信懇智能控股有限公司
Confidence Intelligence Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1967

SHARE OFFER

Sole Sponsor

德健融資有限公司 DAKIN CAPITAL LIMITED

Joint Bookrunners and Joint Lead Managers

聯合證券 Head & Shoulders Securities

漢英證券有限公司 RED EAGLE SECURITIES LIMITED

IMPORTANT

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

Confidence Intelligence Holdings Limited
信懇智能控股有限公司

(incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	:	**62,500,000 Shares (subject to the Over-allotment Option)**
Number of Public Offer Shares	:	**6,250,000 Shares (subject to reallocation)**
Number of Placing Shares	:	**56,250,000 Shares (subject to reallocation and the Over-allotment Option)**
Offer Price	:	**Not more than HK$2.50 per Offer Share and expected to be not less than HK$2.00 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full upon application in Hong Kong dollars and subject to refund)**
Nominal value	:	**HK$0.01 per Share**
Stock code	:	**1967**

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

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

The Offer Price is expected to be determined by the Price Determination Agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or about Tuesday, 8 October 2019 or such later date as may be agreed between the parties, but in any event not later than Friday, 11 October 2019. If, for any reason, the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by that date or such later date as agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse. The Offer Price will not be more than HK$2.50 per Offer Share and is expected to be not less than HK$2.00 per Offer Share, unless otherwise announced.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with our Company's consent, reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice will be available at the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.szxinken.com**. Further details are set out in the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for the Public Offer Shares" of this prospectus.

Prospective investors of the Offer Shares should note that the Joint Bookrunners (for themselves and on behalf of the Underwriters) may in their absolute discretion, upon giving notice in writing to our Company, terminate the Underwriting Agreements with immediate effect if any of the events set forth under the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer Underwriting Agreement — Grounds for termination" of this prospectus occurs at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Joint Bookrunners (for themselves and on behalf of the Underwriters) terminate the Underwriting Agreements in accordance with the terms of the Underwriting Agreements, the Share Offer will not proceed and will lapse.

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

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 affected, sold, pledged of transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws of the United States. There will be no public offer of securities in the United States.

28 September 2019

*If there is any change in the following expected timetable of the Share Offer, we will issue an announcement to be posted on the website of our Company at **www.szxinken.com** and the website of the Stock Exchange at **www.hkexnews.hk**.*

	Date and time[1]
	2019
Latest time to complete electronic applications under the **HK eIPO White Form** services through the designated website at **www.hkeipo.hk**[2]	11:30 a.m. on Friday, 4 October
Application lists of the Public Offer open[3]	11:45 a.m. on Friday, 4 October
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC[4]	12:00 noon on Friday, 4 October
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfers(s) or PPS payment transfer(s)	12:00 noon on Friday, 4 October
Application lists of the Public Offer close[3]	12:00 noon on Friday, 4 October
Expected Price Determination Date[5]	on or before Tuesday, 8 October
Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in respect of the Public Offer and the basis of allocation of the Public Offer Shares under the Public Offer to be published on the website of the Stock Exchange at **www.hkexnews.hk** and on the website of our Company at **www.szxinken.com**[9] on or before	Thursday, 17 October
Results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Public Offer Shares" in this prospectus from	Thursday, 17 October
Results of allocations in the Public Offer will be available at **www.tricor.com.hk/ipo/result** and **www.hkeipo.hk/iporesult** with a "search by ID Number/ Business Registration Number" function from	Thursday, 17 October

	Date and time[1]
	2019
Despatch/collection of Share certificates or deposit of share certificates into CCASS in respect of wholly or partially successful Applications pursuant to the Public Offer on or before [5, 6, 7]	Thursday, 17 October
Despatch/Collection of **HK eIPO White Form** e-Auto 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 Public Offer on or before [5, 7, 8]	Thursday, 17 October
Dealings in the Shares on the Stock Exchange expected to commence at	9:00 a.m. on Friday, 18 October

Notes:

(1) In this prospectus, unless otherwise stated, all times and dates refer to Hong Kong local time. Details of the structure and conditions of the Share Offer, including its conditions, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus. If there is any change in this expected timetable, an announcement will be published on the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.szxinken.com**.

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

(3) If there is a "black" rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 October 2019, the application lists will not open or close on that day. For further information please refer to the paragraph headed "How to Apply for Public Offer Shares — 10. Effect of bad weather on the opening of the application lists" in this prospectus.

(4) Applicants who apply for the Public Offer Shares by giving electronic application instructions to HKSCC should see the paragraph headed "How to Apply for Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or around Tuesday. 8 October 2019 (or such later date as agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), but, in any event, not later than Friday, 11 October 2019. If the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, or such later date or time as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse.

(6) Share certificates for the Offer Shares are expected to be issued on or before Thursday, 17 October 2019 but will only become valid certificates of title provided that the Share Offer becomes unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms before 8:00 a.m. on the Listing Date. Investors who trade the Shares on the basis of publicly available allocation details 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.

(7) Applicants who apply with **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 or more Public Offer Shares and have provided all information required in their Application Forms that they may collect Share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 17 October 2019 or any other date notified by us as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who opt for and are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for and are eligible for personal collection must attend by their authorised representatives each bearing a letter of authorisation from his/her corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations (if applicable) must produce, at the time of collection, evidence of identity and (where applicable) documents acceptable to our Hong Kong Branch Share Registrar. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques (where relevant) in person but may not collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form shortly after the expiry of the time for collection on the date of despatch of refund cheque as described. For further information, applicants should refer to the paragraph headed "How to Apply for Public Offer Shares — 14. Despatch/collection of Share certificates and refund monies" in this prospectus.

(8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price is less than the initial price per Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed "How to Apply for Public Offer Shares" in this prospectus.

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

(9) None of the website or any information contained on the website forms part of this prospectus.

Share certificates will only become valid certificates of title provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

Particulars of the structure and conditions of the Share Offer, including the conditions thereto, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus. Details relating to how to apply for the Public Offer Shares are set out in the section headed "How to Apply for Public Offer Shares" in this prospectus.

IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus to make your investment decision. We, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriter(s) have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Share Offer.

*The contents on the website at **www.szxinken.com**, which is the official website of our Company, do not form part of this prospectus.*

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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 prospectus, before you decide to invest in the Offer Shares. There are risks associated with any investment in the Offer Shares. Some of the particular risks in investing in the Offer Shares are set forth 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

Founded in 2000, we are an EMS provider in the PRC offering comprehensive assembling and production services of printed circuit board assembly ("**PCBA**") in the PRC that integrate research and design, selection and procurement of raw materials, assembling and production of PCBAs, quality control, testing, logistics and aftersales services.

A PCBA is used as an electronic circuit interconnecting medium and a mechanical mounting substrate which is a vital part of an electronic product. Our PCBAs are incorporated in electronic products in various downstream industries. The table below sets forth a breakdown of our revenue, gross profit and gross profit margin by the kind of electronic products that are incorporated with our PCBAs during the Track Record Period *(Note 1)*:

	FY2016				FY2017				FY2018			
	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin
		% of total				*% of total*				*% of total*		
	RMB'000	*revenue*	*RMB'000*	*%*	*RMB'000*	*revenue*	*RMB'000*	*%*	*RMB'000*	*revenue*	*RMB'000*	*%*
PCBAs for												
Telecommunication devices	135,396	77.8	50,676	37.4	143,007	68.6	44,709	31.3	127,203	53.9	42,110	33.1
Industrial-use devices	23,904	13.7	6,521	27.3	42,595	20.4	12,312	28.9	30,581	12.9	8,842	28.9
IoT products	14,622	8.4	5,356	36.6	22,775	10.9	6,769	29.7	75,183	31.8	22,745	30.3
Others *(Note 2)*	218	0.1	60	27.6	257	0.1	71	27.6	3,243	1.4	567	17.5
Total	174,140	100.0	62,613	36.0	208,634	100.0	63,861	30.6	236,210	100.0	74,264	31.4

	For the four months ended 30 April							
	2018				2019			
	Revenue		Gross Profit	Gross Profit Margin	Revenue		Gross Profit	Gross Profit Margin
		% of total				*% of total*		
	RMB'000 (unaudited)	*revenue*	*RMB'000* (unaudited)	*%*	*RMB'000*	*revenue*	*RMB'000*	*%*
PCBAs for								
Telecommunication devices	35,677	60.5	11,925	33.4	38,052	44.5	13,656	35.9
Industrial-use devices	9,512	16.1	2,753	28.9	9,823	11.5	2,970	30.2
IoT products	13,639	23.1	4,233	31.0	36,838	43.1	12,027	32.6
Others *(Note 2)*	144	0.3	45	31.4	734	0.9	240	32.7
Total	58,972	100.0	18,956	32.1	85,447	100.0	28,893	33.8

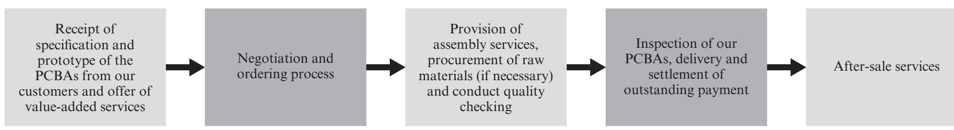
Notes:

1. The breakdown is based on the communication between individual customers and us and our understanding on the applicability of our PCBAs.

2. Others mainly include (i) PCBAs for automotive related devices; and (ii) the revenue generated from the sale of auxiliary and other materials.

OUR BUSINESS

Our business model: Our integrated EMS business model offers comprehensive and full-fledged PCB assembling and manufacturing services with the capabilities to research and design, select and procure raw materials, assemble and produce PCBAs and provide quality control, testing, logistics and after-sales services to our customers. This can free up our customers more time to focus on technological development of their electronic products. Our PCB assembling and production services can meet our customers' varying needs. For instance, we participated in the "new product import" (NPI) stage, which is mainly for bringing in a new product to the market, of OPPO Group's products, one of the top five smartphone manufacturers in the PRC and our largest customer, during the Track Record Period, when it launched new product and assessed the manufacturability of the PCBAs to be incorporated in its new products and draw up the relevant "design for manufacturability" (DFM) Report, which is mainly for assessing the manufacturability of the design of a product. We provide integrated EMS solutions to some other customers on a turnkey basis whereby we were involved in almost every stage of development process up to the delivery of PCBAs. The following diagram illustrates our EMS operation flow:



For more details, please refer to the paragraph headed "Business — Our business model" in this prospectus.

Our products: Our products comprise PCBAs that are generally applied to electronic end-products of four principal types, namely, (i) telecommunication; (ii) industrial-use; (iii) IoT; and (iv) others. PCBAs are produced by assembling, populating and soldering of electronic components with different functions onto bare PCBs, which enables the PCBAs to function in the way they are designed.

The following table sets forth the breakdown of revenue attributable to the sales of our PCBAs by the type of ultimate electronic products in which our PCBAs were incorporated during the Track Record Period *(Note)*:

	FY2016	**FY2017**	**FY2018**	**For the four months ended 30 April 2018**	**For the four months ended 30 April 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
PCBAs for telecommunication devices					
— Smartphones	135,027	142,207	127,051	35,667	37,953
— Routers	254	207	24	2	2
— Others	115	593	128	8	97
PCBAs for industrial-use devices					
— Testing devices	23,037	41,479	26,832	8,571	5,569
— Solar panels	—	—	485	—	3,890
— Others	867	1,116	3,264	941	364
PCBAs for IoT products					
— Headsets	13,924	968	1	1	—
— IoT modules	245	18,283	59,704	12,323	30,732
— Fingerprint locks	—*	2,878	9,659	1,056	4,485
— Smart watches	—	119	5,173	254	1,414
— Others	453	527	646	5	207
Total	173,922	208,377	232,967	58,828	84,713

* It represents a figure of less than RMB100.

Note: The breakdown is based on the communication between individual customers and us and our understanding on the applicability of our PCBAs.

Our research and development: Our research and development capabilities are pivotal to our business development. Our in-house research and development team and production team work together to participate in the development of PCBAs for our customers' electronic products. It also keeps itself abreast of the latest technological development of the EMS industry and the downstream industries where our PCBAs will apply to ensure that our PCBAs can respond to the latest technological advancement such as the commercial launch of 5G in 2020; and enhance the efficiency and effectiveness of our PCB assembling process and the accuracy of our quality control measures etc.

Our pricing policy: We determine the prices of our PCBAs on a cost-plus basis, with reference to production costs, costs of raw materials, complexity of the manufacturing process, lead time, quality requirements and the size of the order.

OUR PRODUCTION PLANT, AND UTILISATION RATE

We set up our Shenzhen Production Plant in a leased property situated at collectively-owned industrial land at No. 7 & No. 18 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen with a gross floor area of approximately 9,375 sq.m. and is equipped with automated machinery and equipment for assembling and production of PCBAs. Owing to historical reasons, the landlords of our Shenzhen Production Plant and the staff quarters failed to provide relevant title documents but our PRC Legal Advisers are of the view that the risk that we will be required by the relevant PRC government authorities to vacate from the Leased Properties is extremely remote.

As at 30 April 2019, we had 17 SMT assembly lines. The following table sets out our annual production capacity, actual annual production time and utilisation rate of our SMT assembly lines which consisted machinery owned and leased by us for each of FY2014, FY2015 and during the Track Record Period:

	FY2014	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**For the four months ended 30 April 2019**
Number of SMT assembly lines as at the end of the year/period *(Note 1)*	13	13	15	13	15	17*(Note 5)*
Number of maximum SMT machine hours (hours) *(Note 2)*	95,424	86,310	102,550	95,330	95,718	33,369
Number of SMT machine hours for production (hours) *(Note 3)*	70,892	76,247	93,074	86,821	88,106	31,190
Utilisation rate *(%)(Note 4)*	74.3	88.3	90.8	91.1	92.0	93.5

Notes:

1. The SMT assembly lines contain machinery owned and leased by us but exclude standby machine in idle state (i.e. generally refers to the mounting machine of a SMT assembly line which cannot be used to do production work and is set in idle state for standby or disposal purpose). The number of SMT assembly lines will vary due to modifications/changes in composition of SMT mounting machines and other devices for the assembling and production of PCBAs with different specifications.

2. The number of SMT machine hours is calculated by multiplying the number of SMT lines by the number of hours in a day and the number of days in a year that our SMT machines are expected to operate excluding the required maintenance days during the year. The above calculation is based on the assumptions that our SMT machines operate 21 hours a day, and 336 days, 336 days, 342 days, 324 days, 337 day and 104 days for each of FY2014, FY2015, FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively.

3. The number of SMT machine hours for production refers to the total number of the actual machine hours in operation.

4. The utilisation rate is calculated by dividing the number of productive SMT machine hours by the number of SMT machine hours.

5. In April 2019, we leased two SMT assembly lines from an Independent Third Party for a period between April 2019 and September 2019 so as to meet the anticipated needs for increasing orders in 2019. We expect to extend the lease to December 2019.

The utilisation rate of our SMT assembly lines which consisted machinery owned by us increased from approximately 90.7% in FY2016 to approximately 94.0% for the four months ended 30 April 2019 in terms of SMT machine hours. For more details, please refer to the paragraph headed "Business — Production facilities and utilisation" in this prospectus.

As part of our expansion plan, we plan to acquire 71 units of new-model SMT mounting machines, of which 40 units are to replace the old-model SMT mounting machines currently used in two SMT assembly lines and the remaining 31 units will be used for setting up of two additional SMT assembly lines. After the setting up of two additional SMT assembly lines, assuming they operate 21 hours a day for 337 days per year, the production capacity of our Shenzhen Production Plant will increase by approximately 7,077 hours for the year ending 31 December 2020 and 14,154 hours for the year ending 31 December 2021 as compared to 95,718 hours for FY2018. After the replacement of the old-model SMT mounting machines in two SMT assembly lines, the efficiency and output of these two SMT assembly lines will increase.

