the Group (the "Accountants' Report"), the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share	
	US\$'000 <i>Note 1</i>	US\$'000 <i>Note 2</i>	US\$'000	US\$ <i>Note 3</i>	HK\$ <i>Note 4</i>
Based on a minimum offer price of HK\$1.77 per Share . . . . .	25,606	25,611	51,217	0.10	0.79
Based on a maximum offer price of HK\$2.39 per Share . . . . .	25,606	35,331	60,937	0.12	0.94

**Notes:**

- (1) The amount is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 March 2016 of US\$25,606,000 as extracted from the Accountants' Report of the Group set out in Appendix I to this prospectus.

- (2) The estimated net proceeds from the Global Offering are based on 125,000,000 Shares to be issued at a minimum offer price of HK\$1.77 or a maximum offer price of HK\$2.39 per Share, respectively, after deduction of the estimated underwriting fees and other related expenses expected to be incurred by the Group subsequent to 31 March 2016 and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option or share award scheme or share option scheme, or any Shares which may be issued or repurchased pursuant to the Company's general mandate. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into US\$ at an exchange rate of US\$1.00 to HK\$7.75. No representation is made that the US\$ amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is arrived at on the basis of 500,000,000 Shares in total, assuming that 125,000,000 Shares were issued pursuant to the Global Offering, Corporate Reorganisation and Capitalisation Issue had been completed on 31 March 2016. It is without taking into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option or share award scheme or share option scheme, or any Shares which may be issued or repurchased pursuant to the Company's general mandate.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from US\$ into Hong Kong dollars at the rate of US\$1.00 to HK\$7.75. No representation is made that the US\$ amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that date or at any other rates or at all.
- (5) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company does not take into account of the final dividend of US\$3,000,000 declared on 1 April 2016. Had both the final dividend of US\$3,000,000 declared on 1 April 2016 and the estimated proceeds from the Global Offering been taken into account of, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2016 would have been further adjusted to US\$48,217,000 and US\$57,937,000 at the offer price of HK\$1.77 and HK\$2.39 per Share, respectively. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 March 2016 would have been HK\$0.75 and HK\$0.90, respectively.
- (6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 March 2016.

**B. ASSURANCE REPORT FROM THE INDEPENDENT REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information.*

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Smart-Core Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Smart-Core Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 March 2016 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 27 September 2016 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering on the Group's financial position as at 31 March 2016 as if the Global Offering had taken place at 31 March 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 December 2015 and the three months ended 31 March 2016, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The 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 (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountant’s Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“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 plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 27 September 2016

**SUMMARY OF THE CONSTITUTION OF THE COMPANY****1 Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted on 19 September 2016 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 Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “B. Documents Available for Inspection”.

**2 Articles of Association**

The Articles of Association of the Company were conditionally adopted on 19 September 2016 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\$50,000 divided into 5,000,000,000 shares of US\$0.00001 each.

**2.2 Directors***(a) Power to allot and issue Shares*

Subject to the provisions of the 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 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 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 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 (or, if required by the Listing Rules, his other 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 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 authorised 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 may, from time to time, whether or not all the shares for the time being authorised 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 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 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 authorised and subject to any conditions prescribed by the 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 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 authorised 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 authorised 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 authorised 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 authorised 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 recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its 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 authorised, the authorisation shall

specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised 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 authorisation, 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 hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

### **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 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 Companies Law or any other relevant law or regulation or as authorised 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 every 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 shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive 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 and the general nature of the business to be considered at the meeting. 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.

#### ***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 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 favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the 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 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the 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 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 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 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 monies 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 monies 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 monies 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 favour 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 authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised 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 monies 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 authorising 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 monies 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 monies 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 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the 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 a fee of such amount not exceeding the maximum 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 authorised 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. 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 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 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 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 Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the 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 22 October 2015 under the 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 authorised share capital.

**3 Share Capital**

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the 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 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 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 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 authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised 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 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 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 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 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 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 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 Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds 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, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. 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 authorised by the articles of association of the company.

**12 Subsidiary Owning Shares in Parent**

The 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 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 authorised by (a) a special resolution of each constituent company and (b) such other authorisation, 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 of the Cayman Islands 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 (2011 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:
  - (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 (2011 Revision).

The undertaking is for a period of twenty years from 8 December 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are 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 summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix V. 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 Companies Law as an exempted company with limited liability on 22 October 2015. We have established a principal place of business in Hong Kong at 30/F., Enterprise Square Two, 3 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 24 March 2016 under the same address. We have appointed Mr. Wong of 30/F., Enterprise Square Two, 3 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong as the authorised representative of our Company for the acceptance of service of process and notices on our behalf in Hong Kong. We changed our name from “Smart-Core Cloud Group Limited (芯智雲集團有限公司)” to “Smart-Core Holdings Limited (芯智控股有限公司)” with effect from 8 August 2016.

As we were incorporated in the Cayman Islands, our operations are subject to the Companies Law and to the Memorandum and the Articles. A summary of certain provisions of the Memorandum and the Articles and the relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

**2. Changes in Our Share Capital**

As at the date of our incorporation, our authorised share capital is US\$50,000 divided into 5,000,000,000 Shares. Upon its incorporation, our Company issued one Share to the initial subscriber who transferred the Share to Smart IC. For further information about the changes to our share capital, please refer to the section headed “History, Reorganisation and Group Structure” in this prospectus.

Immediately following the completion of the Capitalisation Issue and the Global Offering (but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the Share Option Scheme and any Shares to be issued upon the grant of the Awards under the Share Award Scheme), the issued share capital of our Company will be US\$5,000, divided into 500,000,000 Shares, all fully paid or credited as fully paid and 4,500,000,000 Shares will remain unissued.

Save as disclosed above and in the subsection headed “— 3. Resolutions in Writing of our Shareholders” below, there has been no alteration in the share capital of our Company since our incorporation.

**3. Resolutions in Writing of our Shareholders**

On 19 September 2016, written resolutions of the Shareholders were passed pursuant to which, among others:

- (a) our Company approved and adopted the Memorandum and Articles of Association which will become effective upon Listing;
- (b) the Share Award Scheme, the principal terms of which are set out in the subsection headed “— D. Employee Incentive Schemes” below in this Appendix to this prospectus, was approved and adopted and our Directors were authorised to grant

Awards under the Share Award Scheme and to allot and issue, procure the transfer of and otherwise deal with the Shares underlying the Awards granted pursuant to the Share Award Scheme as and when the Awards vest, in accordance with the terms of the Share Award Scheme;

- (c) conditional on (A) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the Capitalisation Issue, the Global Offering, the exercise of the Over-allotment Option and the options granted under the Share Option Scheme and the grant of the Awards under the Share Award Scheme); (B) the Offer Price having been determined; (C) the obligations of the Underwriters under the Underwriting Agreement(s) becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators, for themselves and on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, in each case on or before the date specified in the Underwriting Agreements:
- (i) the Global Offering was approved and our Directors were authorised to effect the same and to allot and issue the Offer Shares pursuant to the Global Offering;
  - (ii) the grant of the Over-allotment Option was approved and our Directors were authorised to allot and issue any Shares which may be required to be issued if the Over-allotment Option is exercised;
  - (iii) the Share Option Scheme, the principal terms of which are set out in this Appendix to this prospectus, was approved and adopted and our Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of the options granted under the Share Option Scheme; and
  - (iv) conditional upon the share premium amount of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise the amount of US\$3,749.80 from the amount standing to the credit of the share premium account of our Company to pay up in full at par 374,980,000 Shares for allotment and issue to the person(s) whose name(s) appears on the register of members of our Company, on a pro rata basis at the close of business on 30 June 2016 (or as they may direct) and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or might require Shares to be allotted, issued or dealt with (otherwise than pursuant to, or in consequence of, the Capitalisation Issue or the Global Offering, a rights issue or pursuant to the exercise of any subscription rights which may be granted under any share incentive scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special

authority granted by our shareholders or an issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association), not exceeding the sum of 20% of the number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options granted under the Share Option Scheme or the grant of the Awards under the Share Award Scheme, until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of the Cayman Islands to be held; or
  - (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;
- (e) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares not exceeding 10% of the number of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options granted under the Share Option Scheme or the grant of the Awards under the Share Award Scheme until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or applicable laws of the Cayman Islands to be held; or
  - (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate; and
- (f) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares, which may be purchased or repurchased pursuant to the Repurchase Mandate.

#### 4. Corporate Reorganisation

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group. For further details, please refer to the section headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus.

## 5. Changes in the Share Capital or Registered Capital of Our Subsidiaries

### (1) *SMC International HK*

On 22 February 2016, our Company and SMC Samoa entered into sale and purchase agreement, pursuant to which SMC Samoa transferred the entire issued share capital of SMC International HK to our Company, which was completed on 24 February 2016.

### (2) *SMC Cloud HK*

On 18 February 2016, our Company and SMC Group entered into sale and purchase agreement, pursuant to which SMC Samoa transferred the entire issued share capital of SMC Cloud HK to our Company, which was completed on 24 February 2016.

### (3) *SMC Cloud SZ*

On 4 December 2015, SMC Cloud SZ was established in the PRC as a wholly-foreign-owned enterprise (WFOE) with a registered capital of RMB1,000,000. SMC Cloud SZ was held as to 100% by SMC Cloud HK.

Save as disclosed above, there has been no alteration in the share capital or the registered capital (as the case may be) of any of our subsidiaries within the two years preceding the date of this prospectus.

## 6. Particulars of Our Subsidiaries

Particulars of our subsidiaries are set forth in the Accountants' Report, the text of which is set forth in Appendix I to this prospectus.

## 7. Repurchases of our Shares

### (a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

#### (i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its Shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions of our Shareholders passed on 19 September 2016, a Repurchase Mandate was granted to our Directors. Details of the Repurchase Mandate is set out above in the subsection headed "— 3. Resolutions in Writing of our Shareholders" to this Appendix.



(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange in effect from time to time. Subject to the foregoing, such repurchases by our Company may only be made out of our Company's funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of Shares made for the purpose of the repurchase.

**(b) *Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have general authority from its Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

**(c) *Funding of repurchases***

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise in accordance with the trading rules of the Stock Exchange from time to time.

Under the Cayman Companies Law, any repurchase of Shares will be made out of the profits of our Company, the share premium account of our Company or the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Articles and the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of either or both of the profits of our Company or the share premium account of our Company or, subject to the Articles and the Cayman Companies Law, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

**(d) *Share capital***

Exercise in full of the Repurchase Mandate, on the basis of 500,000,000 Shares in issue immediately after the completion of the Capitalisation Issue and the Global Offering (but not taking into account our Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option

Scheme and grant of awards under the Share Award Scheme), could accordingly result in up to 50,000,000 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles to be held; or
- (iii) the date on which the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first.

**(e) General**

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No core connected person (as defined in the Listing Rules) has notified us that he/she/it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of a securities repurchase pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as aforesaid, our Directors are not aware of any other consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

If the Repurchase Mandate is fully exercised immediately following the completion of the Capitalisation Issue and the Global Offering (but not taking into account our Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme and grant of awards under the Share Award Scheme), the total number of Shares which will be repurchased pursuant to the Repurchase Mandate shall be 50,000,000 Shares, being 10% of the issued share capital of our Company based on the aforesaid assumptions. The percentage of shareholding of our Controlling Shareholders will be increased to approximately 58.33% of the issued share capital of our Company immediately following the full exercise of the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Repurchase

Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

## B. FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of Material Contracts

The following contracts (not being contracts in the ordinary course of business of our Group) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a share sale and purchase agreement dated 29 January 2016 entered into between Mr. Tian (as the transferor) and our Company (as the transferee), in relation to the transfer of 900,000 shares held by Mr. Tian in SMC Taiwan for a consideration of TWD7,020,000 (“**Equity Transfer Agreement**”);
- (b) an agreement for sale and purchase of the entire issued share capital of SMC Cloud HK dated 18 February 2016 entered into between SMC Group (as the transferor) and our Company (as the transferee), in relation to the transfer of the entire issued share capital of SMC Cloud HK for a consideration of US\$1;
- (c) an agreement for sale and purchase of the entire issued share capital of SMC International HK dated 22 February 2016 entered into between SMC Samoa (as the transferor) and our Company (as the transferee), in relation to the transfer of the entire issued share capital of SMC International HK for a consideration of US\$20,514,049;
- (d) an agreement dated 31 March 2016 entered into between Mr. Tian and our Company to terminate the Equity Transfer Agreement;
- (e) the Deed of Non-competition;
- (f) the deed of indemnity dated 19 September 2016 executed by our Controlling Shareholders in favor of our Company (for itself and as trustee for each of its subsidiaries) in respect of, among other matters, taxation and property matters referred to in the paragraph headed “— E. Other Information — 1. Tax, Estate Duty and Other Indemnities” in this Appendix;
- (g) a cornerstone investment agreement dated 23 September 2016 entered into among our Company, Golden Supreme International Limited and the Joint Global Coordinators, on the terms more particularly set out in the section headed “Cornerstone Investors” in this prospectus;
- (h) a cornerstone investment agreement dated 23 September 2016 entered into among our Company, Hanhua Hongkong Holdings Limited and the Joint Global Coordinators, on the terms more particularly set out in the section headed “Cornerstone Investors” in this prospectus;
- (i) a cornerstone investment agreement dated 23 September 2016 entered into among our Company, Hong Kong Huicong International Group Limited and the Joint Global

Coordinators, on the terms more particularly set out in the section headed “Cornerstone Investors” in this prospectus; and

- (j) the Hong Kong Underwriting Agreement.