The table below sets out, by way of illustration only, a comparison of the production rate of SMT assembly lines with new-model SMT mounting machines and with old-model ones in producing the said PCBAs:

	Estimated production rate of SMT assembly line *(Note 1)* **using**		
Type of PCBA	**old-model SMT mounting machines**	**new-model SMT mounting machines**	**Percentage increase**
	Pieces of PCBAs per machine hour		*%*
Smartphone mainboard *(Note 2)*	383	515	34.5%
IoT module *(Note 2) (Note 3)*	1,627	2,116	30.1%
Connector *(Note 2) (Note 3)*	1,195	1,555	30.1%

Notes:

1. Production rate is estimated on the basis that new-model SMT mounting machines are to replace the corresponding old-model SMT mounting machines and based on the assumptions that other machinery and parts of the SMT assembly line remain the same and for the purpose of calculation of production rate, wear and tear of machines used, machine down time or product failure are not taken into account as their respective implications are relatively minimal. Our Directors confirm that we did not record any material machine down time for SMT machines, decrease in production rate due to wear and tear or product failure during the Track Record Period.

2. A typical PCBA product of the type shown is chosen for illustration purpose only.

3. Assembling and production of these PCBAs requires a SMT assembly line of a smaller scale (i.e. the SMT assembly lines with fewer SMT mounting machines) than that for producing smartphone mainboards, due to the relatively smaller size of the PCBAs for IoT modules and connectors as compared with the PCBAs for smartphone mainboard.

OUR CUSTOMERS

During the Track Record Period, our Group provided integrated EMS by offering customised PCBAs to our customers, which mainly included manufacturers, OEMs and brand owners of electronic products in the PRC with a small portion in United States.

For each of FY2016, FY2017 and FY2018 and the four months ended 30 April 2019, our PRC sales accounted for approximately 99.97%, 98.7%, 99.4% and 100%, respectively, of the total revenue of our Group and our overseas sales to customers in the United States accounted for approximately 0.03%, 1.3%, 0.6% and nil of the total revenue of our Group, respectively.

For each of FY2016, FY2017 and FY2018 and the four months ended 30 April 2019, our Group's sales to our top five customers accounted for approximately 99.0%, 98.3%, 90.2% and 80.9% of our total revenue, respectively. In the corresponding periods, sales to OPPO Group, our largest customer, accounted for approximately 77.2%, 68.2%, 53.8% and 38.9% of our total revenue, respectively. Our Directors believe that our Group's business model is sustainable despite our customer concentration due to the following factors:

- Our integrated and value-added EMS provided to our customers in assembling and production of PCBAs for their development and production of new electronic products help strengthening our business relationship with our existing customers and bringing in new customers;
- We expand to emerging industry(ies) where our PCBAs can apply. For instance, we developed PCBAs for IoT products and our revenue generated from our PCBAs for IoT products increased from approximately RMB14.6 million for FY2016 to RMB75.2 million for FY2018, representing a CAGR of 72.6%. For the four months ended 30 April 2019, such revenue was RMB36.8 million, which was almost equal to half of the relevant revenue for FY2018; and
- We have established a reputation for offering quality EMS solutions in the EMS industry.

Owing to our experience in the EMS industry in the PRC, we do not foresee there would be any difficulty for us to look for other customers if our sales to OPPO Group reduce due to the following reasons:

- Our experience in serving sizeable customers like OPPO Group enables us to serve other sizeable customer with similar scale of operation;
- Our skills in serving OPPO Group can be transferred to other customers;
- It is time-consuming for OPPO Group to engage other EMS providers in the PRC in place of our Group; and
- Our experience, reputation, connection and proven track record in the EMS industry enable us to diversify our customer base.

OUR SUPPLIERS

Our suppliers include suppliers of raw materials and subcontractors to whom we subcontract some of the assembling and production of PCBAs when the machinery and equipment in our Shenzhen Production Plant have almost reached their optimal utilisation rate. Most of our suppliers and subcontractors are based in the PRC. For each of FY2016, FY2017 and FY2018 and the four months ended 30 April 2019, the total purchases and subcontracting fees, from our top five suppliers and subcontractors amounted to approximately RMB15.9 million, RMB23.8 million, RMB44.4 million and RMB10.0 million, representing approximately 66.2%, 50.5%, 45.9% and 40.0% of our total cost of purchases and subcontracting fees for the corresponding periods.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

For each of FY2016, FY2017 and FY2018 and the four months ended 30 April 2019, there were five customers, four customers, six customers and four customers who were also our suppliers, respectively. Gross profit for the sales to these customers for each of FY2016, FY2017 and FY2018 and the four months ended 30 April 2019 was approximately RMB6.2 million, RMB5.2 million, RMB17.2 million and RMB7.8 million, respectively. The relevant gross profit margin for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 was approximately 26.8%, 28.5%, 32.6% and 35.5%, respectively, whereas our overall gross profit margin for the corresponding periods was approximately 36.0%, 30.6%, 31.4% and 33.8%, respectively. Depending on (1) the scope of services we provided to our customers such as whether raw materials selection and procurement services are required; (2) the specifications of PCBAs required by our customers; and (3) the order size, the pricing of each batch of PCBAs is negotiated and determined on a case by case basis, as a result, the gross profit margins for these overlapping customers and suppliers could be higher or lower than our overall gross profit margin. In view of (1) the circumstances leading to the existence of overlapping customers and suppliers; and (2) our endeavours to adopt our pricing policy when determining the price for these overlapping customers and suppliers, our Directors are of the view that there are no unusual benefits to our Group or the overlapping customers and suppliers other than the profit and loss derived from the arm's length transaction with the overlapping customers and suppliers as disclosed above.

PRE-IPO INVESTMENT

On 29 December 2018, an increase of registered capital agreement was entered into between, *inter alia*, Million Way and Shenzhen Confidence, pursuant to which Million Way agreed to contribute a sum of RMB8,819,400 to the increase of registered capital of Shenzhen Confidence for approximately 7% equity interest in Shenzhen Confidence. Million Way served as a vehicle of Mr. Yuen Hoi Po, who is the sole legal and beneficial owner and the sole director thereof, to invest in Shenzhen Confidence directly. Million Way subsequently transferred all its investment in Shenzhen Confidence to Xinzhi (Shenzhen) as part of the Reorganisation at the consideration of RMB420,000. On the other hand, our Company allotted and issued 753 Shares at par, credited as fully paid, to Bright Shine, (a company wholly owned by Mr. Yuen Hoi Po), as a result of which Bright Shine held approximately 7% shareholding interest in the Company.

Mr. Yuen Hoi Po was introduced to Mr. Li about four years ago through one of their mutual friends and had been acquainted with Mr. Li since then. Mr. Yuen Hoi Po has over 20 years of experience in various industries including trading, real estates and retail services. Given his experience and achievements in the commercial field and personal influence over the society, Mr. Yuen Hoi Po has served as a member of the standing committee of the Beijing Youth Federation for many years. Since August 2010, Mr. Yuen Hoi Po has been an executive director of Huayi Tencent Entertainment Company Limited, a company listed on the Stock Exchange (stock code: 419). Since November 2018, Mr. Yuen Hoi Po has been an independent non-executive director of Man Sang International Limited, a company listed on the Stock Exchange (stock code: 938).

Immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), our Company will be owned as to 5.25% by Bright Shine.

The Sole Sponsor has confirmed that the Pre-IPO Investment is in compliance with the "Interim Guidance on Pre-IPO Investment" (HKEx-GL29-12) issued on 13 October 2010 (and updated in March 2017) by the Stock Exchange and the "Guidance on Pre-IPO Investments" (HKEx-GL43-12) issued in October 2012 (and updated in July 2013 and March 2017) by the Stock Exchange based on their review of relevant documents.

CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of option granted under the Share Option Scheme), Skyflying Company, which is wholly-owned by Mr. Li, who is the chairman of our Board, our chief executive officer and executive Director, will be interested in approximately 39.95% of the issued share capital of our Company. Accordingly, Skyflying Company and Mr. Li will be our Controlling Shareholders. For more information, please refer to the section headed "Relationship with our Controlling Shareholders" in this prospectus.

COMPETITIVE LANDSCAPE

According to CIC Report, the market size of the PCBA industry in the PRC increased from approximately RMB282.3 billion in 2014 to approximately RMB338.2 billion in 2018, representing a CAGR of 4.6%, and it is anticipated to reach approximately RMB406.1 billion in 2023. The growth of PCBA industry in the PRC is expected to be stable and driven by the continued growth of downstream markets including telecommunication devices, IoT products, industrial-use devices, and others. According to the CIC Report, in terms of revenue in 2018, our Group had a market share of approximately 0.07% of China's PCBA industry. According to CIC Report, the main entry barriers to the PCBA industry in the PRC include (1) large initial capital investment; (2) contract manufacturer certifications; (3) supply chain management capabilities; and (4) technological capabilities.

KEY OPERATION AND FINANCIAL DATA

The following tables present a summary of key operational and financial data during the Track Record Period and should be read in conjunction with our financial information included in the Accountant's Report set forth in Appendix I to this prospectus, including the notes thereto.

				Four months ended 30 April 2019	
	FY2016	**FY2017**	**FY2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	174,140	208,634	236,210	58,972	85,447
Cost of sales	(111,527)	(144,773)	(161,946)	(40,016)	(56,554)
Gross profit	62,613	63,861	74,264	18,956	28,893
Other income	883	1,821	1,846	1,191	1,275
Other (losses)/gains, net	(357)	(149)	148	(12)	(763)
Selling and distribution expenses	(1,126)	(1,236)	(1,869)	(440)	(536)
Administrative expenses	(18,226)	(25,694)	(24,933)	(7,426)	(20,826)
Operating profit	43,787	38,603	49,456	12,269	8,043
Finance income	52	205	232	145	14
Finance costs	(1,814)	(1,868)	(2,459)	(746)	(645)

				Four months ended 30 April 2019	
	FY2016	**FY2017**	**FY2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Finance costs, net	(1,762)	(1,663)	(2,227)	(601)	(631)
Impairment loss of investment in an associate	(924)	—	—	—	—
Share of net loss of an associate accounted for using the equity method	(76)	—	—	—	—
Profit before income tax	41,025	36,940	47,229	11,668	7,412
Income tax expense	(5,663)	(4,929)	(6,415)	(1,428)	(3,470)
Profit for the year attributable to owners of the Company	35,362	32,011	40,814	10,240	3,942
Non-IFRS measures *(Note)*					
Profit for the year attributable to owners of the Company (excluding listing expenses)	35,362	32,011	41,345	10,240	14,126
Listing expenses	—	—	(531)	—	(10,184)
Profit for the year attributable to owners of the Company	35,362	32,011	40,814	10,240	3,942

Note: The profit for the year attributable to owners of the Company (excluding listing expenses) represents profit for the year attributable to owners of the Company excluding the effects of the listing expenses as it is non-recurring in nature. The profit for the year attributable to owners of the Company (excluding listing expenses) is not a measure of performance under IFRS. As a non-IFRS measure, the profit for the year attributable to owners of the Company (excluding listing expenses) is presented because our Directors believe such information will be helpful for investors in assessing the level of our net profit by eliminating the effects of certain one-off or non-recurring items, namely, listing expenses. There are no other significant non-recurring or one-off items during the Track Record Period. However, the use of the profit for the year attributable to owners of the Company (excluding listing expenses) has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year/period.

Our revenue increased by approximately 19.8% from approximately RMB174.1 million for FY2016 to approximately RMB208.6 million for FY2017, which was primarily due to the increase in our sales of PCBAs for telecommunication devices and industrial-use devices by approximately RMB26.3 million for FY2017. Our revenue increased by approximately 13.2% from approximately RMB208.6 million for FY2017 to approximately RMB236.2 million for FY2018, which was attributable to Espressif Group's increased demand for our PCBAs for IoT modules. For FY2016, FY2017 and FY2018, we generated gross profits of approximately RMB62.6 million, RMB63.9 million and RMB74.3 million, respectively, representing gross profit margins of approximately 36.0%, 30.6% and 31.4%. The fluctuation in gross profit margin from FY2016 to FY2018 was mainly due to the corresponding decrease in the gross profit margin in our largest product category, namely PCBAs for telecommunication devices from approximately 37.4% in FY2016 to approximately 31.3% in FY2017, which thereafter increased to approximately 33.1% in FY2018, mainly attributable to the increase in (i) our direct labour cost; and (ii) our rental expenses in respect of production machinery and equipment during the year. The net profit decreased from approximately RMB35.4 million in FY2016 to approximately RMB32.0 million in FY2017, mainly attributable to (i) the decrease in gross profit margin; and (ii) a higher administrative expense as a percentage of our revenue in FY2017. The net profit then increased to approximately RMB41.3 million in FY2018 following the increase in the gross profit. Our net profit margin decreased from approximately 20.3% for FY2016 to approximately 15.3% for FY2017 and increased to approximately 17.5% for FY2018 (excluding the listing expenses), which was mainly attributable to the fluctuation in the gross profit margin in the corresponding years.

For the four months ended 30 April 2019, our Group's revenue recorded an increase of approximately 44.9% as compared to the four months ended 30 April 2018. The increase was mainly contributed by (i) increase in our sales of PCBAs for IoT products from RMB13.6 million for the four months ended 30 April 2018 to RMB36.8 million for the four months ended 30 April 2019; (ii) a new customer, Customer A, having generated revenue of approximately RMB4.6 million for the four months ended 30 April 2019; and (iii) the revenue derived from sales of PCBAs for solar panels having increased from nil for the four months ended 30 April 2018 to RMB3.9 million for the four months ended 30 April 2019.

For more information, please refer to the section headed "Financial Information" of this prospectus.

Selected information extracted from consolidated balance sheets

	As at 31 December			**As at 30 April**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets	57,509	91,851	115,726	123,396
Current liabilities	31,839	57,310	52,381	49,030
Net current assets	25,670	34,541	63,345	74,366
Net assets	89,446	116,600	148,145	154,848
Total assets	138,405	186,685	221,466	226,244

We recorded net current assets of approximately RMB25.7 million, RMB34.5 million, RMB63.3 million and RMB74.4 million, as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively. The increase in our net current assets as at 31 December 2017, compared to that as at 31 December 2016 was mainly due to the increase in current assets of approximately RMB34.3 million primarily driven by the increase in prepayment, deposits and other receivables and the increase in cash and cash equivalents, which is offset by the increase in current liabilities primarily driven by increase in trade and bills payables, increase in bank and other borrowings and the increase in contract liabilities. The increase in our net current assets as at 31 December 2018, compared to that as at 31 December 2017, was mainly due to the increase in current assets of approximately RMB23.9 million, which was primarily driven by the increase in contract assets, trade and bills receivables and inventories, which are partly offset by the decrease in cash and cash equivalents, and the decrease in current liabilities, which was primarily driven by the decrease in bank and other borrowings. Our net assets increased from approximately RMB89.4 million as of 31 December 2016 to approximately RMB116.6 million, RMB148.1 million and RMB154.8 million as of 31 December 2017, 2018 and 30 April 2019, respectively, which was mainly attributable to the total comprehensive income generated offsetting the dividends paid in the respective years.