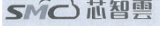
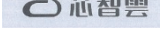



## 2. Intellectual Property Rights of our Group








As at the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

### (a) Trademarks






As at the Latest Practicable Date, our Group had made application to register the following trademarks:




Trademark	Application Number	Applicant	Place of Registration	Class	Application Date	Status
	303747457	SMC Cloud HK	Hong Kong	9, 16, 42	18 April 2016	Application published
	303761965	SMC International HK	Hong Kong	9, 16, 42	29 April 2016	Application published
Smart-core planet	303794545	SMC International HK	Hong Kong	16, 42	2 June 2016	Application published
	17523217	SMC Technology SZ	PRC	9	27 July 2015	Application accepted
	17523531	SMC Technology SZ	PRC	9	27 July 2015	Application accepted
	17523592	SMC Technology SZ	PRC	9	27 July 2015	Application accepted
	17523528	SMC Technology SZ	PRC	16	27 July 2015	Application accepted
	17523650	SMC Technology SZ	PRC	16	27 July 2015	Application accepted
	17523444	SMC Technology SZ	PRC	16	27 July 2015	Application accepted
	17523974	SMC Technology SZ	PRC	35	27 July 2015	Application accepted

Trademark	Application Number	Applicant	Place of Registration	Class	Application Date	Status
	17524282	SMC Technology SZ	PRC	36	27 July 2015	Application accepted
	17523809	SMC Technology SZ	PRC	36	27 July 2015	Application accepted
	17524211	SMC Technology SZ	PRC	36	27 July 2015	Application accepted
	17524578	SMC Technology SZ	PRC	38	27 July 2015	Application accepted
	17524510	SMC Technology SZ	PRC	41	27 July 2015	Application accepted
	17524750	SMC Technology SZ	PRC	41	27 July 2015	Application accepted
	17524490	SMC Technology SZ	PRC	41	27 July 2015	Application accepted
	17524784	SMC Technology SZ	PRC	42	27 July 2015	Application accepted
	17524772	SMC Technology SZ	PRC	42	27 July 2015	Application accepted
	17524728	SMC Technology SZ	PRC	42	27 July 2015	Application accepted
	17871627	SMC Technology SZ	PRC	16	10 September 2015	Application accepted
	17871735	SMC Technology SZ	PRC	38	10 September 2015	Application accepted
	19416119	SMC Technology SZ	PRC	16	24 March 2016	Application accepted

Trademark	Application Number	Applicant	Place of Registration	Class	Application Date	Status
<i>Smart-core planet</i>	19416127	SMC Technology SZ	PRC	35	24 March 2016	Application accepted
<i>Smart-core planet</i>	19416280	SMC Technology SZ	PRC	36	24 March 2016	Application accepted
<i>Smart-core planet</i>	19415923	SMC Technology SZ	PRC	38	24 March 2016	Application accepted
<i>Smart-core planet</i>	19415983	SMC Technology SZ	PRC	41	24 March 2016	Application accepted
	19415991	SMC Technology SZ	PRC	9	24 March 2016	Application accepted
	19416125	SMC Technology SZ	PRC	16	24 March 2016	Application accepted
	19416161	SMC Technology SZ	PRC	35	24 March 2016	Application accepted
	19416267	SMC Technology SZ	PRC	36	24 March 2016	Application accepted
	19415829	SMC Technology SZ	PRC	38	24 March 2016	Application accepted
	19415984	SMC Technology SZ	PRC	41	24 March 2016	Application accepted
	19416078	SMC Technology SZ	PRC	42	24 March 2016	Application accepted

As at the Latest Practicable Date, our Group had registered the following trademarks:

Trademark	Application Number	Applicant	Place of Registration	Class	Registration Date	Expiry Date
	301185813	SMC International HK	Hong Kong	39	20 August 2008	19 August 2018
	301185831	SMC International HK	Hong Kong	35, 42	20 August 2008	19 August 2018
	303490542	SMC Cloud HK	Hong Kong	9, 16, 42	31 July 2015	30 July 2025
	303487672	SMC Cloud HK	Hong Kong	9, 16, 42	29 July 2015	28 July 2025
	303663216	SMC Cloud HK	Hong Kong	16, 38	19 January 2016	18 January 2026

Trademark	Application Number	Applicant	Place of Registration	Class	Registration Date	Expiry Date
	6029746	SMC Technology SZ	PRC	9	7 February 2010	6 February 2020
	6029747	SMC Technology SZ	PRC	35	7 April 2010	6 April 2020
	6029745	SMC Technology SZ	PRC	42	28 September 2010	27 September 2020

**(b) Domain Names**

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names:

Registrant	Domain Name	Date of Registration	Expiry Date
SMC Technology SZ	smart-core.net	1 March 2006	1 March 2019
SMC Technology SZ	smc-ic.com	26 May 2015	26 May 2018
SMC Technology SZ	smc-shop.com	24 September 2015	24 September 2019
SMC Technology SZ	smg-shop.com	24 September 2015	24 September 2019
SMC Technology SZ	ic365buy.com	18 June 2015	18 June 2019
SMC Technology SZ	smc-group.com.cn	24 February 2014	24 February 2019
SMC Technology SZ	superic.com.cn	24 July 2015	24 July 2020
SMC Technology SZ	smart-core.com.cn	27 January 2005	27 January 2021
SMC Technology SZ	smart-coreplanet.com	15 March 2016	15 March 2019
SMC Technology SZ	ic365.me	17 July 2014	17 July 2019
SMC Technology SZ	smcfor.me	17 July 2014	17 July 2019
SMC Technology SZ	superic.com	22 June 2003	22 June 2022
SMC Cloud HK	superic.hk	24 July 2015	24 July 2019
SMC International HK	smc-group.com.hk	11 March 2014	11 March 2019
SMC International HK	superic.cn	22 July 2015	22 July 2020
SMC International HK	superic.com.hk	27 July 2015	27 July 2019
SMC International HK	smart-core.com.hk	29 May 2006	15 June 2020

*Note:* The contents contained in the website above do not form part of this prospectus.

**(c) Patent**

As at the Latest Practicable Date, our Group had made application to register the following patents:

<u>Title</u>	<u>Application Number</u>	<u>Type of Patents</u>	<u>Applicant</u>	<u>Place of Registration</u>	<u>Status</u>
A method for gapless playback of multiple video programs sources on advertising machine (一種在廣告機上實現多個視頻節目源無縫播放的方法)	201510820996.5	Patent for invention	SMC Technology SZ	PRC	Application being examined
A method for burning HDCPKEY rapidly (快速燒入HDCPKEY的方法)	201510456245.X	Patent for Invention	SMC Technology SZ	PRC	Application being examined
A smart DVBS2 set top box system based on a proprietary middleware and its processing method (一種自主中間件智能DVBS2機頂盒系統及處理方法)	201510454536.5	Patent for Invention	SMC Technology SZ	PRC	Application being examined
An Android-based video monitoring system and method (一種基於安卓電視的視頻監控系統及方法)	201510509073.8	Patent for Invention	SMC Technology SZ	PRC	Application being examined
A chip which supports multi-window display simultaneously and the corresponding display method (一種同時支持多窗口圖像顯示的芯片及顯示方法)	201410428175.2	Patent for Invention	SMC Technology SZ	PRC	Application being examined