Selected information extracted from consolidated statements of cash flows

	FY2016	FY2017	FY2018	Four months ended 30 April 2018	Four months ended 30 April 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating cash flows before movements in working capital	71,932	55,267	67,164	17,462	14,631
Net cash (used in)/generated from operating activities	63,025	52,653	20,102	(871)	25,639
Net cash (used in)/generated from investing activities	(37,267)	(25,509)	(20,726)	(8,674)	2,187
Net cash used in financing activities	(19,600)	(3,426)	(18,322)	(4,520)	(7,361)
Net increase/(decrease) in cash and cash equivalents	6,158	23,718	(18,946)	(14,065)	20,465
Cash and cash equivalents at beginning of the year/period	3,993	10,151	33,837	33,837	14,979
Currency translation differences	—	(32)	88	(81)	(66)
Cash and cash equivalents at end of the year/period	10,151	33,837	14,979	19,691	35,378

For FY2018, our Group's net cash generated from operating activities was approximately RMB20.1 million, which was mainly attributable to the cash generated from operations of approximately RMB24.8 million, partially offset by income tax paid of approximately RMB4.9 million. Our operating cash flows before working capital changes was approximately RMB67.2 million, which was primarily attributable to profit before tax of approximately RMB47.2 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB17.3 million; (ii) provision for inventories of approximately RMB1.0 million; and (iii) interest expenses of approximately RMB2.5 million. Our change in working capital was attributable to a cash outflow of approximately RMB42.4 million, which was primarily due to the (i) increase in inventories of RMB24.6 million, and (ii) the increase in contract assets, trade and bills receivables of RMB20.0 million. For the four months ended 30 April 2019, our Group's net cash generated from operating activities was approximately RMB25.6 million, which was mainly attributable to the cash generated from operations of approximately RMB29.0 million, partially offset by income tax paid of approximately RMB3.4 million.

For FY2018, our net cash used in investing activities was approximately RMB20.7 million, which was primarily due to purchase of properties, plant and equipment of approximately RMB30.6 million and partially offset by (i) proceeds from disposal of properties, plant and equipment of approximately RMB2.7 million; and (ii) receipt from government grant of approximately RMB7.2 million. For the four months ended 30 April 2019, our net cash generated from investing activities was approximately RMB2.2 million, which was primarily due to receipt of government grants for purchase of equipment of approximately RMB5.2 million, partially offset by purchase of properties, plant and equipment of approximately RMB3.0 million.

For FY2018, our net cash used in financing activities was approximately RMB18.3 million. The net cash used in financing activities was primarily due to repayments of bank borrowings of approximately RMB24.9 million, dividend payment of approximately RMB9.4 million, interest paid of approximately of RMB2.5 million and partially offset by proceeds from bank and other borrowings of approximately RMB20.4 million. For the four months ended 30 April 2019, our net cash used in financing activities was approximately RMB7.4 million due to (i) consideration paid for the acquisition of a subsidiary in respect of Reorganisation of approximately RMB6.0 million; (ii) repayments of bank and other borrowings of approximately RMB5.5 million; and (iii) payment of listing expenses of approximately RMB3.0 million, which was partially offset by capital injection from a pre-IPO investor of approximately RMB8.8 million.

KEY FINANCIAL RATIOS

	As at/for			
	FY2016	**FY2017**	**FY2018**	**30 April 2019**
Current ratio (times) *(Note 1)*	1.8	1.6	2.2	2.5
Quick ratio (times) *(Note 2)*	1.7	1.5	1.6	1.9
Gearing ratio *(Note 3)*	31.3%	37.4%	24.0%	17.0%
Net debt to equity ratio *(Note 4)*	19.9%	8.4%	13.9%	Net Cash
Interest coverage (times) *(Note 5)*	23.6	20.8	20.2	12.5
Return on assets *(Note 6)*	25.5%	17.1%	18.4%	N/A[8]
Return on equity *(Note 7)*	39.5%	27.5%	27.6%	N/A[8]

Notes:

1. Current ratio is calculated by dividing current assets by current liabilities.
2. Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.
3. Gearing ratio is calculated by dividing total debt by total equity multiplied by 100%. Total debt is defined as the sum of the borrowings, lease liabilities and contract liabilities.
4. Net debt to equity ratio is calculated by dividing net debt by total equity. Net debt is defined to include total debt net of cash and cash equivalent.
5. Interest coverage is calculated by dividing profit before finance costs and income tax expenses by finance costs.
6. Return on assets is calculated by dividing net profit attributable to the owners of the Company with the closing balance of total assets.
7. Return on equity is calculated by dividing net profit attributable to the owners of the Company with the closing balance of total equity.
8. Such ratio is not applicable as it is not comparable to annual numbers.

DIVIDEND

Shenzhen Confidence declared and paid dividend of approximately nil, RMB15.6 million, RMB9.4 million and nil, respectively, for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2019. For each of the three years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2019, they were settled by our internal resources. The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operations and financial performance, profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our Shareholders, as well as any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio. Prospective investors should note that historical dividend distributions are not indicative of our future dividend distribution policy, and there is no guarantee that dividends will be paid in the future.

OUR COMPETITIVE STRENGTHS

Our Directors believe that we possess competitive strengths, which have contributed to our success and distinguished us from our competitors:

1. We offer a wide array of EMS across various stages of the supply chain of PCBAs to our customers with turnkey EMS capabilities and effective quality control system;
2. We are committed to strengthen our research and development capabilities and are able to work closely with our customers in their product development;
3. We fully optimise the functions of our automated machinery and equipment to enable us to achieve efficient and cost-effective production of PCBAs;
4. We have an experienced management team; and
5. We have established long-term and stable relationships with our major customers.

FUTURE PLANS AND PROPOSED USE OF PROCEEDS AND BUSINESS STRATEGIES

We estimate that the net proceeds from the Share Offer (after deduction of underwriting fees and commissions and estimated expenses in connection with the Share Offer, and assuming the Offer Price of HK$2.25 per Offer Share, being the mid-point of the indicative Offer Price range of HK$2.00 to HK$2.50) are approximately HK$102.3 million. Our Directors intend to apply the net proceeds from the Share Offer for the following purposes.

Business strategies and intended applications	**Approximate amount of net proceeds utilised**
Expand our production capacity and enhancing our production efficiency by acquisition of 71 units of SMT mounting machines, of which 40 units are to replace old model SMT mounting machines in two existing SMT assembly lines and 31 units for setting up two additional SMT assembly lines and hiring additional technicians	HK$55.6 million, or 54.3%
Enhance the level of automation in our quality control measures and packaging of PCBAs by setting up five automated testing and packaging lines	HK$8.5 million, or 8.3%
Strengthen our product design and enhancement capabilities in respect of the PCBAs for telecommunication devices and IoT products by setting up RF shielding room for testing RF connectivity in a chamber	HK$6.5 million, or 6.4%
Upgrade our existing MES system	HK$3.4 million, or 3.4%
Further strengthen our research and development capabilities by recruitment of five additional engineers	HK$3.4 million, or 3.4%
Strengthen our product testing capabilities for IoT products by setting up a cloud-based simulation platform	HK$2.4 million, or 2.3%

Business strategies and intended applications	Approximate amount of net proceeds utilised
Upgrade our existing intelligent warehouse	HK$2.8 million, or 2.7%
Repayment of bank loan acquired for our acquisition of machinery and equipment and general working capital with interest rates ranging from 9.0% to 9.2% annual percentage rate with maturity dates in September 2020 and June 2021	HK$9.5 million, or 9.3%
Working capital	HK$10.2 million, or 9.9%
Total	**HK$102.3 million, or 100%**

For further details on our future plans and use of proceeds, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

LEGAL AND COMPLIANCE

During the Track Record Period, Shenzhen Confidence, our major subsidiary in the PRC, had the following non-compliance incidents:

- Its failure to make adequate social insurance and housing provident fund contributions for our employees as required by relevant PRC laws and regulation and since January 2019, Shenzhen Confidence has commenced making social insurance contributions and housing provident funds for all of its employees;
- It engaged dispatched workers in the number exceeded the regulatory threshold of 10% of its total number of workers and the current number of dispatched workers has been reduced to be lower than the statutory threshold of 10%; and
- Its failure to complete the necessary environmental approval procedures in relation to our production premises located in No. 18 Building, New Development Zone, Bashixia, Fuyong Street, Bao'an District, Shenzhen and it had taken rectification action.

For further details, please refer to the paragraph headed "Business — Legal and compliance" in this prospectus.

RISK FACTORS

There are a number of risks involved in our business and operations. They can be classified into (i) risks relating to our business; (ii) risks relating to conducting business in the PRC; (iii) risks relating to the Share Offer; and (iv) risks relating to statements in this prospectus, and we believe that our major risk include (i) our Group had a concentration of customers during the Track Record Period and any decrease or loss of business from our major customers could adversely and substantially affect our operations and financial conditions; (ii) our cash flow position may deteriorate owing to a mismatch between receipt of payments from our customers and payments to our suppliers, if we are unable to manage our cash flow mismatch properly; and (iii) our failure to anticipate and respond to technology changes could harm our business.

OFFERING STATISTICS

	Based on minimum indicative Offer Price of HK$2.00	Based on maximum indicative Offer Price of HK$2.50
Market capitalisation of the Shares *(Note 1)*	HK$500,000,000	HK$625,000,000
Unaudited pro forma adjusted net tangible asset value per Share *(Note 2)*	HK$1.11	HK$1.23

Notes:

1. The calculation of market capitalisation is based on the 250,000,000 Shares expected to be in issue at the Offer Price immediately upon completion of the Capitalisation Issue and the Share Offer.

2. Please see "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for details regarding the assumptions and calculation basis used.

LISTING EXPENSES

Our estimated expenses in relation to the Listing, including underwriting commissions, are approximately RMB33.3 million, of which, approximately RMB14.9 million is directly attributable to the issue of the Shares to the public and will be accounted for as a deduction from equity upon completion of the Share Offer. The remaining estimated Listing expenses of approximately RMB18.4 million, was or will be charged to profit or loss, of which approximately RMB10.7 million had been recorded in the consolidated income statement and consolidated statement of comprehensive income during the Track Record Period, and approximately RMB17.9 million is expected to be charged to profit or loss for the year ending 31 December 2019. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2019 will be affected by the estimated expenses in relation to the Listing. This calculation is based on the Offer Price of HK$2.25 per Share (being the mid-point of the Offer Price range stated in this prospectus) and the assumption that 62,500,000 Shares are to be offered under the Share Offer and is subject to the adjustment based on the actual amount incurred or be incurred.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

The United States and the PRC have been involved in various negotiations relating to the export and import of products and technology since 2018, and have implemented various tariffs and placed other restrictions on goods to be exported to each country. In particular, certain products manufactured in the PRC and listed on a schedule of products published by the Office of the U.S. Trade Representative on 17 September 2018 (the "**September 2018 Tariffs List**"), including aerospace, information and communication technology, robotics and machinery, among other items, are currently subject to import tariffs of 25%, which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019. Further, certain products manufactured in the PRC and listed on two schedules of products published by the Office of the U.S. Trade Representative on 13 August 2019 would be subject to import tariffs of 15% starting from 1 September 2019 (the "**September 2019 Tariffs List**") and 15 December 2019 (the "**December 2019 Tariffs List**") respectively. The September 2019 Tariffs List and the December 2019 Tariffs List cover essentially all products not covered by the September 2018 Tariffs List, but excludes pharmaceuticals, certain pharmaceutical inputs, select medical goods, rare earth materials, and critical minerals, and excludes certain products based on health, safety, national security and other factors of the United States. None of our Group's products sold to customers located in the United States during the Track Record Period and up to the Latest Practicable Date were named on the then effective tariffs lists. However, as advised by our U.S. Legal Advisers and based on the communication between individual customers and us and our understanding on the applicability of our PCBAs, certain ultimate electronic products sold by our Group's customers that incorporate our products were named on the tariffs lists (including the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List) as at the Latest Practicable Date. For details, please refer to the paragraph headed "Business — Trade disputes between the United States and the PRC" in this prospectus.

Given the uncertainties in the development of the trade disputes and their effects on the global economy, we cannot assure you that these disputes will not materially and adversely affect our business, financial condition and operations. For details, please refer to the paragraph headed "Risk Factors — Our financial performance and results of operations could be adversely affected by trade protection measures and trade disputes" in this prospectus.

Save as disclosed in the paragraph headed "Listing expenses" in this section, our Directors confirmed that since the end of Track Record Period and up to the date of this prospectus, there was no material adverse change in the trading and financial position or prospect of our Group and no event had occurred that would materially and adversely affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed "Glossary of Technical Terms".

"Accountant's Report"	the report of our reporting accountant, the text of which is set out in Appendix I to this prospectus
"affiliate(s)"	any person(s), directly or indirectly, controlling, controlled by or under direct or indirect common control with another person(s)
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or where the context to requires, any of them that are used in connection with the Public Offer
"Articles" or "Articles of Association"	the amended and restated articles of association of our Company conditionally adopted on 20 September 2019, which will become effective upon the Listing Date, a summary of which is set out in Appendix III to this prospectus, and as amended, supplemented or modified from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Back-up Site"	a four-storey factory building at No. 2 Factory Building, No. 4 Industrial Zone, Fenghuang Community, Fuyong Street, Bao'an District, Shenzhen (深圳市寶安區福永街道鳳凰社區第四工業區廠房2棟), in respect of which we had entered into a pre-lease agreement with its landlord. Please refer to the paragraph headed "Business — Properties — Title defects — Contingency relocation plan of our production facility and staff dormitory" in this prospectus for details
"Board" or "Board of Directors"	the board of Directors
"Bright Shine"	Bright Shine Investment Holdings Limited (澤信投資控股有限公司), a company incorporated in BVI on 11 October 2018 with limited liability and wholly-owned by Mr. Yuen Hoi Po and through which Mr. Yuen Hoi Po invested in our Group. Please refer to the section headed "History, Development and Reorganisation" in this prospectus for details

"Business Day" or "business day"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the allotment and issue of 187,489,247 Shares upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed "A. Further information about our Company — 4. Written resolutions of the Shareholders" in Appendix IV to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct 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 Operational Procedures"	the operational procedures of HKSCC in relation to CCASS, containing the practises, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Central government", "Chinese government" or "PRC government"	the central government of PRC, including all government subdivisions (including provincial, municipal or other regional or local government entities) and instrumentalities
"Central Wealth"	Central Wealth Limited, a company incorporated in BVI on 8 November 2018 with limited liability and wholly-owned by Mr. Yuan. Please refer to the section headed "History, development and Reorganisation" in this prospectus for details
"China" or "PRC"	the People's Republic of China, but for the purpose of this prospectus only and except where the context requires otherwise, references in this prospectus to "China" or "PRC" do not include Hong Kong, Macau and Taiwan

"CIC"	China Insights Industry Consultancy Limited, a market research and consulting company, and an Independent Third Party
"CIC Report"	a market research report on China's EMS (Electronic Manufacturing Services) Industry commissioned by us and prepared by CIC
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Law"	the Companies Law, (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the 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"	Confidence Intelligence Holdings Limited (信懇智能控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 7 December 2018
"Confidence Intelligence (HK)"	Confidence Intelligence (Hongkong) Limited (信懇智能(香港)有限公司), a company incorporated in Hong Kong on 6 April 2017 with limited liability and an indirect wholly-owned subsidiary of our Company
"Confidence Intelligence (U.S.)"	Confidence Intelligence, Inc., a domestic stock corporation incorporated in California, the United States on 17 April 2017 and an indirect wholly-owned subsidiary of our Company
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means Mr. Li and Skyflying Company
"Dakin Capital" or "Sole Sponsor"	Dakin Capital Limited, a licensed corporation under the SFO permitted to carry out Type 6 (advising on corporate finance) regulated activity (as defined under the SFO), being the sole sponsor to our Company for the Listing
"Deed of Indemnity"	the deed of indemnity dated 20 September 2019 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), particulars of which are set out in the paragraph headed "F. Other information — 1. Tax and other indemnities" in Appendix IV to this prospectus

"Director(s)"	the director(s) of our Company
"EIT"	the enterprise income tax of the PRC (中華人民共和國企業所得稅)
"FY2014"	the financial year ended 31 December 2014
"FY2015"	the financial year ended 31 December 2015
"FY2016"	the financial year ended 31 December 2016
"FY2017"	the financial year ended 31 December 2017
"FY2018"	the financial year ended 31 December 2018
"**GREEN** Application Form(s)"	the application form(s) to be completed by **HK eIPO White Form** Service Provider
"Group", "our Group", "we", "our" and "us"	our Company and our subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
"Head & Shoulders"	Head & Shoulders Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO
"**HK eIPO White Form**"	the application for issue of Public Offer Shares in the applicant's own name by submitting applications online through the designated website at **www.hkeipo.hk**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website at **www.hkeipo.hk**
"HKAS"	the Hong Kong Accounting Standards
"HKFRS"	the Hong Kong Financial Reporting Standards issued by HKICPA
"HKICPA"	the Hong Kong Institute of Certified Public Accountants
"HKSCC"	the Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	the HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"HK$" or "Hong Kong dollars"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders of our Company, its subsidiaries or their respective associates
"Internal Control Consultant"	SHINEWING Risk Services Limited, the internal control consultant of our Company
"Joint Bookrunners" or "Joint Lead Managers"	Head & Shoulders and Red Eagle, being the joint bookrunners and joint lead managers for the Share Offer
"Latest Practicable Date"	19 September 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Listing"	listing of the Shares on Main Board
"Listing Committee"	the listing sub-committee of the directors of the Stock Exchange
"Listing Date"	the date on which the Shares are listed and from which dealings in Shares on the Main Board commences, which is expected to be on or about 18 October 2019
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended supplemented or otherwise modified from time to time)
"Main Board"	the Main Board operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company, conditionally adopted on 20 September 2019 which will become effective upon the Listing Date, a summary of which is set out in Appendix III to this prospectus, as amended, supplemented or modified from time to time
"Million Way"	Million Way Limited (茂譽有限公司), a company incorporated in Hong Kong on 22 January 2014 with limited liability and wholly-owned by the Mr. Yuen Hoi Po
"Mr. Li"	Mr. Li Hao (李浩), the chairman of our Board, our chief executive officer, one of our executive Directors, a Controlling Shareholder and a cousin of Mr. Xu
"Mr. Xu"	Mr. Xu Shizhen (許世真), one of our executive Directors and a cousin of Mr. Li

"Mr. Yuan"	Mr. Yuan Shuntang (袁順唐), our non-executive Director and a Substantial Shareholder
"Mr. Yuen Hoi Po"	Mr. Yuen Hoi Po (袁海波), a pre-IPO investor investing in our Group through Million Way with shares held by its nominee, Bright Shine
"Mr. Zhang"	Mr. Zhang Bizhong (張必鍾), one of our executive Directors and a Substantial Shareholder
"NEEQ"	National Equities Exchange and Quotations
"New Trive (BVI)"	New Trive Limited, a company incorporated in BVI on 2 January 2019 with limited liability and a direct wholly-owned subsidiary of our Company
"New Trive (HK)"	New Trive (HK) Limited (新銳志(香港)有限公司), a company incorporated in Hong Kong on 7 January 2019 with limited liability and an indirect wholly-owned subsidiary of our Company
"Nomination Committee"	the nomination committee of the Board
"Offer Price"	the final price per Offer Share in Hong Kong dollar (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK$2.50 and not less than HK$2.00 at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer, to be determined as described under the paragraph headed "Structure and Conditions of the Share Offer — Offer Price — Determination of the Offer Price" in this prospectus
"Offer Share(s)"	collectively, the Placing Shares and the Public Offer Shares
"Over-allotment Option"	the option expected to be granted by our Company to the Placing Underwriters, exercisable by Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) subject to the terms and conditions of the Placing Underwriting Agreement pursuant to which our Company may be required to allot and issue up to an aggregate of 9,375,000 additional Offer Shares (representing 15% of the initial number of the Offer Shares) to cover over-allocations in the Placing and/or to satisfy the obligation of the stabilising manager to return securities borrowed under the stock borrowing agreement, particulars of which are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus

"Placing"	conditional placing by our Company of the Placing Shares for cash at the Offer Price in accordance with and subject to the terms and conditions specified in this prospectus, details of which are set out in the section headed "Structure and Conditions of the Share Offer" of this prospectus
"Placing Share(s)"	the 56,250,000 Shares (subject to reallocation and the Over-allotment Option) being offered at the Offer Price for subscription pursuant to the Placing
"Placing Underwriter(s)"	the underwriter(s) of the Placing that is/are expected to enter into the Placing Underwriting Agreement
"Placing Underwriting Agreement"	the conditional underwriting agreement relating to the Placing to be entered into by, among others, our Company and the Placing Underwriter(s), particulars of which are set out in the section headed "Underwriting" in this prospectus
"PRC Legal Advisers"	Beijing DHH (Shanghai) Law Firm (北京德和衡(上海)律師事務所), our Group's legal adviser as to PRC law
"Predecessor Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
"Pre-IPO Investors"	collectively, Mr. Yuen Hoi Po, Million Way and Bright Shine, whose background is respectively set out in the paragraph headed "History, Development and Reorganisation — Pre-IPO investment — Background of the Pre-IPO Investors" in this prospectus
"Price Determination Agreement"	the agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or about Tuesday, 8 October 2019 and, in any event, no later than Friday, 11 October 2019, on which the Offer Price will be fixed for the purposes of the Share Offer
"Public Offer"	the issue and offer of the Public Offer Shares for subscription in Hong Kong at the Offer Price and subject to the terms and conditions described in this prospectus and the Application Forms
"Public Offer Shares"	the 6,250,000 Shares (subject to reallocation) initially offered by our Company for subscription in the Public Offer, as described under the section headed "Structure and Conditions of the Share Offer" in this prospectus

"Public Offer Underwriter(s)"	the underwriter(s) of the Public Offer, whose names are set out in the paragraph headed "Underwriting — Underwriters — Public Offer Underwriters and Placing Underwriters" in this prospectus
"Public Offer Underwriting Agreement"	the conditional underwriting agreement dated 27 September 2019 relating to the Public Offer entered into by, among others, our Company and the Public Offer Underwriters, particulars of which are set out in the section headed "Underwriting" in this prospectus
"Realtime"	Realtime Limited, a company incorporated in BVI on 8 November 2018 with limited liability and wholly-owned by Mr. Zhang
"Red Eagle"	Red Eagle Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities) regulated activities under the SFO
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of the Board
"Reorganisation"	the reorganisation arrangements undertaken by our Group in preparation for the Listing, which are further described in the paragraph headed "History, Development and Reorganisation — Reorganisation" in this prospectus
"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SGD"	Singapore dollars, the lawful currency of Singapore
"Share Offer"	the Public Offer and Placing

"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 20 September 2019, the principal terms of which are summarised under the paragraph headed "E. Share Option Scheme" in Appendix IV to this prospectus
"Share(s)"	ordinary share(s) with a par value of HK$0.01 each in the share capital of our Company
"Shareholder(s)"	holder(s) of Shares
"Shenzhen Confidence"	Shenzhen Confidence Intelligence Electronic Co., Ltd.* (深圳信懇智能電子有限公司) (formerly known as Shenzhen Confidence Industries Co. Ltd.* (深圳市信懇實業有限公司)), a company established under the laws of the PRC with limited liability on 23 March 2000 and an indirect wholly-owned subsidiary of our Company which was converted to Shenzhen Confidence Intelligence Electronic Co., Ltd. (a joint stock company with limited liability)* (深圳市信懇智能電子股份有限公司) on 2 December 2015 and listed on NEEQ on 10 May 2016. It was subsequently delisted on 4 December 2018 and converted to a limited liability company on 18 December 2018
"Shenzhen Production Plant"	our production plant and warehouses located on No. 7 & No. 18 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen
"Skyflying Company"	Skyflying Company Limited, one of our Controlling Shareholders and a company incorporated in BVI on 8 November 2018 with limited liability and wholly-owned by Mr. Li
"Stabilising Manager"	Head & Shoulders
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between the Stabilising Manager and Skyflying Company, pursuant to which the Stabilising Manager may borrow up to 9,375,000 Shares to cover any over-allocation in the Placing
"sq.m."	square metre
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules, unless the context otherwise requires

"Substantial Shareholder(s)"	has the meaning ascribed to it in the Listing Rules and details of our Substantial Shareholders are set out in the section headed "Substantial Shareholders" in this prospectus
"Takeovers Code"	the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
"Track Record Period"	comprises FY2016, FY2017, FY2018 and the four months ended 30 April 2019
"Underwriter(s)"	the Placing Underwriter(s) and the Public Offer Underwriter(s) and, in the context of this Prospectus, means Head & Shoulders and Red Eagle
"Underwriting Agreements"	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
"United States" or "U.S."	the United States of America
"US$" or "USD"	United States dollars, the lawful currency of the United States
"U.S. Legal Advisers"	Hogan Lovells, our Group's legal adviser as to U.S. law
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
"VAT"	value-added tax of the PRC (中華人民共和國增值稅)
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant's or applicants' our name(s)
"Xin Ju Ding Fu"	Xin Ju Ding Fu Equity Investment Funds (Shenzhen) Enterprise (Limited Partnership)* (信聚鼎富股權投資基金(深圳)企業(有限合伙)), a limited partnership established under the laws of the PRC on 5 August 2015, held approximately 7.69% shareholding interest of Shenzhen Confidence before the Reorganisation with Mr. Li as general partner and 23 individuals as limited partners
"Xinzhi (Shenzhen)"	Xinzhi (Shenzhen) Electronic Co., Ltd.* (信智(深圳)電子有限公司), a company established under the laws of the PRC with limited liability on 8 March 2019 and an indirect wholly-owned subsidiary of the Company
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
"%"	per cent.

Unless otherwise specified, for the purpose of this prospectus and for illustration purposes only, amounts denominated in Hong Kong dollars have been converted to RMB at the rates of HK$1.00 = RMB0.87, and vice versa. For details, please refer to the paragraph headed "Information about this Prospectus and the Share Offer — Exchange rate conversion" in the prospectus. The exchange rates used in this prospectus are for illustration purpose only. Our Company does not make any representation that any amounts in RMB or Hong Kong dollars had been or may be converted at the date of this prospectus or any other date at such rate or any other rate.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise specified, all times refer to Hong Kong time and references to years in this prospectus are to calendar years.

The English translation of company names in Chinese or another language which are marked with "" and the Chinese translation of company name in English which are marked with "*" are for identification purposes only. Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions, PRC-incorporated companies or other entities or any descriptions for which no English translation exists are unofficial translations for identification purposes only.*

"3G"; "4G" and "5G"	the third, fourth and fifth generation of broadband cellular network technology standards, respectively, that conform with various International Mobile Telecommunication specifications, which are standards for mobile telecommunications defined by the International Telecommunication Union
"AI"	acronym for artificial intelligence, sometimes refers to machine learning based on a large amount of data
"AI IoT"	acronym for artificial intelligence internet of things, which generally refers to IoT devices that are capable of AI processing of data to improve response time and efficiency
"AOI"	acronym for automated optical inspection, an automated visual inspection of a range of products, including PCBA, for a variety of surface feature defects such as scratches and stains, open circuits, short circuits, thinning of the solder as well as missing components, incorrect components, and incorrectly placed components
"AOI machine"	a machine which performs AOI on PCBAs
"anechoic chamber"	a room designed to reduce internal RF signal reflection and is often shielded from external RF signal, which may be used to conduct RF connectivity tests
"AQL"	acronym for acceptable quality limit, which is an inspection standard where the maximum number of defects that could be considered acceptable during a random sampling inspection
"Bluetooth"	a short range radio technology for internet and mobile devices, aimed at simplifying communications among them, based on standards developed by the Bluetooth Special Interest Group
"CAGR"	acronym for compound annual growth rate, a method of assessing the average growth of a value over a certain time period
"CES"	acronym for Consumer Electronics Show, an annual trade show organised by the Consumer Technology Association for products and technologies in the consumer electronics industry
"cph"	components per hour
"DFM Report"	design for manufacturability report, a report assessing the manufacturability of the design of a product

"DIP"	acronym for dual in-line packaging, an electronic component package with a rectangular housing and two parallel rows of electrical connecting pins which may be through-hole mounted, as opposed to surface mounted, to a PCB or inserted in a socket
"EMS"	acronym for electronics manufacturing services, which generally include services in product design and development, procurement of raw materials, product manufacture, related logistics, and after-sales services
"ERP"	acronym for enterprise resource planning, which generally refers to software which provides integrated management of various business processes in real-time
"FOB"	acronym for free on board, which means that the seller pays for transportation of the goods to the port of shipment as well as loading costs; the buyer pays cost of marine freight transport, insurance, unloading and transportation from the arrival port to the final destination; and the passing of risks occurs when the goods are loaded on board at the port of shipment
"IATF"	the International Automotive Task Force, an "ad hoc" group of automotive manufacturers and their respective trade associations, which aim to provide improved quality products to automotive customers worldwide
"IC(s)"	acronym for integrated circuit(s)
"IEEE"	acronym for Institute of Electrical and Electronic Engineers
"IoT"	acronym for internet of things, which is the inter-networking of physical devices, smart devices, and other devices or items embedded with electronics, software, sensors, and network connectivity which enable these devices or items to collect and exchange data
"ISO"	International Organisation for Standardisation, a non-governmental organisation that develops and publishes international standards
"ISO 14001"	one of the guidelines of ISO which is applicable to any organisation that wishes to establish, implement, maintain and improve an environmental management system

"ISO 9001"	one of the management standards and guidelines of ISO which states the requirement for quality management systems and covers the following management principles — customer focus, leadership, involvement of people, process approach, system approach management, continual improvement, factual approach to decision making and mutually beneficial supplier relationship
"MES"	acronym for manufacturing execution system, which generally refers to computerised system used for real-time documentation while providing for the control and management of manufacturing processes
"NPI"	acronym for new product import, which is the process of bringing a new product to the market
"OEM"	acronym for original equipment manufacturer, a supplier that only focuses on the manufacturing work, whereas its buyers are responsible for the product design and specification
"PCB(s)"	acronym for printed circuit board(s), a flat board(s) made of non-conductive material, such as plastic or fibreglass, on which chips and other electronic components are mounted and soldered, which are connected electrically by predefined conductive metal pathways that are printed on the surface of the board
"PCBA(s)"	acronym for printed circuit board assembly(ies) which is/are the product(s) resulting from the process of soldering or assembling of electronic components to PCB(s)
"PCB assembly" or "PCB assembling"	generally refers to the process of assembling, populating and soldering of various kinds of electronic components (such as capacitors, resistors, integrated circuits, transistors and diodes and inductors) onto a PCB to form a functional PCBA
"RF"	acronym for radio frequency, radio wave or electromagnetic radiation with wavelength longer than infrared light, generally used in telecommunications and other applications
"RFID"	acronym for radio-frequency identification, a technology that uses electromagnetic fields to automatically identify and track tags attached to objects
"smart device"	an electronic device, generally connected to other devices or networks via different wireless protocols such as bluetooth, Wi-Fi, 3G, etc., that can operate to some extent interactively and autonomously

"SMT"	acronym for surface mount technology, a process by which electronic components are mounted directly on the surface of a PCB, increasing board capacity, facilitating product miniaturisation and enabling advanced automation of production compared with insertion of components with through-hole technology
"SMT assembly line"	a production line for PCB assembly that consists mainly of SMT mounting machines and other ancillary machinery and equipment such as reflow oven and AOI machines
"SMT mounting machine(s)"	a SMT mounting machine used for placing various range of electronic components using SMT, which forms a core part of the SMT assembling process
"SPI"	acronym for solder paste inspection, a process to check the proper application of solder paste during the PCB assembling process
"through-hole technology"	a process by which electronic components are mounted through the holes of a PCB
"turnkey basis"	in EMS, means the material procurement and manufacturing of a product are done by the service provider
"wave soldering"	a soldering process by which electronic components are soldered to a PCB and is mainly used in soldering through-hole components
"Wi-Fi"	a wireless local area network certified by the Wi-Fi Alliance for wireless local area network products based on the IEEE 802.11 standards

This prospectus contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "estimate", "expect", "may", "ought to", "should" or "will" or similar terms, in particular, in the sections headed "Business" and "Financial Information" in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

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

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

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

Prospective investors should consider carefully all the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to our Company. Potential investors should pay particular attention to the fact that our Company is incorporated in the Cayman Islands, and that our Group's business is mainly located in China. The occurrence of any of the following events may have a material adverse effect on the business, results of operations, financial conditions and prospects of our Group. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our Group had a concentration of customers during the Track Record Period and any decrease or loss of business from our major customers could adversely and substantially affect our operations and financial conditions.