Title	Application Number	Type of Patents	Applicant	Place of Registration	Status
A level switching circuit used for communication between computers and set top boxes and the corresponding method (用於計算機與機頂盒通訊的電平轉換電路及方法)	201510454537.X	Patent for Invention	SMC Technology SZ	PRC	Application being examined
A method for rotating a preset angle of a video screen (一種可實現視頻畫面旋轉預設角度的方法)	201610128148.2	Patent for Invention	SMC Technology SZ	PRC	Application being examined

As at the Latest Practicable Date, our Group had registered the following patents:

Title	Patent Number	Type of Patents	Applicant	Place of Registration	Registration Date
A touch screen –based multi-system control device (一種基於觸摸屏的多系統控制裝置)	ZL201520626931.2	Utility model	SMC Technology SZ	PRC	20 January 2016
A level switching circuit used for communication between computer and set top box (用於計算機與機頂盒通訊的電平轉換電路)	ZL201520559101.2	Utility model	SMC Technology SZ	PRC	18 November 2015
A calamity emergency warning system (一種災害應急預警系統)	ZL201420527158.X	Utility model	SMC Technology SZ	PRC	4 February 2015
A kind of chip with function of 3D projection display (一種具有3D投影顯示的芯片)	ZL201420519852.7	Utility model	SMC Technology SZ	PRC	11 March 2015
A communication interface circuit of IC card (IC卡通信接口電路)	ZL201420304929.9	Utility model	SMC Technology SZ	PRC	17 December 2014

Title	Patent Number	Type of Patents	Applicant	Place of Registration	Registration Date
An analytical circuit of T2 and S2 set-top box (機頂盒T2、S2解析電路)	ZL201420284090.7	Utility model	SMC Technology SZ	PRC	3 December 2014
An analytical circuit of PSI set-top box (機頂盒PSI解析電路)	ZL201420283152.2	Utility model	SMC Technology SZ	PRC	11 March 2015
A vehicle-mounted diversity reception system for digital TV signal (數字電視信號的車載分集接收系統)	ZL201320057609.3	Utility model	SMC Technology SZ	PRC	10 July 2013
A capacitive touch screen (電容式觸摸屏)	ZL201320031591.X	Utility model	SMC Technology SZ	PRC	10 July 2013
A signal handling circuit and appliance with integrated sequences control (集成時序控制的信號處理電路及裝置)	ZL201220676700.9	Utility model	SMC Technology SZ	PRC	14 August 2013

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Interests and short positions of our Directors and 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 Capitalisation Issue and Global Offering (assuming the Over-allotment Option and the options granted under the Share Option Scheme are not exercised and without taking into account any Shares to be issued pursuant to the grant of the Awards under the Share Award Scheme), the interests or short positions of our Directors or chief executives in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including 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 set out in Appendix 10 to the Listing Rules, once the Shares are listed will be as follows:

**(a) Interest in Shares or underlying Shares of our Company**

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares held<sup>(1)</sup></u>	<u>Approximate shareholding percentage</u>
Mr. Tian <sup>(2)</sup> . . . . .	Interest in a controlled corporation	262,500,000 (L)	52.5%
Mr. Wong <sup>(3)</sup> . . . . .	Interest in a controlled corporation	112,500,000 (L)	22.5%

*Notes:*

- (1) The letter "L" denotes a person's "long position" in such Shares.  
(2) Smart IC is wholly owned by Mr. Tian. Therefore, Mr. Tian is deemed to be interested in all the Shares held by Smart IC.  
(3) Insight is wholly owned by Mr. Wong. Therefore, Mr. Wong is deemed to be interested in all the Shares held by Insight.

**2. Interests and short positions of the Substantial Shareholders in the shares, underlying shares and debentures of our Company and its associated corporations**

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 and the Stock Exchange 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 or any other member of our Group.

**3. Directors' Service Contracts, Letters of Appointment and Remuneration**

**(a) Directors' Service Contracts and Letters of Appointment**

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

**(b) Directors' remuneration**

For the year ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2016, the aggregate amount paid to our Directors as remuneration (including

fees, salaries, contribution to retirement benefit scheme and discretionary performance related bonus) were US\$191,000, US\$311,000, US\$372,000 and US\$89,000, respectively.

For the year ending 31 December 2016, the estimated total remuneration payable to our Directors amounts to US\$395,000 (including benefits in kind but excluding any discretionary bonus).

None of our Directors or any past directors of any member of our Group has been paid any sum of money during the Track Record Period (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director or any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which any of our Director has waived or agreed to waive any emoluments for each of the three financial years ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2016.

#### 4. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the persons listed in the section headed “— E. Other Information — 6. Qualifications of Experts” below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors nor any of the persons listed in the section headed “— E. Other Information — 6. Qualifications of Experts” below is materially interested in any contract or arrangement with our Group subsisting at the date of this prospectus which is significant in relation to the business of our Group as a whole;

- (e) and save in connection with the Underwriting Agreements, none of the parties listed in the section headed “— E. Other Information — 6. Qualifications of Experts” below (i) is interested legally or beneficially in any of the 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) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company’s five largest customers and five largest suppliers.

## D. EMPLOYEE INCENTIVE SCHEMES

### 1. Share Award Scheme

The following is a summary of the principal terms of the Share Award Scheme approved and adopted by our Company on 19 September 2016 (“**Adoption Date**”). The terms of the Share Award Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Share Award Scheme does not involve the grant of options by our Company to subscribe for new Shares.

#### (a) *Purpose of the Share Award Scheme*

The purpose of the Share Award Scheme is to reward our directors, senior managers and employees of our Group (“**Eligible Persons**”) for their hard work, contribution and loyalty and align their interests with those of the Shareholders.

The Board will grant awards under the Share Award Scheme (“**Awards**”) after the Listing Date.

#### (b) *Duration of the Share Award Scheme*

Subject to any early termination as may be determined by the Board pursuant to the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the date of adoption, after which period no further Awards will be granted but the provisions of the Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any Awards granted prior to the expiration of the Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Award Scheme.

#### (c) *Awards*

An Award granted by the Board to the Grantee (as defined below) is a right of the relevant Grantee to receive either the Shares underlying the Award (“**Award Shares**”) or the payment of the Actual Selling Price (as defined below) in cash upon the vesting of such Award. Each Award may be subject to such other conditions as may be imposed by the Board at its absolute discretion, including without limitation, a vesting period.

For the purpose of this Share Award Scheme, “**Actual Selling Price**” shall mean the actual price at which the Award Shares are sold (net of brokerage, Stock Exchange

trading fee, SFC transaction levy and any other applicable costs) on the vesting of an Award pursuant to the Share Award Scheme or in the case of a vesting when there is an event of change in control or privatisation of our Company pursuant to the rules of the Share Award Scheme, the consideration receivable under the related scheme or offer.

**(d) *Participants of the Share Award Scheme and Basis for Determining the Eligibility of the Selected Participants***

The Board may, from time to time, at its absolute discretion, select any Eligible Persons to participate in the Share Award Scheme (the “**Selected Participants**”), subject to the terms and conditions set out in the Share Award Scheme. In determining the Selected Participants, the Board shall take into consideration matters including, but without limitation, the present and expected contribution of the relevant Selected Participants to our Group.

**(e) *Grant and Acceptance of the Awards***

Our Company shall issue a letter to each Selected Participant in such form as the Board may from time to time determine, specifying the date of grant, the number of Award Shares underlying the Award, the vesting dates (if any) (“**Vesting Date**”) and such other criteria and conditions and further details as the Board may consider necessary (the “**Award Letter**”).

An Award is accepted by the Selected Participants (“**Grantee**”) when our Company receives from the relevant Selected Participant a duly completed and executed duplicate of the Award Letter, or an agreement in such electronic form as may be prescribed by our Company from time to time, and a remittance of the sum of HK\$1.00 consideration for the grant of the Award within the time period stipulated in the Award Letter and in the absence of such provisions, within 7 days of the grant of the Award. Such remittance is not refundable under any circumstances.

**(f) *Grant to Connected Persons***

Any grant of an Award to a connected person (as defined in the Listing Rules) or any of their respective associates (as defined in the Listing Rules) shall be subject to the prior approval of the independent non-executive Directors (excluding the independent non-executive Directors who is the proposed Selected Participant of the Award in question) and all grants to connected person shall be subject to compliance with the requirements of the Listing Rules, including where necessary, the approval of the Shareholders of our Company.

**(g) *Appointment of Trustee and Maintenance of Trust***

Our Company shall appoint a trustee to assist with the administration and vesting of the Awards granted pursuant to the Share Award Scheme (“**Trustee**”) at such time as it deems appropriate. Specifically, our Company will enter into a trust deed with the Trustee that constitute a trust to service the Share Award Scheme (“**Trust**”).

Our Company may at any time, but in any event at least 3 months prior to the Vesting Date of any Award Shares, and after having regard to the requirements under the rules of the Share Award Scheme:

- (i) allot and issue such number of Shares to the Trustee as approved by the Board;

- (ii) pay to the Trustee such monies in such amount as approved by the Board, and may give directions or a recommendation to the Trustee to apply such monies, paid or already held as part of the funds of the Trust to acquire such number of Shares; or

- (iii) apply any Returned Shares held in the Trust,

to satisfy in full the Award Shares which are vested and/or which shall be vested shortly.

“**Returned Shares**” are the Award Shares that are not vested and/or are forfeited in accordance with the terms of the Share Award Scheme, or such Shares being deemed to be Returned Shares under the terms of the rules of the Share Award Scheme.

Within a reasonable time period as agreed between the Trustee and our Company from time to time after receiving the amount or the direction to use such amount as specified in sub-paragraph (ii) above, the Trustee shall apply the same towards the purchase of the Shares at the prevailing market price in order to satisfy any Award which shall be vested shortly.

Any excess amount provided shall, subject to any request for refund of the excess amount as our Company may in its absolute discretion determine to make, be retained by the Trustee for the benefit of the Trust. Where the amount paid or caused to be paid by our Company or where the amount that the Trustee is directed by our Company to use is not sufficient to purchase all of the Shares required to satisfy any Award which shall be vested shortly, the Trustee shall acquire the maximum number of board lots of Shares that it is able to acquire with the net cash available in the fund of the Trust and our Company undertakes to provide further funds to the Trustee.

***(h) Settlement and/or Payment of Award***

Upon the satisfaction of conditions including without limitation, the vesting of the Award, the Board may at its absolute discretion to either:

- (i) direct and procure the Trustee to release the Award Shares to the Grantees by transferring the number of Award Shares to the Grantees in such manner as determined by the Board in its absolute discretion from time to time; or
- (ii) to the extent where it is in the reasonable opinion of our Company not practicable for the Grantee to receive the Award Shares, direct and procure the Trustee to sell the number of Award Shares on such dates and in such manner as the Board shall in its absolute discretion determine and pay the Grantee the proceeds arising from such sale based on the Actual Selling Price of the Shares in cash as set out in the vesting notice (“**Vesting Notice**”) to be sent by our Company to the relevant Grantee prior to any Vesting Date,

in accordance with the procedure set out in the Share Award Scheme.

**(i) Cessation as an Eligible Person by reason of cessation of employment and other events**

In the event that the Grantee ceases to be an Eligible Person at any time prior to the Vesting Date by reason of:

- (i) resignation of the Grantee's employment;
- (ii) termination of the Grantee's employment or early termination of the contractual engagement with our Group by reasons of misconduct or otherwise pursuant to law or employment or engagement contract;
- (iii) retirement of the Grantee which is earlier than his/her normal retirement age as specified in his/her terms of employment with our Group;
- (iv) retirement of the Grantee at his/her normal retirement age as specified in his/her terms of employment with our Group;
- (v) termination of the Grantee's employment or contractual engagement with our Group by reason of redundancy;
- (vi) winding-up of any member of our Group in which the Grantee is employed or is contractually engaged;
- (vii) death of the Grantee;
- (viii) termination of the Grantee's employment or contractual engagement with our Group by reason of his/her permanent physical or mental disablement;
- (ix) end of the term of the Grantee's contract for provision of services, goods or otherwise with our Group; and
- (x) end of the term of the contract of the Grantee's engagement with our Group as contractual staff,

any outstanding Award not yet vested shall be treated in accordance with the rules of the Share Award Scheme, unless the Board determines otherwise at its absolute discretion.

If a Grantee ceases to be an Eligible Person for reasons or events other than provided under the rules of the Share Award Scheme, then, all outstanding Award not yet vested shall be forfeited on his ceasing to be an Eligible Person unless the Board determines otherwise at its absolute discretion.

**(j) Transferability and other rights to Award Shares**

Any Award granted under the Share Award Scheme but not yet vested shall be personal to the Grantee to whom it is made and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Award, or enter into any agreement to do so.



(k) *Takeover, Rights Issue, Open Offer, Scrip Dividend Scheme, etc*

- *Change in control*

- (a) by way of merger and privatisation

If there is an event of change in control of our Company by way of merger or a privatisation of our Company by way of a scheme, in respect of Award Shares, all the outstanding Award which will vest in the next 12 months will vest on the date when such merger or privatisation (as the case may be) becomes unconditional, and the remaining unvested outstanding Award Shares shall lapse immediately, unless (and subject to compliance with all applicable laws, rules and regulations) the Board determines otherwise at its absolute discretion. Upon vesting, the relevant procedures as set out in the Share Award Scheme shall apply except that the Vesting Notice will be sent to such Grantee based on the proposed Vesting Date as soon as practicable once the proposed Vesting Date is known. The Trustee shall transfer the Award Shares or pay its Actual Selling Price in cash as the case may be to the Grantee.