For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our five largest customers accounted for approximately 99.0%, 98.3%, 90.2% and 80.9% of our total revenue, respectively. These major customers may continue to account for similar or even higher proportion of our revenue in the future. In particular, OPPO Group, being our largest customer for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, accounted for approximately 77.2%, 68.2%, 53.8% and 38.9% of our total revenue, respectively. We expect to continue to derive a significant amount of revenue from OPPO Group in the near future given our stable and sustainable business relationship with it, its leading position in the production and sale of smartphones in the PRC and the difficulties faced by it in engaging other EMS providers in the PRC in place of our Group. Please refer to the paragraph headed "Business — Relationship with OPPO Group" in this prospectus for further details.

In light of the above, we face the risks associated with having customer concentration in the future. There is no assurance that any of our major customers, particularly, OPPO Group will continue to engage us as they do currently or the revenue generated from dealings with them can be maintained or increased in the future. If there is a reduction or cessation of purchase orders from these major customers for whatever reasons and we are unable to obtain purchase orders of a comparable size and terms in substitution or our plan to diversify or expand our customer base does not succeed or the demand for our PCBAs from OPPO Group reduces substantially, our business, financial conditions, results of operation and gross profit may be materially and adversely affected.

Our cash flow position may deteriorate owing to a mismatch between receipt of payments from our customers and payments to our suppliers, if we are unable to manage our cash flow mismatch properly.

While a majority of customers, such as OPPO Group, would provide the necessary raw materials to us for our provision of EMS solutions, there were customers which requested us to procure raw materials for them in our provision of integrated EMS solutions. In such circumstances, we have to purchase raw materials from our suppliers from time to time based on the customers' purchase orders and our procurement policy.

We rely on cash inflow from our customers to meet our payment obligations to our suppliers. Our cash inflow is dependent on the prompt settlement of our payments. As at 31 December 2016, 2017, 2018 and 30 April 2019, we recorded trade and bills receivables amounted to approximately RMB19.8 million, RMB18.3 million, RMB27.2 million and RMB13.0 million, respectively, and the number of our average trade and bills receivables turnover days was approximately 43.1 days, 33.3 days, 35.2 days and 28.3 days, respectively. As at 31 December 2016, 2017, 2018 and 30 April 2019, our Group's trade receivables of approximately RMB49,000, RMB2.9 million, RMB7.0 million and RMB5.9 million were past due but not impaired, respectively. Approximately 85.6% of the trade and bills receivables as at 30 April 2019 had subsequently been settled as at the Latest Practicable Date. On the other hand, we generally grant our customers credit terms within the range of 30 to 90 days, while the credit period granted by our suppliers to us generally ranges from 30 days to 60 days. As at 31 December 2016, 2017, 2018 and 30 April 2019, our trade and bills payables amounted to approximately RMB2.9 million, RMB9.4 million, RMB10.1 million and RMB14.3 million, respectively. For further details, please refer to the paragraph headed "Financial information — Liquidity and capital resources — Cash flows of our Group — Net cash generated from/(used in) operating activities". It is possible that we may experience a cash flow deficit in the future if the settlement schedule of our customers falls far behind from our payment schedule to our suppliers.

As we are subject to the credit risks of our customers and our liquidity and cash position are dependent on the timely settlement of payments by our customers, we cannot assure you that our customers will pay us on time and that they will be able to fulfil their payment obligations. Our customers' sizeable operation and internal bill settlement procedures may lead to a longer settlement period of account receivables which may in turn adversely affect our liquidity position and financial condition. Should we experience any unexpected delay or difficulty in collecting trade receivables from our customers, our operating results and financial condition may be adversely affected.

Furthermore, during the Track Record Period, we recorded a net operating cash outflow in the amount of approximately RMB0.9 million for the four months ended 30 April 2018, primarily due to the increase in inventories of approximately RMB10.8 million for the four months ended 30 April 2018. We cannot guarantee that our prospective business activities and/or other matter beyond our control (such as market competition and changes to the macroeconomic environment) will not adversely affect our operating cash flow and lead to net operating cash outflows in the future.

If we fail to manage the aforesaid cash flow mismatches, or cannot function properly or at all, or if the cash flow mismatch is further aggravated, we may have to reserve further funds from our internal resources and/or obtain banking facilities to meet our payment obligations, and our financial condition may be materially and adversely affected as a result.

We may fail to anticipate and respond to technology changes could harm our business.

The market for EMS is characterised by rapidly-changing technology and introduction of new electronic products and services. Given most of our PCBAs are embedded in downstream electronic products, such as telecommunication devices and IoT products, we have to keep ourselves abreast of the development of latest technology advancement in these downstream industries. For instance, in anticipation of the commercial launch of 5G smartphone in 2020 which may entail an upsurge in production of 5G smartphones in the PRC, we have to be well prepared for these forthcoming changes by, including, expanding our production, testing and quality control capacity and efficiency for assembling and productions of PCBAs that can be incorporated into the 5G smartphones and relevant IoT modules.

Our success therefore depends on our technical know-how to anticipate and respond to the new technology in the provision of EMS and our capability to understand the changing needs, preferences and requirements of our customers. There is no assurance that we will be able to offer, on a timely basis, new EMS or enhancements of existing EMS that can address the changing needs of our customers. If our Group does not quickly respond to the rapidly changing and rigorous needs of our customers or enhance the scope of our existing EMS that can respond to advanced technology changes or our customers' needs, our competitive position, profitability and business prospects will be adversely affected.

Our financial performance and results of operations could be adversely affected by trade protection measures and trade disputes.

During 2018 and 2019, the United States and the PRC have been involved in various negotiations relating to the export and import of products and technology, and have implemented various tariffs and placed other restrictions on goods to be exported to each country. In particular, certain products manufactured in the PRC listed on the September 2018 Tariffs List including aerospace, information and communication technology, robotics and machinery, among other items, are currently subject to import tariffs of 25%, which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019. Further, certain products manufactured in the PRC and listed on the September 2019 Tariffs List and the December 2019 Tariffs List would be subject to import tariffs of 15% starting from 1 September 2019 and 15 December 2019 respectively. The September 2019 Tariffs List and the December 2019 Tariffs List cover essentially all products not covered by the September 2018 Tariffs List, but excludes pharmaceuticals, certain pharmaceutical inputs, select medical goods, rare earth materials, and critical minerals, and certain products based on health, safety, national security and other factors. None of our Group's products sold to customers located in the United States during the Track Record Period and up to the Latest Practicable Date were named on the then effective tariffs lists. However, as advised by our U.S. Legal Advisers and based on the communication between individual customers and us and our understanding on the applicability of our PCBAs, certain ultimate electronic products sold by our Group's customers that incorporate our products were named on the tariffs lists (including the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List) as at the Latest Practicable Date. As the import tariffs and other actions relating to the trade disputes are continuously evolving, we cannot accurately predict whether any anti-dumping duties, tariffs or quota fees will be imposed on our products or the ultimate electronic products of our customers by the United States in the future. Any trade restrictions imposed by the United States on our products or the ultimate electronic products of our customers could significantly increase our customers' cost of sales to the United States, which may lead our customers or customers of the ultimate electronic products to purchase from manufacturers based in other countries that are not subject to such tariffs. Furthermore, the uncertainties on the trade restriction policies resulting from the trade disputes may cause difficulties for our customers to project their purchasing plans and may cause them to reduce their orders from us. In such events, our business, financial condition and results of operations could be materially and adversely affected.

Any slowdown of the downstream industry where our PCBAs apply may materially and adversely affect our results of operations, financial condition and business prospects.

As an EMS provider specialising in offering comprehensive PCB assembling and production services, our business performance depends, to a large extent, on the performance and condition of the downstream industries to which our PCBAs would apply in their electronic products, for instance, telecommunication devices, industrial-use devices and IoT products.

The relevant downstream industries may experience slowdown or downturn due to market or industry conditions, global economic environment or other factors beyond our control. Any decrease in the demand for electronics products or equipment such as, telecommunication devices, industrial-use devices and IoT products may reduce the demand for our PCBAs through our EMS solution platform. In such circumstances, our sales may decline and our results of operations, financial condition and business prospects may be materially and adversely affected.

Fluctuations in the price of raw materials or any delay in the delivery of raw materials to us may materially and adversely affect our business operations.

There were more customers who requested us to select and provide raw materials for them in the course of our provision of EMS and we have to bear the risk of cost fluctuations and may not be able to shift such risk to our customers. Hence, any increase in the price of the raw materials will directly affect our profitability if we fail to accurately estimate the cost of the raw materials to fulfil the purchase orders when we fixed the price with our customers. For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the cost of raw materials and consumables used amounted to approximately RMB27.2 million, RMB49.8 million, RMB72.5 million and RMB27.9 million, respectively, representing approximately 24.4%, 34.4%, 44.8% and 49.4% of our total cost of sales, respectively.

Since we do not enter into long-term procurement agreement with our suppliers, there is no assurance that our suppliers will not significantly increase the price of raw materials in the future, in particular, when the market price of or the market demand for such raw materials increases. There is also no assurance that we will be able to pass the increase in the costs of raw materials to our customers in a timely manner or at all to avoid adverse impacts on our profitability.

On the other hand, our ability to complete a customer's purchase order on time is therefore dependent on the timely delivery and the quality of raw materials. There is no assurance that our suppliers will be able to supply and deliver the required raw materials to us in a timely manner or that the raw materials will not be defective or sub-standard. Any delay in the delivery of raw materials or any defect in the raw materials supplied to us may materially and adversely affect or delay our production schedule and, if we cannot secure raw materials of similar quality and at reasonable prices from alternative suppliers in a timely manner or at all, we may not be able to deliver our PCBAs to our customers on time. In such circumstances, we may lose customer loyalty and confidence on our services and products. This may also harm our reputation and our results of operations and financial condition may be materially and adversely affected.

Unexpected disruptions to our production facilities or production process may materially and adversely affect our business operations.

Our business operations are heavily dependent on the smooth operations of our Shenzhen Production Plant, where all of our production machinery and equipment are situated. These production machinery and equipment are subject to operating risks, such as equipment failures, disruptions in power supply, industrial accidents, labour shortage, strike, fire or natural disasters. If any unanticipated or prolonged interruption of our operations at our Shenzhen Production Plant happens due to any of the aforesaid risks, we may not be able to deliver our products to our customers in a timely manner or at all. As a result, our relationship with our customers could be adversely affected due to our failure and we may also be subject to contractual claims for compensation from our customers, which may materially and adversely affect our business, financial conditions and results of operations.

We are exposed to credit risks of our customers.

As at 31 December 2016, 2017, 2018 and 30 April 2019, our Group's trade and bills receivables were approximately RMB19.8 million, RMB18.3 million, RMB27.2 million and RMB13.0 million respectively, representing approximately 34.4%, 19.9%, 23.5% and 10.6% of our Group's total current assets as at the respective dates.

If our customers delay in or default on their payments, we may have to make additional provision for impairment, write off the relevant receivables and/or incur substantial legal costs to recover the outstanding balance, which may in turn materially and adversely affect our financial condition, results of operations and business prospects. We are therefore subject to credit risk of our customers and our profitability and cashflow are dependent on our timely receipt of payments from our customers.

There is no assurance that we will be able to collect all or any of our progress payments in a timely manner, or at all. Non-payment or delays in payment by our customers may materially and adversely affect our business, financial condition, results of operations and prospects.

We may experience delays or defaults in collecting our contract assets.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, we recorded contract assets of approximately RMB21.5 million, RMB20.6 million, RMB31.7 million and RMB40.8 million, respectively. Although we recorded no impairment loss during the Track Record Period, we cannot guarantee that all our contract assets are recoverable in future. Our business operations and cash flow are subject to the risk of delay in payment from our customers. Our customers' settlement day will generally be affected by their internal policies. We cannot assure you that we will be able to fully recover the outstanding amounts due from our customers, if at all, or that our customers will settle the amounts in a timely manner.

If a customer delays its payment, or fails to settle the contract assets to us as scheduled, our cash flow and working capital may be materially and adversely affected. Even if we are able to recover any losses incurred pursuant to the terms of the contract, the process of such recovery is usually time-consuming and requires financial and other resources to settle the disputes. Furthermore, there is no assurance that any outcome will be in our favour or that any dispute will be resolved in a timely manner. Failure to secure adequate payments in time or to manage past due debts effectively could have a material and adverse effect on our business, financial position, results of operations and prospects. There is no assurance that such payments will be made on time by our customers in the future. Any failure by our customers to make payments to us on a timely manner may have an adverse effect on our future liquidity position.

We may be subject to fines and penalties as a result of our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC during the Track Record Period.

During the Track Record Period, Shenzhen Confidence failed to make adequate social insurance and housing provident fund contributions for our employees as required by relevant PRC laws and regulations. Please refer to the paragraph headed "Business — Legal and compliance" of this prospectus for details.

In light of the above non-compliance, our Directors have assessed that the amount of underpaid social insurance and housing provident funds were approximately RMB1.6 million, RMB1.8 million and RMB1.8 million, for each of FY2016, FY2017 and FY2018, respectively.

There is no assurance that we will not be subject to penalties or fines imposed by the relevant PRC authority as a result of such non-compliance incidents. In the event that the relevant authority later strengthens the enforcement of the relevant laws and regulations on social insurance and housing provident fund in respect of the enterprises within its jurisdiction and accordingly considers it necessary to make retrospective contribution to social insurance fund and housing provident fund contributions and impose penalties, the amount of which may be significant, our Group's business, financial condition and operating results may be materially and adversely affected.

Our leased properties are subject to title encumbrances, and we could be required to vacate such properties.

We currently lease the properties for the Shenzhen Production Plant which has a total gross floor area of approximately 9,375 sq.m. from an Independent Third Party. So far as we are aware, due to historical reasons, Shenzhen Baishixia Shares Cooperation Company* (深圳市白石廈股份合作公司) ("**Shenzhen Baishixia**") being the landlord of the Leased Properties has failed to provide land use right certificate (土地使用權證書), land use planning permit (建設用地規劃許可證), construction planning permit (建設工程規劃許可證), construction approval document (建築工程施工許可證) and property ownership certificate (房屋所有權證) for the Leased Properties. For details of the non-compliance and its legal consequence, please refer to the paragraph headed "Business — Properties — Title defects" of this prospectus. If we suffer loss and damage as a result of the title defects of the Shenzhen Production Plant and the indemnity from our Controlling Shareholders fails to sufficiently cover such loss and damage or at all, our financial position may be adversely affected.

In the event that we are forced to move out from the Shenzhen Production Plant by the relevant authorities in the PRC, we may have to relocate our Shenzhen Production Plant to the Back-up Site set out in our relocation plan in the paragraph headed "Business — Properties — Title defects — Contingency relocation plan of our production facility and staff dormitory" of this prospectus. If the relocation takes longer than we expect, we may experience interruption and delays in our production process and our financial position may be adversely affected.

The future success of our Group depends, to a certain extent, on the productivity of the Back-up Site. Some customers may require an on-site factory visit and audit of our production facilities, the Back-up Site and new production equipment and machinery to be performed and passed before we can produce the products for these customers. There is no assurance that these on-site factory audits can be conducted on time or if we have to make adjustments to our production facilities pursuant to the results of the on-site factory audit. Thus, the Back-up Site may not be able to commence its full operations as planned. Any delays in the commencement of its full operations might have a material adverse effect on our results, operations and planned future growth.

We may not be able to obtain adequate financing for the development of our business in the future.

The daily operation of our business requires intensive working capital and we also require capital investment to purchase new machinery and equipment for our business growth. During the Track Record Period, we relied on our working capital, bank borrowings and amount due to our Shareholders to maintain our cash flow and satisfy the needs of our daily productions. As at 31 December 2016, 2017, 2018 and 30 April 2019, our bank and other borrowings repayable within one year was approximately RMB7.2 million, RMB21.4 million, RMB10.6 million and RMB7.4 million, respectively.

We cannot assure that we will be able to obtain bank loans and/or other equity or debt financing on commercially reasonable terms and/or on a timely basis following the Listing. If we are unable to obtain necessary financing or obtain such financing on favourable terms due to various factors beyond our control, we may not have sufficient funds to develop our business and the future prospect and growth potentials of our Group may be adversely affected.

There is no assurance that our business strategies and future plans will be successfully implemented.

The successful implementation of our business strategies and future plans will depend on various factors, including but not limited to our ability to (i) expand our production capacity and enhance our production efficiency; (ii) enhance the level of automation in quality control and packaging; (iii) strengthen our research and development capabilities; (iv) upgrade our MES system and enhance our capabilities in information technology; (v) strengthen our product design and enhancement capabilities in respect of RF connectivity in telecommunication devices and IoT products; (vi) strengthen our product testing capabilities in IoT products; and (vii) upgrade our intelligent warehouse.

The success of our expansion plan hinges on our ability to capture additional customer demands. However, there is no assurance that we will be able to maintain or establish relationships with our existing or prospective customers or secure new purchase orders to utilise our increased production capacity. There are also other uncertainties and risks, such as delays, cost overrun, shortage of labour and shortage of key materials, which are beyond our control and would increase the costs of implementing our expansion plan. We may even have problems of under-utilisation if demand for our products does not increase at the same rate. In the event that the above-mentioned uncertainties and risks happen or we are unable to achieve high utilisation of our production capacity as planned, there could be a material adverse effect on our performance and results of operation. There is no assurance that we will be able to successfully implement our business strategies or future plans. Even if our business strategies or future plans are implemented, there is no assurance that they will increase our market share or enhance our market position. Our results of operations and financial position may be materially and adversely affected if our business strategies or future plans are not successfully implemented.

The future capital expenditure of our Group for the purchase of machinery and equipment may result in an increase in our depreciation expenses.

Our Group currently plans to use approximately HK$54.7 million of the net proceeds from the Share Offer to acquire new-model SMT mounting machines in order to expand our production capacity, approximately HK$8.5 million to set up five automated testing and packaging lines, and approximately HK$6.5 million for setting up RF shielding room. For more details, please see the section headed "Future Plans and Use of Proceeds" of this prospectus. Such upgrade and addition of SMT assembly lines, automated testing and packaging lines and RF shielding room may increase our depreciation expenses by approximately HK$2.7 million and HK$5.9 million for the year ending 31 December 2020 and 2021, respectively, and may therefore adversely affect our Group's future results of operations and financial performance. Furthermore, any unexpected requirement for the acquisition of additional SMT assembly lines, automated testing and packaging lines and RF shielding room would have a negative impact on the cash level of our Group and the additional depreciation expenses may adversely affect our Group's financial performance in the future.

Our profit margin could be adversely affected if we are unable to continuously maintain a high utilisation rate of our production machinery and equipment.

Our ability to maintain our profitability depends partly on our ability to maintain a high utilisation rate of our production machinery and equipment in our Shenzhen Production Plant. The level of utilisation rate of our production machinery and equipment can impact our operating results as a certain percentage of our costs of sales such as direct labour and factory overhead are relatively fixed in nature. A higher utilisation rate of our production machinery and equipment allows us to spread our fixed costs over a larger quantity of product, resulting in a higher profit margin. Hence, if we are unable to continuously maintain a high utilisation of our production machinery and equipment, our profit margin would be adversely affected.

We rely on our senior management team.

Our success has been heavily dependent on the services provided by our key management personnel, and we believe that the senior management team will continue to be essential to the development and success of our business. In particular, Mr. Li has over 20 years of experience in the PCBA industry for electronic products and he is also the founder of our Group. Mr. Li is responsible for formulating the overall corporate strategies and handling the day to day operation of our Group during the Track Record Period. Mr. Li and other senior management's knowledge and experience in the EMS industry are a major factor of our Group's success. To a certain extent, the future of our Group relies on our ability to retain the services of key management personnel.

While Mr. Li and other members of the senior management team entered into or agreed to enter into service agreements with us, there is no assurance that they or any of them will not terminate their service agreement or decline to renew their service agreements with us. If that happens, we may not be able to replace, retain, attract and hire other qualified managerial personnel and there may be a disruption to our business, which may adversely affect our performance.

Our research and development in our PCB assembling services may not be well-received by the market.

Our Directors believe that our capability to meet our customers' requirements and specifications in our PCB assembling services in terms of style, quality and performance is the key differentiating factor that sets us apart from the rest of the industry players. That is the reason why we had devoted substantial resources to conduct research and development in (i) enhancing the assembling process; and (ii) expanding the usage of our PCBAs to other electronic products.

However, conducting research and developing products can be a costly process and do not necessarily lead to the launch of a marketable new product. Instead, the results of research and development are sometimes unpredictable, in the sense that we are not able to predict the market's response to our new products before mass production. If our research and development capabilities fail to develop products that meet our customers' expectations, our business and results of operations may be adversely affected.

If we fail to manage our inventories effectively, we may experience a heightened risk of inventory obsolescence, a decline in inventory value and significant inventory write-downs or write-offs.

While the majority of our customers provide raw materials to us and we generally procure raw materials after we have confirmed the purchase orders with some of our other customers and checked the orders against our inventory in order to avoid accumulation of excessive inventories, there is no assurance that our customers will not subsequently cancel or reduce their purchase orders, in which case we may not be able to resell the raw materials ordered for them and/or the products manufactured according to their specifications. Customer demand may be affected by numerous uncertainties, including the progress of their projects, timing and success of their product trial and testing and other factors beyond our control, which may result in an increase in our inventory level.

For raw materials that are commonly used in our production process, we place orders with our suppliers from time to time based on the inventory level maintained in our ERP system in order to meet our production needs. However, the purchase volume from our customers may differ from their original plan or with our estimates, which may result in an increase in our inventory level. For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our provision for inventories was approximately RMB4.5 million, nil, RMB1.0 million and nil respectively, which accounted for approximately 4.1%, nil, 0.6% and nil of our total cost of sales, respectively. For more details, please refer to "Financial Information — Analysis on major components of the consolidated balance sheets — Inventories" in this prospectus.

Our Group recorded an increase in average inventory turnover days from approximately 12.8 days for FY2016 to approximately 62.1 days for the four months ended 30 April 2019. For more details, please refer to "Financial Information — Analysis on major components of the consolidated balance sheets — Inventories" in this prospectus. We expect that our inventory turnover may increase as we continue to expand our production capacity and our Shenzhen Production Plant and the upgrading of our intelligent warehouses.

If we fail to effectively manage the level of our inventories, we may experience a heightened risk of inventory obsolescence, a decline in inventory value and significant inventory write-downs or write-offs. Any of the above circumstances may materially and adversely affect our financial condition and results of operations.

Our quality control system may not be as effective as we expect, which may lead to our failure to conform with both international and domestic quality standards in relation to our products and give rise to product returns and replacement.

The quality of our products depends significantly on the effectiveness of our quality control systems, which in turn, rely on a number of factors, including the design of our quality control systems, the quality control training programmes organised by us for our employees, and our employees' awareness in adhering to our quality control policies and guidelines from time to time. Any significant failure or deterioration of our Group's quality control systems could result in the production of defective or substandard products, delay in delivery of our products, replacement of defective or substandard products, product returns and damage to our reputation.

As a EMS provider, if our PCBAs do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, or result in our customers suffering losses as a result of product liability claims, we may be subject to demands for product return, product liability claims and litigations, claims for indemnity by our customers and other claims for compensation. Any reimbursement of a substantial amount of repair cost or any large-scale product return or replacement will not only damage our reputation in the industry and erode our customers' confidence in the quality of our products, but will also materially and adversely affect our financial condition and results of operations. We may also incur significant legal costs regardless of the outcome of any claim of alleged defect. Product failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales of our products, or claims or litigation against us regarding the quality of our products. As a result, it would have a material adverse effect on our business, reputation, financial conditions and results of operations.

Intense competition in the industry may affect our pricing, which may materially and adversely affect our results of operations and business prospects.

According to the CIC Report, the competition in the PCBA industry remains rather fierce with over three thousand players, and more PCBA manufacturers are shifting their focus to more high-end PCBAs to secure their market shares in the industry. Therefore, competition among participants of the PCBA industry may have a negative impact on our pricing, thereby affecting our business performance and profitability. If our existing or new competitors offer EMS similar to ours at a lower cost or engage in aggressive pricing strategy in order to gain more market share, our sales may decline if we are not able to match their lower cost or price. Any of the above may have a material adverse effect on our results of operations, financial condition and business prospects.

We are exposed to risks of infringement of our intellectual property rights by third parties.

We are the registered owner of certain patents and copyrights in the PRC; however, the said registrations may be insufficient to prevent third parties from misappropriating our intellectual property rights. In particular, we are susceptible to infringement of our intellectual property rights as the protection and enforcement of intellectual property rights in the PRC are not as certain and effective as in other developed countries. Even though we have registered our patents and copyrights, there is no assurance that we are free from any infringement of our intellectual property rights by our competitors or other third parties. There is no assurance that there will not be any imitation of our PCBAs, which will adversely affect our sales and profitability as well as an increase in the administrative costs in detection and protection of our products, which in turn affects our overall results.

Furthermore, as at the Latest Practicable Date, we had applied for the registration of ten patents relating to PCB assembling services and related EMS in the PRC. However, there is no assurance that the said patents under applications will be approved or approved on a timely basis. Also, we cannot assure you that there is no potential risk of infringement claims made by any third party against us regarding our patents and copyrights. If that happens, the defence of intellectual property rights claims can be both costly and time consuming and may significantly divert the efforts of our management personnel and financial resources. It would also result in our customers deferring or limiting their purchase or use of our products until the resolution of such lawsuits. If such claims are brought against us, we might also face lengthy and costly litigation that could adversely affect our overall performance.

We engage independent third party logistics service providers to deliver our products, and their failure to provide timely and high quality logistics services to our customers may adversely affect our brand image and our financial condition.

We engage independent third party logistics service providers to deliver our products to our customers. Delivery disruptions such as transportation bottlenecks, inclement weather and natural disasters, social unrest, vehicle breakdown, labour strikes or other circumstances beyond our control may result in delayed or lost deliveries. There is no assurance that the logistics service providers will be able to deliver our products according to the delivery schedule or provide high quality services to our customers. If the logistics service providers fail to deliver our products to our customers on time or if our products are damaged in the course of delivery, our customers may refuse to accept our products and our reputation and brand image may suffer as a result. We may also be subject to penalties in the event of late delivery, which may materially and adversely affect our financial position. In addition, any significant increase in the cost of transportation, such as fuel cost, will increase our operating expenses.

We are exposed to foreign exchange risks.

Our functional currency is RMB while some of our business transactions with our customers and suppliers are denominated in U.S. and Hong Kong dollars. We are exposed, to some extent, to foreign currency risks as a result of sales or purchases that are denominated in a currency other than RMB. Any significant changes in the exchange rate between RMB and other currencies may result in substantial loss for us and our financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Owing to the fact that most of our Group's assets, business operations and manufacturing facilities are in the PRC, its economic, political and legal developments would affect the results of our operations, financial position and prospects accordingly. The major risks that we are exposed to are as follows:

Changes in the PRC's political, economic and governmental policies may have an adverse impact on our operations.

The PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy. In addition, there are policies and regulations imposed by the PRC government in various aspects in different industries. Our Group cannot predict whether changes in the PRC's economic and political environment will have any adverse effect on our business, results of operations or financial condition in the future.

For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the revenue derived from our customers in the PRC accounted for almost 100% of our total revenue. We expect that the PRC will continue to be our principal market and place of operation. Accordingly, our business, financial condition and results of operations are subject to political, economic and legal developments in the PRC. We cannot assure you that there will not be any unfavourable changes in the PRC's political, economic and governmental policies and measures that could impact the industries in which we operate, which could in turn diminish the demand for our services. As we rely heavily on domestic sales in the PRC, our financial performance may be affected by the fluctuations in its economy. If there is any economic downturn or significant changes in consumer preferences or consumers' spending pattern in the PRC resulting in a decline in demand for consumer electronic products, the revenue derived from our PCB assembly and production services would be materially affected correspondingly.

There is no assurance that we will be able to predict and respond to changes in economic conditions of the PRC. We may not be able to adopt measures to sufficiently control our costs or maintain our sales volume during the recession period of the PRC. Any failure to do so may have a material adverse effect on our business, financial condition and results of operation.

Our business operations are subject to uncertainties with respect to the laws and regulations of the PRC.

Our business and operations in the PRC are governed by the laws of the PRC. The PRC law is a codified system which comprises of statutory laws, regulations, circulars, administrative directives and internal guidelines. Some of them, and the interpretation, implementation and enforcement thereof, are still at the experimental stage and may therefore be subject to policy changes.

In the event that our PRC subsidiary breaches any of the foregoing, whether by omission or not, we will be subject to penalties prescribed therein. Owing to the fact that the legal system and economic system are growing at different paces, some degree of uncertainty exists in connection with whether and how existing laws and regulations are applicable to certain circumstances. Moreover, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations may not be always applicable to similar cases. The outcome of dispute resolution may not always be as consistent or predictable as in some other jurisdictions.

In addition, should there be any changes in the licensing requirements, such as a requirement to obtain more licenses or more stringent criteria having to be satisfied before certain licenses are granted, the cost to ensure that we comply with these licensing requirements may increase. The withdrawal, suspension or termination of our licenses or permits, or the imposition of any penalties, as a result of any infringement of any regulatory requirements will have an adverse impact on our business and results of operations.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on our business, operations and profitability.

Our business and operations in the PRC are governed by the legal system of the PRC. The interpretation of the PRC laws and regulations may be influenced by policy changes reflecting domestic political and social changes. The rules relating to the enforcement of the judgments and arbitration awards in the PRC, or to obtain enforcement of judgment by a court of another jurisdiction may be different from other jurisdictions and may result in different outcomes.

The PRC government has gradually laid down implementation rules and has continued to amend and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or amendment and modification of existing laws may affect foreign investors. There can be no assurance that (i) future changes in legislation or the interpretation will not have an adverse effect upon our business, operations or profitability; and (ii) the PRC authorities will not issue further directives, regulations, clarifications or implementation rules requiring us to obtain further approvals in relation to our business, operations and our proposed Listing.

Any change or discontinuation of preferential tax treatments we currently enjoy would increase our tax liability and accordingly adversely affect our business and results of operations.

Our Group has been granted the status of "High and New Technology Enterprise* (高新技術企業)" which was renewed and extended in November 2016 and, accordingly we have been enjoying a preferential EIT of 15% during FY2016 to FY2018. The validity period of the status of our Group being a "High and New Technology Enterprise" is three years and will expire during the year ending 31 December 2019, which is subject to renewal upon our application and further assessment by the relevant authority. As at the Latest Practicable Date, we are in the process of renewal application, but we cannot guarantee that our renewal application would succeed. We expect to receive the assessment result by December 2019 as advised by our PRC Legal Advisers. There is no assurance that the PRC policies on preferential tax treatments will not change or that the current preferential tax treatments we enjoy will not be cancelled. If such change or cancellation occurs, the resulting increase in our tax liability would have an adverse effect on our net profits and cash flow.

Any discontinuation, reduction or delay of government grants that may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.

We received government grants in the form of various non-recurring subsidies and incentives from local government authorities for our purchase of equipment. The amount of government grant recognised for FY2016, FY2017, FY2018 and the four months ended 30 April 2019 was approximately RMB66,000, RMB1.5 million, RMB1.6 million and RMB1.2 million, respectively. For details, please refer to the paragraphs headed "Financial Information — Period to period comparison of results of operation — Other income" and the paragraphs as disclosed in note 2.24 to the Accountant's Report in Appendix I to this prospectus for more details. As these grants are provided typically on a one-off basis, there is no guarantee that we will continue receiving them in the future. If we cannot successfully apply for the government grants in the future, it could have a material adverse effect on our financial condition, results of operations, cash flows and prospects.