- (b) by way of offer

If there is an event of change in control of our Company by way of offer, in respect of Award Shares, all the outstanding Award which will vest in the next 12 months will vest on the date when such offer becomes or is declared unconditional and such date shall be deemed the Vesting Date, and the remaining unvested outstanding Award Shares shall lapse immediately, unless (and subject to compliance with all applicable laws, rules and regulations) the Board determines otherwise at its absolute discretion. Upon vesting, the relevant procedures as set out in the Share Award Scheme shall apply except that the Vesting Notice will be sent to such Grantee based on the proposed Vesting Date as soon as practicable once the proposed Vesting Date is known. The Trustee shall transfer the Award Shares or pay the Actual Selling Price in cash as the case may be to the Grantee.

For the purpose of the Share Award Scheme, “**control**” shall have the meaning as specified in The Codes on Takeovers and Mergers and Share Repurchases from time to time. For the avoidance of doubt, if there is an event of change in control of our Company that does not affect the listing status of the Shares, this provision on automatic vesting shall not be applicable.

- *Open offer*

In the event our Company undertakes an open offer of new securities in respect of any Shares which are held by the Trustee under the Share Award Scheme, the Trustee shall not subscribe for any new Shares. In the event of a rights issue, the Trustee shall sell the nil-paid rights allotted to it and unless otherwise instructed by our Company the Trustee shall hold the net proceeds of sale as funds of the Trust.

- *Bonus warrants*

In the event our Company issues bonus warrants in respect of any Shares which are held by the Trustee, the Trustee shall not, unless otherwise instructed by our Company, subscribe for any new Shares by exercising any of the subscription rights

attached to the bonus warrants, and shall sell the bonus warrants created and granted to it, and the net proceeds of sale of such bonus warrants shall be held as funds of the Trust.

- *Scrip Dividend*

In the event our Company undertakes a scrip dividend scheme, the Trustee shall elect to receive scrip Shares and such Shares will be held as Returned Shares.

- *Consolidation, Sub-division, Bonus issue and other distribution*

- (a) In the event our Company undertakes a sub-division or consolidation of the Shares, corresponding changes will be made to the number of outstanding Award Shares that have been granted provided that the adjustments shall be made in such manner as the Board determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Share Award Scheme for the Grantees. All fractional shares (if any) arising out of such consolidation or sub-division in respect of the Award Shares of a Grantee shall be deemed as Returned Shares and shall not be transferred to the relevant Grantee on the relevant Vesting Date.
- (b) In the event of an issue of Shares by our Company credited as fully paid to the holders of the Shares by way of capitalisation of profits or reserves (including share premium account), the Shares attributable to any Award Shares held by the Trustee shall be deemed to be an accretion to such Award Shares and shall be held by the Trustee as if they were Award Shares allotted and issued to or purchased by the Trustee hereunder and all the provisions hereof in relation to the original Award Shares shall apply to such additional Shares.
- (c) In the event of any cash or non-cash distribution or other events not referred to above by reason of which the Board considers an adjustment to the outstanding Award to be fair and reasonable, an adjustment shall be made to the number of outstanding Award of each Grantee as the Board shall consider as fair and reasonable provided that the adjustments shall be made in such manner as the Board determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Share Award Scheme for the Grantees. Our Company shall provide such funds, or such directions on application of the Returned Shares or other funds in the Trust, as may be required to enable the Trustee to purchase Shares at the prevailing market price to satisfy the additional Award and paragraph (h) shall apply accordingly.
- (d) In the event of other non-cash and non-scrip distributions made by our Company not otherwise referred to in the Share Award Scheme above in respect of the Shares held upon the Trust, the Trustee shall dispose of such distribution and the net sale proceeds thereof shall be deemed as cash income of a Share held upon the Trust.

**(l) Scheme Limit**

Our Company shall not make any further grant of Award which will result in the number of Shares allotted and issued to or acquired by the Trustee amounting or exceeding 10 per cent of the total number of issued Shares from time to time.

The maximum number of Award which may be granted to a Grantee but unvested under the Share Award Scheme shall not exceed 1 per cent of the total number of issued Shares from time to time.

**(m) Alteration of the Share Award Scheme**

The Share Award Scheme may be altered in any respect by a resolution of the Board provided that no such alteration shall operate to affect adversely any subsisting rights of any Grantee hereunder except:

- (a) where the consent in writing of Grantees is obtained amounting to three-fourths in nominal value of all Award Shares held by the Trustee on that date; or
- (b) with the sanction of a special resolution passed at a meeting of the Grantees.

The amended terms of the Share Award Scheme must comply with all applicable laws, rules and regulations (including without limitation the Listing Rules).

**(n) Termination**

The Share Award Scheme shall terminate on the earlier of:

- (a) the tenth anniversary date of the Adoption Date; and
- (b) such date of early termination as determined by the Board without shareholders' approval provided that such termination shall not affect any subsisting rights of any Grantee hereunder.

**(o) General**

The grant of any Awards will be made in accordance with the rules of the Share Award Scheme and in compliance with all applicable rules and regulations including the Listing Rules.

**2. Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by our Shareholders on 19 September 2016. For details of the conditions, please refer to paragraph (y) to this section below.

**(a) Purpose**

The purpose of the Share Option Scheme is to incentivise and reward the ESOS Eligible Persons (as defined below) for their contribution to our Group and to align their interests with that of our Company so as to encourage them to work towards enhancing the value of our Company.

**(b) Who May Participate**

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of our Group or associated companies of our Company (“**ESOS Eligible Persons**”).

**(c) Maximum Number of Shares in Respect of Which Options May Be Granted**

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (the “**Other Schemes**”) of our Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date (the “**ESOS Mandate Limit**”). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Schemes of our Company will not be counted for the purpose of calculating the ESOS Mandate Limit.

The Board may, with the approval of the Shareholders in general meeting, refresh the ESOS Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any Other Schemes of our Company under the ESOS Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any Other Schemes of our Company (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the ESOS Mandate Limit as “refreshed”. The Board may, with the approval of the Shareholders in general meeting, grant options to any ESOS Eligible Person or ESOS Eligible Persons specifically identified by them which would cause the ESOS Mandate Limit to be exceeded. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any Other Schemes of our Company to ESOS Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of our Company whether by way of capitalisation of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of our Company, provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

**(d) Maximum Entitlement of Each Individual**

No options shall be granted to any ESOS Eligible Person under the Share Option Scheme which, if exercised, would result in such ESOS Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date.

Any further grant of options to an ESOS Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such ESOS Eligible Person and his close associates (or if such ESOS Eligible Person is a connected person, his associates) abstaining from voting. Our Company must send a circular to the Shareholders disclosing the identity of the ESOS Eligible Person in question, the number and terms of the options to be granted (and options previously granted to such ESOS Eligible Person) and such other information required under the Listing Rules.

The number and terms (including the exercise price) of the options to be granted to such ESOS Eligible Person must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

**(e) Grant of Options to Connected Persons**

Each grant of options to an ESOS Eligible Person who is a Director (including an independent non-executive Director), chief executive or substantial shareholder of our Company, or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, such further grant of options by the Board must be approved by the Shareholders in general meeting. Such grantee, his associates and any Shareholder who is a core connected person of our Company must abstain from voting on the resolution to approve such further grant of options, except that such a core connected person may vote against such resolution subject to the requirements of the Listing Rules. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

**(f) Acceptance of an Offer of Options**

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the ESOS Eligible Persons concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK\$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

**(g) Exercise Price**

Subject to any adjustment made as described in sub-paragraph (u) below, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;
- (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and
- (iii) the nominal value of the Shares.

**(h) Duration of the Share Option Scheme**

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

**(i) Time of Vesting and Exercise of Options**

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfilment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option (the "**Option Period**").

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before

it can be exercised and/or any performance target which needs to be achieved by an option-holder before the option can be exercised. Any terms and conditions determined by the Board must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

***(j) Restriction on the Time of Grant of Options***

A grant of options may not be made after inside information has come to our knowledge until such inside information has been announced as required under the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of the 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. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

***(k) Ranking of the Shares***

No dividends (including distributions made upon the liquidation of our Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. Shares allotted and issued on the exercise of an option will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

***(l) Restrictions on Transfer***

Except for the transmission of an option on the death of an option-holder to his personal representatives, neither the option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any option-holder to any other person or entity. If an option-holder transfers, assigns or disposes of any such option or rights, whether voluntarily or involuntarily, then the relevant option will immediately lapse.

***(m) Rights on Voluntary Resignation***

If an option-holder ceases to be an ESOS Eligible Person by reason of his voluntary resignation (other than in circumstances where he is constructively dismissed), any outstanding offer of options shall continue to be open for acceptance for such period as determined by the Board at its absolute discretion and notified to such ESOS Eligible Person, and all options (to the extent vested but not already exercised) will continue to be

exercisable for such period as the Board may determine at its absolute discretion and notify to such ESOS Eligible Person on the date of cessation of employment of such ESOS Eligible Person.

**(n) Rights on Termination of Employment**

If an option-holder ceases to be an ESOS Eligible Person by reason of (i) his employer terminating his contract of employment in accordance with its terms or any right conferred on his employer by law, or (ii) his contract of employment, being a contract for a fixed term, expiring and not being renewed, or (iii) his employer terminating his contract for serious or gross misconduct, then any outstanding offer of an option and all options, vested or unvested, will lapse on the date the option-holder ceases to be an ESOS Eligible Person.

**(o) Rights on Death, Disability, Retirement and Transfer**

If an option-holder ceases to be an ESOS Eligible Person by reason of:

- (i) his death; or
- (ii) his serious illness or injury which in the opinion of the Board renders the option-holder concerned unfit to perform the duties of his employment and which in the normal course would render the option-holder unfit to continue performing the duties under his contract of employment for the following 12 months provided such illness or injury is not self-inflicted; or
- (iii) his retirement in accordance with the terms of an option-holder's contract of employment; or
- (iv) his early retirement by agreement with the option-holder's employer; or
- (v) his employer terminating his contract of employment by reason of redundancy; or
- (vi) his employer ceasing to be a member of our Group or an associated company of our Company or under the control of our Company; or
- (vii) a transfer of the business, or the part of the business, in which the option-holder works to a person who is neither under the control of our Company nor a member of our Group or associated companies of our Company; or
- (viii) if the Board determines in its absolute discretion that circumstances exist which mean that it is appropriate and consistent with the purpose of the Share Option Scheme to treat an option-holder whose options would otherwise lapse so that such options do not lapse but continue to subsist in accordance with (and subject to) the provisions of the Share Option Scheme, then, any outstanding offer of an option which has not been accepted and any unvested option will lapse and the option-holder or his personal representatives (if appropriate) may exercise all his options (to the extent vested but not already exercised) within a period of three months of the date of cessation of employment. Any option not exercised prior to the expiry of this period shall lapse.



If the Board determines that an option-holder who ceases to be an ESOS Eligible Person in circumstances such that his options continue to subsist in accordance with sub-paragraph (o) above:

- (a) is guilty of any misconduct which would have justified the termination of his contract of employment for cause but which does not become known to our Company until after he has ceased employment with any member of our Group or associated companies; or
- (b) is in breach of any material term of contract of employment (or other contract or agreement related to his contract of employment), without limitation, any confidentiality agreement or agreement containing non-competition or non-solicitation restrictions between him and any member of our Group or associated companies; or
- (c) has disclosed trade secrets or confidential information of any member of our Group or associated companies; or
- (d) has entered into competition with any member of our Group or associated companies or breached any non-solicitation provisions in his contract of employment, then it may, in its absolute discretion, determine that any unexercised options, vested or not vested, held by the option-holder shall immediately lapse upon the Board resolving to make such determination (whether or not the option-holder has been notified of the determination).

**(p) *Rights on Cessation to Be a Director***

In the event that any director ceases to be a director of any member of our Group or associated companies, our Company shall, as soon as practicable thereafter, give notice to the relevant option-holder who as a result ceases to be an ESOS Eligible Person. Any outstanding offer of an option which has not been accepted and any unvested option will lapse on the date the option-holder ceases to be an ESOS Eligible Person. The option-holder (or his personal representative) may exercise all his options (to the extent vested but not already exercised) within a period of three months of the date of the notification by the Board. Any option not exercised prior to the expiry of this period shall lapse.

**(q) *Rights on a General Offer***

If as a result of any general offer made to the holders of Shares, the Board becomes aware that the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of our Company has or will become vested in the offeror, any company controlled by the offeror and any person associated with or acting in concert with the offeror (a “**Change of Control**”), the Board will notify every option-holder of this within 14 days of becoming so aware or as soon as practicable after any legal or regulatory restriction on such disclosure no longer applies. Each option-holder will be entitled to exercise his options (to the extent vested but not already exercised) during the period of one month starting on the date of the Board’s notification to the option-holders. All options, vested or unvested, not exercised before the end of such period will lapse.

**(r) Rights on Company Reconstructions**

In the event of a compromise or arrangement, our Company shall give notice to all option-holders on the same date as it gives notice of the meeting to the Shareholders or creditors to consider such a compromise or arrangement and each option-holder (or his personal representative) may at any time thereafter, but before such time as shall be notified by our Company, exercise all or any of his options (to the extent vested but not already exercised), and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or unvested, not so exercised will lapse.

**(s) Rights on Winding up**

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall on the same date as or soon after we dispatch such notice to the Shareholders give notice thereof to all option-holders and each option-holder shall be entitled to exercise all or any of his options (to the extent vested but not already exercised) at any time no later than seven days prior to the proposed general meeting of our Company, and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or unvested, not so exercised will lapse.

**(t) Lapse of Option**

An option will lapse on the earlier of:

- (i) the expiry of the option period as determined by the Board;
- (ii) the date on which an option-holder is in breach of sub-paragraph (l); or
- (iii) the expiry of the time provided for in the applicable rule where any of the circumstances provided in sub-paragraphs (m) to (s) above applies.

**(u) Effect of Alteration to Share Capital**

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, further rights issues of Shares, consolidation or subdivision of shares, or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to the number of Shares, the subject matter of the option (insofar as it is unexercised) and/or the price at which the options are exercisable, as the auditors of our Company or an independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable. Notice of any adjustments shall be given by our Company to an option-holder.