We are subject to extensive environmental, occupational health and safety laws, regulations, government policies, and compliance with these laws, regulations and policies may be costly.

Our business operations are subject to various environmental, occupational health and safety laws, regulations and government policies promulgated by the PRC government. Please refer to the paragraph headed "Regulatory Overview — Laws and regulations in relation to our Group's business in the PRC" in this prospectus for further details.

The environmental, occupational health and safety laws, regulations and government policies applicable to our business operations and products are constantly evolving and we cannot predict when or how they will be amended, nor the consequence or impact thereof. There is no assurance that the PRC government or the relevant authorities in the PRC will not impose additional or more stringent laws, regulations or government policies in the future, which may subject us to more onerous duties and obligations. Any change or amendment to these laws, regulations or government policies may require us to incur substantial financial or other resources to adjust our production process, introduce new preventive or remedial measures, purchase new pollution control equipment and update our compliance and monitoring systems in order to ensure compliance, which may have a negative impact on our results of operations and financial condition.

We may be deemed a PRC "resident enterprise" under the EIT Law and be subject to PRC taxation on our worldwide income.

The EIT Law and its implementation regulations issued by the State Council (國務院) define the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control of the enterprises". Under the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management organisation" located within the PRC, the enterprise may be recognised as a PRC resident enterprise and thus may be subject to EIT at the rate of 25% on its worldwide income. In April 2009, the SAT further specified certain criteria for the determination of what constitutes "de facto management bodies" for foreign enterprises which are controlled by a PRC enterprise. If all of these criteria are met, the relevant foreign enterprise will be deemed to have its "de facto management bodies" located in the PRC and therefore be considered a PRC resident enterprise. These criteria include whether: (i) the enterprise's day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. We are currently not treated as a PRC resident enterprise by the relevant tax authorities in the PRC. Since the daily management of our operation, assets and our management are mainly based in the PRC, we cannot guarantee that we will not be considered as a "resident enterprise" under the EIT law and not be subject to the enterprise income tax rate of 25% on our global income. If we are subsequently regarded as a PRC resident enterprise by the relevant tax authorities, this may adversely affect our financial condition and results of operation.

Our Company is a holding company and our ability to pay dividends is primarily dependent upon the earnings of, and distributions by, our subsidiary in the PRC.

Our Company is a holding company incorporated under the laws of the Cayman Islands with limited liability. No dividends have been paid or declared by our Company during the Track Record Period. The majority of our business operations are conducted through our subsidiary in the PRC and hence, our revenue and profit are substantially contributed by our subsidiary in the PRC.

Our ability to pay dividends to our Shareholders is primarily dependent upon the earnings of our subsidiary in the PRC and its distribution of funds to us, primarily in the form of dividends. The ability of our subsidiary in the PRC to make distributions to us depends upon, amongst others, its distributable earnings. Under the PRC law, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and our subsidiary in the PRC is also required to set aside part of its after-tax profits to fund certain reserve funds that are not distributable as cash dividends. Other factors such as cash flow conditions, restrictions on distributions contained in our PRC subsidiary's articles of associations, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect the ability of our subsidiary in the PRC to make distributions to us. These restrictions could reduce the amount of distributions that we receive from our subsidiary in the PRC, which in turn would restrict our ability to pay dividends on the Shares. The amounts of distributions that the subsidiary of our Group has declared and made in the past are not indicative of the dividends that we may pay in the future. There is no assurance that we will be able to declare or distribute any dividend in the future. Furthermore, members of our Group may obtain credit facilities from banks in the future which restrict them from paying dividends to their shareholders, which may have an adverse impact on their ability to pay dividends to our Shareholders.

Holders of the Shares may be subject to taxation in the PRC.

Under the current PRC tax laws, regulations and rulings, the dividends we pay to holders of the Shares, who are either individual non-residents of the PRC or foreign enterprises with no permanent establishments in the PRC, are not currently subject to PRC income tax. Additionally, gains currently realised by holders of the Shares from the sale or other disposition of the Shares are not subject to PRC income tax. This treatment could change at any time. If such exemption is revoked and other rates specified in the applicable PRC laws do not apply, holders of the Shares could become subject to the PRC income tax, currently imposed at the rate of 20% (without taking into account any deductions), unless reduced or eliminated by an applicable double taxation treaty.

Epidemics, acts of war and other disasters may adversely affect our operations.

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond human control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Many major cities in the PRC may be under threat of flood, earthquake, typhoon, sandstorm or drought. Our business, results of operations and financial condition may be adversely affected if such natural disasters occur. We may be required to disinfect our affected operational premises, which could adversely affect our operations. Even if we are not directly affected by the epidemic, it could slow down or disrupt the level of economic activity generally, which could in turn adversely affect our operating results.

In addition, the outbreak of severe communicable diseases (such as swine flu, avian flu and severe respiratory syndrome), natural disasters or other acts of God, acts of war and terrorist attacks may cause damage or disruption to our operations, employees, markets or clients, any of which could adversely impact our turnover, cost of sales, overall results and financial condition or the market price of the Shares. Potential war or terrorist attacks may also cause uncertainty and cause the business to suffer in ways that we cannot currently predict.

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

As an offshore holding company of our PRC subsidiary, our Company may make loans to our PRC subsidiary, or our Company may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary are subject to the PRC laws, regulations and foreign exchange loan registrations. For example, loans by our Company to our PRC subsidiary to finance its activities cannot exceed statutory limits and must be registered with the SAFE, its local counterpart or the competent bank. We may also decide to finance our PRC subsidiary by means of capital contributions. These capital contributions must be registered at the SAIC or its local counterpart and filed at the Ministry of Commerce of the PRC or its local counterpart. There is no assurance that we can complete these government registrations or the filing on a timely basis, if at all, with respect to future loans or capital contributions by our Company to finance our PRC subsidiary. If we fail to complete the filings or receive relevant registrations, approvals or filings our ability to use the proceeds of the Share Offer and to capitalise our PRC operations may be negatively affected. This may materially and adversely affect our liquidity and our ability to expand our business.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bring original actions in the PRC against us, the management or our experts named in this prospectus.

Our manufacturing process is conducted in the PRC and most of our assets are located in the PRC. In addition, all of our Directors reside within the PRC or Hong Kong. As a result, it may not be possible to effect service of legal processes outside the PRC or Hong Kong (as the case may be) upon them with respect to matters arising under applicable securities laws. Moreover, based on the information provided by the PRC Legal Advisers, our Directors take the view that the PRC has not entered into treaties with the U.S. or a number of countries providing for the reciprocal recognition or enforcement of judgments of foreign courts. Therefore, it may be difficult for you to enforce against us and/or our management in the PRC any judgment obtained from non-PRC courts.

Fluctuations in the value of the RMB may have a material and adverse impact on the Listing.

The PRC's current currency policy allows the exchange rate of RMB to move in a way subject to policies and measures taken by the relevant government authorities. There can be no assurance that there will not be any substantial fluctuations in the RMB exchange rate. Since a substantial amount of the income and profit of our Group is denominated in RMB, any fluctuations in the value of the RMB may adversely affect the amount of dividends, if any, payable to the Shares in Hong Kong dollars to our Shareholders.

The PRC government's control of currency conversion may adversely affect our business and results of operations and our ability to remit dividends.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, so long as the payments of basic account items complies with certain procedural requirements, these payments of current account items can be made in foreign currencies without prior approval from SAFE. Qualified banks may directly handle the foreign exchange registration of foreign currency conversions for payment under capital account items such as equity investments. The PRC government may also at its discretion restrict our access in the future to foreign currencies for current account transactions. Under our current corporate structure, our revenue is primarily derived from dividend payments from our PRC subsidiary. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations.

Under existing PRC foreign exchange regulations, following the Listing, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. If these foreign exchange regulations regarding payment of dividends in foreign currencies changes in the future or any insufficiency of foreign exchange may restrict our ability to make dividend payments to Shareholders. If we fail to obtain approval from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial position, may be materially and adversely affected.

RISKS RELATING TO THE SHARE OFFER

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

Prior to the Share Offer, no public market for the Shares existed. Following the completion of the Share Offer, the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure our investors that an active trading market for the Shares will develop or sustained after the Share Offer. In addition, we cannot assure our investors that the Shares will trade in the public market at or above the Offer Price subsequent to the Share Offer. The Offer Price for the Shares is expected to be fixed by the Price Determination Agreement, and may not be indicative of the market price of the Shares following the completion of the Share Offer. If an active trading market for the Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of the Shares may be materially and adversely affected.

The trading price and volume of the Shares may be volatile, which may result in a substantial loss for our investors.

The trading price of the Shares may be volatile and may fluctuate widely in response to factors beyond our control, including variations in the level of liquidity of the Shares, changes in securities analysts' (if any) estimates of our financial performance, investors' perceptions of our Group and the general investment environment, changes in laws, regulations and taxation systems which affect our operations, and general market conditions of the securities markets in Hong Kong. These broad market and industry factors may significantly affect the market price and volatility of the Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for the Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow, success or failure of our efforts in implementing business and growth strategies and involvement in material litigation as well as recruitment or departure of key personnel, may cause the market price of the Shares to change unexpectedly. Any of these factors may result in large and sudden changes in the volume and trading price of the Shares.

Further, there will be a gap of several days between pricing and trading of the Offer Shares. The Offer Price of the Shares is expected to be determined on the Price Determination Date while the Shares will not commence trading on the Stock Exchange until the Listing Date. As a result, investors may not be able to sell or otherwise deal in the Shares during the period between the Price Determination Date and the Listing Date and hence are subject to the risk that the price of the Offer Shares could fall during the period before trading of the Offer Shares begins.

Future disposal or perceived disposal by our existing Shareholders of a substantial number of the Shares in the public market may materially and adversely affect the prevailing market price of the Shares.

Disposal of substantial amounts of the Shares in the public market after the completion of the Public Offer, or the perception that disposal may occur, may adversely affect the market price of the Shares and materially impair our future ability to raise capital through offerings of the Shares. There is no assurance that our major Shareholders will not dispose of their shareholdings. Any significant disposal of the Shares by any of the major Shareholders may materially affect the prevailing market price of the Shares. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise further capital. We cannot predict the effect of any significant future disposal on the market price of the Shares.

Investors may experience difficulties enforcing their shareholders' rights because our Company is incorporated in the Cayman Islands, and the protection of minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions.

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles of Association, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands company law on the protection of minority Shareholders is set out in Appendix III to this prospectus.

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

Investors should read the entire prospectus and should not rely on any information contained in press articles or other media coverage regarding us and the Share Offer.

We strongly caution our investors not to rely on any information contained in press articles or other media regarding us and the Share Offer. Prior to the publication of this prospectus, there may be press and media coverage regarding the Share Offer and us. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information to the press or media and do not accept any responsibility for such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and our investors should not rely on such information.

Certain facts, forecasts and other statistics in this prospectus obtained from publicly available sources have not been independently verified and may not be reliable.

Certain facts, forecast and other statistics in this prospectus are derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information are appropriate for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Nevertheless, such information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Further, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

WAIVER IN RELATION TO MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since the principal business operations, office and production facility of our Group are primarily located, managed and conducted in the PRC, all of our executive Directors and our members of senior management are and will therefore continue to be based in the PRC. At present, none of our executive Directors is ordinarily resident in Hong Kong. Our Company does not and will not in the foreseeable future have two executive Directors residing in Hong Kong for the purposes of satisfying the requirement under Rule 8.12 of the Listing Rules.

As a result, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules, on the following conditions to ensure that regular and effective communication is maintained between the Stock Exchange and our Company for the purpose of Rule 8.12 of the Listing Rules and in accordance with the Guidance Letter HKEX-GL9-09 issued by the Stock Exchange:

1. our Company has appointed and will continue to maintain two authorised representatives pursuant to Rules 2.11 and 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange. Our Company has appointed Ms. Jian Xuegen, the company secretary of our Company, who is ordinarily resident in Hong Kong, and Mr. Li, as the two authorised representatives of our Company (the "**Authorised Representatives**"). Each of the Authorised Representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by their respective mobile phone number, office phone number, fax number and e-mail address. Each of the Authorised Representatives has been duly authorised to communicate on our behalf with the Stock Exchange. Our Company will keep the Stock Exchange up to date in respect of any change to such details;

2. both of the Authorised Representatives of our Company will have the means to contact all members of the Board (including our non-executive Director and independent non-executive Directors) and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact our Directors and senior management team for any matters;

3. to enhance the communication between the Stock Exchange, the Authorised Representatives and our Directors, our Company will implement a policy whereby (a) each Director will have to provide his respective mobile phone number, office phone number, fax number and email address to the Authorised Representatives; (b) each Director will endeavour to provide valid phone number or means of communication to the Authorised Representatives when he is travelling; and (c) each Director will provide his mobile phone number, office phone number, fax number and email address to the Stock Exchange;

4. our Company shall promptly inform the Stock Exchange of any changes on the Authorised Representatives and/or the compliance adviser in accordance with the requirements of the Listing Rules;

5. if circumstances require, meetings of the Board can be summoned and held in such manner as permitted under the Articles of Association at short notice to discuss and address any issue which the Stock Exchange is concerned in a timely manner;

6. our Company has appointed Dakin Capital as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will have access at all times to our Authorised Representatives, Directors and senior management to ensure that they are in a position to provide prompt responses to any query or request from the Stock Exchange in respect of our Company and will act as an additional channel of communication with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year after the Listing Date (the "**Engagement Period**") in accordance with Rule 13.46 of the Listing Rules;

7. our Company will ensure that during the Engagement Period, the compliance adviser has access at all times promptly to the Authorised Representatives, Directors and other senior management who will provide to the compliance adviser such information and assistance as the compliance adviser may reasonably require in connection with the performance of the compliance adviser's duties;

8. our Company will also appoint other professional advisers (including its legal advisers in Hong Kong), if necessary, after the Listing to assist our Company in addressing any enquiries which may be raised by the Stock Exchange and to ensure that there will be prompt and effective communication with the Stock Exchange; and

9. each of our Directors (including our non-executive Director and independent non-executive Directors) who is not ordinarily resident in Hong Kong possesses or is able to apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein shall not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, agents, employees, affiliates and/or representatives or any other person or parties involved in the Share Offer.

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

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published in connection with the Share Offer. The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms and conditions of the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters). The Share Offer is managed by the Joint Bookrunners. Further information relating to the Public Offer Underwriters and the Share Offer and the underwriting arrangements is set out in the section headed "Underwriting" of this prospectus. If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse.

OFFER SHARES TO BE OFFERED IN HONG KONG ONLY

Each person acquiring the Offer Shares will be required to confirm or be deemed by his acquisition or subscription of Offer Shares to confirm that he is aware of the restrictions on the offer of the Offer Shares described in this prospectus.

As at the Latest Practicable Date, no action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

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

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, agents, employees, affiliates and/or representatives or any other persons involved in the Share Offer.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any Shares to be issued under the Capitalisation Issue).

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

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

Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on the Stock Exchange unless the Stock Exchange otherwise agrees.

DEALINGS AND SETTLEMENT

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. (Hong Kong time) on or about Friday, 18 October 2019.

Shares will be traded in board lots of 2,000 Shares each and are freely transferable.

The stock code for the Shares is 1967.

Our Company will not issue any temporary document of title.

PROFESSIONAL TAX ADVICE RECOMMENDED

Investors for the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in, the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective directors, officers, agents, employees, affiliates and/or representatives or any other persons involved in the Share Offer accepts responsibility for any tax effects on, or liability of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in, the Shares or exercising of any rights thereunder.

SHARE REGISTER AND STAMP DUTY

The principal register of members of our Company will be maintained by our principal share registrar, Estera Trust (Cayman) Limited, in the Cayman Islands and a branch register of members of our Company will be maintained by our Hong Kong Branch Share Registrar, Tricor 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 Company's Hong Kong Branch Share Registrar.