Any such adjustments shall be made on the basis that an option-holder shall have the same proportion of the issued share capital of our Company as that to which he was entitled before such adjustment. No such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of our Company for which any option-holder would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustments.

The auditors of our Company or the independent financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of the Note to paragraph 17.03(13) of the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange, except where such adjustment is made on a capitalisation issue.

The capacity of the auditors or independent financial advisers is that of experts and not of arbitrators and their certification shall be final and binding on our Company and the option-holders in the absence of fraud or manifest error. The costs of the auditors or independent financial advisers shall be borne by our Company.

**(v) Cancellation of Option**

Unless the option-holder agrees, the Board may only cancel an option (which has been granted but not yet exercised) if, at the election of the Board, either:

- (i) our Company pays to the option-holder 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 adviser appointed by the Board; or
- (ii) the Board offers to grant to the option-holder replacement options (or options under any other share option scheme of any member of our Group) or makes such arrangements as the option-holder may agree to compensate him for the loss of the option; or
- (iii) the Board makes such arrangements as the option-holder may agree to compensate him for the cancellation of the option.

**(w) Termination of the Share Option Scheme**

The Share Option Scheme will expire automatically on the day immediately preceding the tenth anniversary of the Listing Date. The Board may terminate the Share Option Scheme at any time without Shareholders' approval by resolving that no further options shall be granted under the Share Option Scheme and in such case, no new offers to grant options under the Share Option Scheme will be made and any options which have been granted but not yet exercised shall either (i) continue subject to the Share Option Scheme, or (ii) be cancelled in accordance with sub-paragraph (v).

**(x) Amendments to the Share Option Scheme**

The Board may amend any of the provisions of the Share Option Scheme (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights which have accrued to any option-holder at that date), except that amendments which are to the advantage of present or future option-holders in respect of matters contained in Rule 17.03 of the Listing Rules must be approved by the Shareholders in general meeting.

Any amendments to the terms and conditions of the Share Option Scheme which are of a material nature or any amendments to the terms of any options granted may only be made with the approval of the shareholders of our Company save where the amendments take effect automatically under the existing terms of the Share Option Scheme.

Any amendments to the terms of options granted to an option-holder who is a substantial shareholder of our Company or an independent non-Executive Director, or any of their respective associates, must be approved by the Shareholders in general meeting. The resolution to approve the amendment must be taken on a poll and any connected person of our Company must abstain from voting on the resolution to approve such amendment, except that such a connected person may vote against such resolution.

Any change to the authority of the Board in relation to any amendment of the rules of the Share Option Scheme may only be made with the approval of the Shareholders in general meeting.

**(y) Conditions of the Share Option Scheme**

The adoption of the Share Option Scheme is conditional on:

- (i) the Listing Committee granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme; and
- (ii) the commencement of the dealings in the Shares on the Stock Exchange.

If the conditions above are not satisfied on or before the date following six months after the date the Share Option Scheme was conditionally adopted:

- (a) the Share Option Scheme shall forthwith determine;
- (b) 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; and
- (c) no person shall be entitled to any rights or benefits or be under any obligation under or in respect of the Share Option Scheme or any option.

**(z) General**

As at the Latest Practicable Date, no option had been granted or agreed to be granted by our Company pursuant to the Share Option Scheme.

Details of the Share Option Scheme, including particulars and movements of the options granted during each financial year of our Company, and our employee costs arising from the grant of the options will be disclosed in our annual report.

**E. OTHER INFORMATION****1. Tax, Estate Duty and Other Indemnities**

Our Controlling Shareholders had on 19 September 2016 executed a deed of indemnity in favor of our Company (for itself and as trustee for each of our subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional.

**2. Litigation**

As at the Latest Practicable Date, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

**3. Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option).

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The total amount of fees payable to the Sole Sponsor by our Company for sponsoring the listing of the Shares on the Stock Exchange is HK\$4 million.

**4. Preliminary Expenses**

Our preliminary expenses incurred by us in relation to our incorporation were approximately HK\$44,000 and were paid by our Company.

**5. Promoter**

Our Company has no promoter for the purpose of Listing. Save as disclosed above, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits have been paid, allotted or given to any promoters in connection with the Global Offering or the related transactions described in this prospectus.

## 6. Qualifications of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
DBS Asia Capital Limited	Licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined under SFO
Analysys Consulting Ltd.	Industry Consultant
Deloitte Touche Tohmatsu	Certified Public Accountants
Maples and Calder	Cayman Islands counsel to our Company
Commerce & Finance Law Offices	PRC legal counsel to our Company
Kong Siu Ching Cindy	Barrister at Law in Hong kong

## 7. Consents of Experts

Each of the experts named in paragraph 7 above has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or data (as the case may be) and references to its name included in the form and context in which it respectively appears.

## 8. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

## 9. Agency fees or commission received

The Underwriters will receive an underwriting commission, and the Sole Sponsor will receive a sponsorship fee, as referred to under the section headed "Underwriting — Underwriting Arrangements and Expenses — Total Commission and Expenses" in this prospectus.

## 10. Miscellaneous

- (a) Save as disclosed in this prospectus,
  - (i) within the two years immediately preceding the date of this prospectus:
    - (aa) no share or loan capital of our Company or any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

- (bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
- (cc) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring or agreeing to procure subscription of any Share in our Company or any of its subsidiaries.
- (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) no founders, management or deferred Shares of our Company or any of its subsidiaries have been issued or agreed to be issued.
- (b) Since 31 March 2016, being the date of our latest audited consolidated financial results as set out in “Appendix I — Accountants Report” to this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group.
- (c) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (d) Our principal register of members will be maintained by our principal share 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 our 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 Maples Fund Services (Cayman) Limited.
- (e) All necessary arrangements have been made to enable the 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) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

#### 11. Bilingual Prospectus

The English language 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).

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**APPENDIX V                      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
IN HONG KONG AND AVAILABLE FOR INSPECTION**

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**A.    DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 7. Consents of Experts” in Appendix IV to this prospectus; and
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus.

**B.    DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of DLA Piper Hong Kong at 17th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Companies Law;
- (c) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (d) the letter prepared by Deloitte Touche Tohmatsu on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the audited consolidated financial statements of our Group for the three years ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2016;
- (f) the letter of advice prepared by Maples and Calder summarising certain aspects of Cayman Islands company law as referred to in Appendix III to this prospectus;
- (g) the legal opinions prepared by our PRC legal counsel in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (h) the legal opinion prepared by Ms. Kong Siu Ching Cindy, Barrister at Law in Hong Kong, in respect of her views on the legality of the Referral Agreements as set out in the section headed “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss — Selling and Marketing Expenses” in the prospectus;



- (i) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;
- (j) the service contracts and letters of appointment referred to in the section headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 3. Directors’ Service Contracts, Letters of Appointment and Remuneration” in Appendix IV to this prospectus;
- (k) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 7. Consents of Experts” in Appendix IV to this prospectus;
- (l) the Share Award Scheme; and
- (m) the Share Option Scheme.