All the Shares will be registered on our Company's branch register of members in Hong Kong. Only Shares registered on our Company's branch register of members in Hong Kong may be traded on the Stock Exchange. Dealings in the Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on 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. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Details of the structure and conditions of the Share Offer are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

LANGUAGE

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

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RMB into HK$ at specified rates. You should not construe these translations as representations that the RMB amounts could actually be, or have been, converted into HK$ amounts (as applicable) at the rates indicated or at all. Unless we indicate otherwise, the translations of RMB amounts into HK$ have been made at the rate of RMB0.87 to HK$1.00.

ROUNDING

Any discrepancies in any table between totals and sums of the amount listed in this prospectus are due to rounding.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Li Hao (李浩)	Shi Ji Guang Chang Xi Zuo 1429 Nei Huan Lu 4 Hao Nanshan District Shenzhen, Guangdong PRC	Chinese
Mr. Zhang Bizhong (張必鍾)	Flat 11F, Block 2, Tower 2 Shan Yu Hua Ting Gong Yuan Road Bao'an District Shenzhen, Guangdong PRC	Chinese
Mr. Xu Shizhen (許世真)	Flat B, 9/F, Block 9 Xiang Shi Mei Lin Hua Yuan Zhu Zi Lin Road Futian District Shenzhen, Guangdong PRC	Chinese
Non-Executive Director		
Mr. Yuan Shuntang (袁順唐)	Flat 7G, Block 10, Phase 2 Zhao Shang Hai Yue Hua Yuan Hai Yue Road Nanshan District Shenzhen, Guangdong PRC	Chinese

Name	Residential Address	Nationality
Independent Non-Executive Directors		
Mr. Chen Zhong (陳忠)	Flat 903, Block 11, Phase 2 Haixia Guoji Shequ Huizhan Beili Siming District Xiamen, Fujian PRC	Chinese
Mr. Wong Chun Sek Edmund (黃俊碩)	Flat A, 6/F, Block C Cumine Court 52 King's Road North Point Hong Kong	Chinese
Mr. Wu Tai Cheung (胡大祥)	Unit H, 9/F, Tower 6 Mantin Heights 28 Sheung Shing Street Ho Man Tin Kowloon Hong Kong	British

For further information of our Directors, please refer to the section headed "Directors and Senior Management" of this prospectus.

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	**Dakin Capital Limited** *(A corporation licensed under the SFO and permitted to conduct type 6 (advising on corporate finance) regulated activity)* Suites 4505–06, 45/F Tower 1, Lippo Centre 89 Queensway Hong Kong
Joint Bookrunners, Joint Lead Managers and Underwriter(s)	**Head & Shoulders Securities Limited** *(A corporation licensed under the SFO and permitted to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities)* Room 2511, 25/F., Cosco Tower 183 Queen's Road Central Hong Kong
	Red Eagle Securities Limited *(A corporation licensed under the SFO and permitted to conduct type 1 (dealing in securities) regulated activity)* Unit 1107, 11/F., Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
Legal advisers to our Company	*As to Hong Kong law* **Hastings & Co.** 5th Floor, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
	As to Cayman Islands law **Appleby** 2206–19 Jardine House 1 Connaught Place Central Hong Kong

	As to PRC law **Beijing DHH (Shanghai) Law Firm** 62/F, Shanghai Center, No. 501 Yingcheng Middle Road, Pudong New Area Shanghai PRC
	As to U.S. law **Hogan Lovells** 11th Floor, One Pacific Place 88 Queensway Hong Kong
Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law* **TC & Co.** Units 2201–2203 22/F., Tai Tung Building 8 Fleming Road Wanchai Hong Kong
	As to PRC law **China Commercial Law Firm** 21–24/F, HKCTS Tower No. 4011, Shennan Road Futian, Shenzhen PRC
Reporting accountant and auditor	**PricewaterhouseCoopers** *Certified Public Accountants* 22/F, Prince's Building Central Hong Kong
Internal control consultant	**SHINEWING Risk Services Limited** 43/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

Industry consultant	**China Insights Industry Consultancy Limited** 10/F, Tomorrow Square 399 West Nanjing Road Huangpu District Shanghai PRC
Compliance adviser	**Dakin Capital Limited** *(A corporation licensed under the SFO and permitted to conduct type 6 (advising on corporate finance) regulated activity)* Suites 4505–06, 45/F Tower 1, Lippo Centre 89 Queensway Hong Kong
Receiving Bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

Headquarters and principal place of business in the PRC	No. 7 Building New Development Zone Baishixia Fuyong Street Bao'an District Shenzhen
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Room A, 12/F Granville House 41C Granville Road Tsim Sha Tsui Kowloon Hong Kong
Registered office in the Cayman Islands	P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Company's website address	**www.szxinken.com** (Information contained in this website does not form part of this prospectus)
Company secretary	Ms. Jian Xuegen (簡雪艮) *(HKICPA)* Flat C, 4/F Yick Lee Mansion 26 Kin Tak Street Yuen Long New Territories Hong Kong
Authorised representative (for the purpose of the Listing Rules)	Mr. Li Hao Shi Ji Guang Chang Xi Zuo 1429 Nei Huan Lu 4 Hao Nanshan District Shenzhen, Guangdong PRC Ms. Jian Xuegen (簡雪艮) Flat C, 4/F Yick Lee Mansion 26 Kin Tak Street Yuen Long New Territories Hong Kong

Audit Committee	Mr. Wong Chun Sek Edmund (黃俊碩) *(Chairman)* Mr. Chen Zhong (陳忠) Mr. Wu Tai Cheung (胡大祥)
Remuneration Committee	Mr. Wu Tai Cheung (胡大祥) *(Chairman)* Mr. Chen Zhong (陳忠) Mr. Wong Chun Sek Edmund (黃俊碩)
Nomination Committee	Mr. Chen Zhong (陳忠) *(Chairman)* Mr. Wong Chun Sek Edmund (黃俊碩) Mr. Wu Tai Cheung (胡大祥)
Cayman Islands principal share registrar and transfer office	**Estera Trust (Cayman) Limited** P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong branch share registrar and transfer office	**Tricor Investor Services Limited** Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	**Bank of China Limited** 270 Fu Yong Da Dao Bao'an District Shenzhen, Guangdong PRC **DBS Bank Limited** F1 Shenzhen Vientiane City (MixC) 1881 Bao'an South Road Luohu District Shenzhen, Guangdong PRC

Unless otherwise indicated, the information presented in this section is derived from the CIC Report, which was commissioned by us and is prepared primarily as a market research tool intended to reflect estimates of market conditions based on publicly available resources. References to CIC should not be considered as its opinion as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information and statistics are appropriate sources for such information and statistics. Our Directors have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. Our Directors confirm that after making reasonable enquiries, there is no adverse change in the market information since the date of the CIC Report which may qualify, contradict or have an impact on the information in this section. The information prepared by CIC and set out in this Industry Overview has not been independently verified by our Group, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party (except CIC) involved in the Share Offer or their respective directors, officers, employees, advisers and agents, and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

We have commissioned CIC, an independent third party, to both conduct an analysis of and to produce a report on the EMS industry in China. The report we commissioned, or namely the CIC Report, has been prepared by CIC independent of our influence. We paid CIC a fee of RMB520,000 for the preparation of the report, which we consider to be in line with market rates. CIC is a professional industry consulting company established in 2013 and committed to facilitate the investment and financing process. CIC's services include industry consulting, commercial due diligence, strategic consulting, etc.

CIC REPORT

CIC undertook both primary and secondary research using various resources. Primary research involved interviewing key industry experts and leading industry participants. While secondary research involved analysing data from various publicly available data sources, including National Bureau of Statistics of China, Chinese Government releases, annual reports of relevant industry participants, industry associations, CIC's own internal database, etc.

The market projections in the commissioned report are based on the following key assumptions: (i) that the overall global social, economic, and political environment is expected to maintain a stable trend over the next decade; (ii) that related key industry drivers are likely to continue driving growth in China's PCBA industry during the forecast period, including China's growing electronic information industry, mainland China's relatively low labour cost, the continued development of 5G networks, and concomitant supporting policies and regulations; and, (iii) that there is no extreme force majeure or set of industry regulations in which the market situation may be affected either dramatically or fundamentally.

All statistics are reliable and based on information available as of the date of the report. Other information sources, including from the government, industry associations, or market participants, may have provided some of the information on which the analysis or its data is based. CIC came to the conclusions in CIC report based on multi-methodologies to ensure data validation and integrity assessment.

All the information pertaining to our Company has been sourced from our Company's own audited reports or through management interviews. Information regarding our Company has not been independently verified by CIC.

Except as otherwise noted, all the data and forecasts in this section are derived from the CIC Report. Our Directors confirm that, after taking reasonable care, there was no adverse change in any of the market information since the release date of the CIC Report, changes which may qualify, contradict, or have an impact on the information as disclosed in this section.

OVERVIEW OF CHINA'S EMS INDUSTRY

Definition and categorisation of China's EMS industry

Electronic manufacturing services (EMS) providers refer to providers that provide comprehensive manufacturing services and solutions, such as prototyping, manufacturing, and after-sales services, for brand owners.

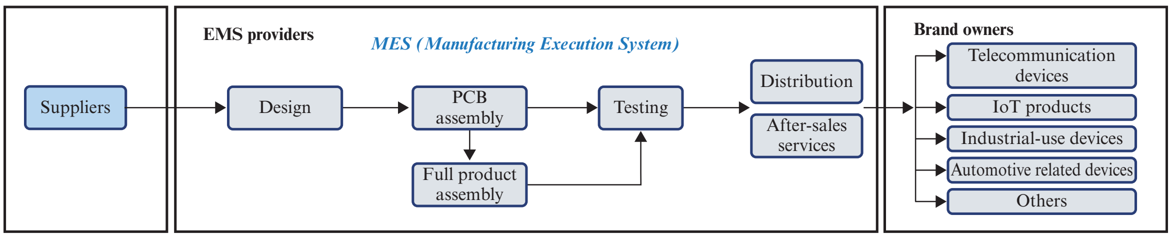
EMS providers' services can be divided primarily into printed circuit board (PCB) assembling services and full electronic product assembling services. PCB assembling services refer to the assembling of electronic components in combination with PCBs to form PCBAs. PCBs are electronic circuits used in devices to provide mechanical supports and pathways for other electronic components. Full product assembling services refer to the assembling of PCBAs together with other product components used in the production of fully-assembled electronic products.

The downstream markets in China's EMS industry are diversified and can be categorised as telecommunication devices, internet of things (IoT) products, industrial-use devices, automotive related devices and other electronics. Telecommunication devices refer to products that enable communications and information exchange between different parties over a long distance, such as smartphones, laptops, routers, and etc. IoT products refer to devices which are interconnected through a network capable of integrating things-to-things, such as smart home devices, smart wearable devices, and etc. Industrial-use devices refer to electronic products used in industrial manufacturing, such as robotic assemblies, testing instruments, process control systems, and etc. Automotive related devices refer to automotive components that function and are operated using electricity, such as dashboards, touch-activated car door locks, on-board diagnostics (OBDs), and etc. Other electronics mainly include aerospace electronics and medical electronics.

Value chain analysis of China's EMS industry

China's EMS industry is mainly comprised of three groups of players: suppliers, EMS providers, and brand owners.

Value chain of the EMS industry, China, 2018



Source: CIC Report

Upstream

Upstream suppliers are responsible for undertaking logistics for raw materials and components, such as PCB, resistors, capacitors, inductors, as well as ICs. The most important criteria for EMS providers selecting qualified suppliers includes the quality of the raw materials and components, and the timely provision of logistic services. EMS providers are more inclined to cooperate with nearby suppliers so as to cut down on delivery times.

Raw materials can also be provided by brand owners directly. Large-scale brand owners usually provide raw materials directly to EMS providers. A major reason for this is that large-scale brand owners will often maintain a working relationship with several EMS providers at any given point in time. In comparison with indirect purchases made by EMS providers, large-scale brand owners are able to place a larger overall order for raw materials if and when purchasing raw materials on their own accord. With a larger volume of orders, their bargaining power is also greater, which means that they can make a purchase at a relatively lower price. In addition, sometimes brand owners are the only suppliers of certain raw materials, such as specific models of electronic parts and components. Moreover, for the purpose of quality control, large smartphone manufacturers in the PRC usually directly provide raw materials to PCBA manufacturers to ensure the quality of its end products. Under this circumstance that raw materials are provided from brand owners, manufacturers are expected to enjoy extra benefits such as lower cost of raw materials and ensured raw material quality.

Midstream

The midstream mainly includes EMS providers, which are responsible for comprehensive manufacturing services and solutions. Digitalisation and automation, which can improve production efficiency and quality, are critical for EMS providers' success. As for digitalisation, mature EMS providers will often develop their own in-house MES. MES is a computerised system used for real-time documentation, while providing for the control and management of an entire manufacturing process. As for automation, mature EMS providers will invest heavily in the development of automated production equipment, reducing the overall need for human capital used in the production process.

Downstream

EMS providers' downstream customers mainly include large-scale brand owners. Large-scale brand owners will have a high volume of orders, which usually cannot be satisfied entirely using their own resources, meaning that they possess a higher demand for EMS when compared with small-scale brand owners. In many markets for electronic products, including the market for smartphones, the prevailing market structure is likely to be highly consolidated. It therefore also results in a high level of concentration in terms of customers for EMS providers. Thus, the ability to maintain a stable relationship with large brand owners is of critical importance for any successful EMS provider.

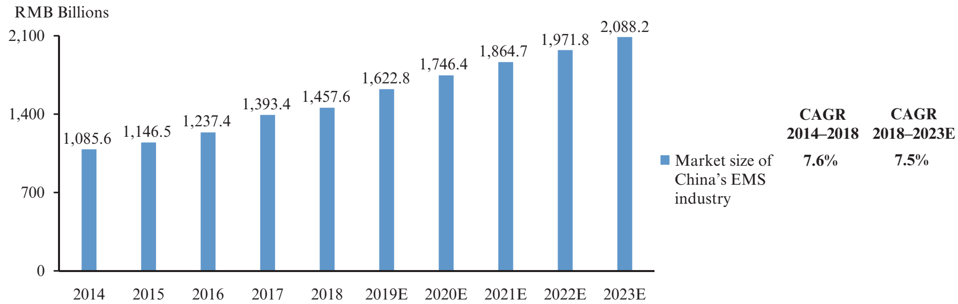
Market size of China's EMS industry

According to the National Bureau of Statistics of China, there were more than 16,000 industrial enterprises with revenue generated from their principal business amounted to above RMB20 million in the computer, communication and other electronic equipment manufacturing industry in China in 2017.

The market size of China's total EMS industry grew from RMB1,085.6 billion in 2014 to reach RMB1,457.6 billion in 2018, and is estimated to maintain a relatively stable growth rate during the period from 2018 to 2023. This high growth rate is expected to be driven by the downstream markets, including telecommunication devices, IoT products, industrial-use devices and others.

The market size for telecommunication devices in China's EMS industry grew from RMB841.4 billion in 2014 to reach RMB991.2 billion in 2018, and is expected to reach RMB1,220.1 billion by 2023, accounting for more than half of China's total EMS industry.

Market size of the EMS industry, China, 2014–2023E



Source: CIC Report

China's EMS industry is competitive with the top five participants collectively accounting for 70.3% of the total market share in terms of revenues generated in 2018.

Top 5 manufacturers in terms of revenue in China's EMS market, 2018

Rank	Company	Headquarters location	Downstream industries	Market share
1.	Hon Hai Precision Industry Co., Ltd	Taiwan	Telecommunication devices, IoT products, automotive related devices	46.3%
2.	Pegatron Corporation	Taiwan	Telecommunication devices, IoT products, automotive related devices	13.5%
3.	Jabil Circuit Inc.	US	Telecommunication devices, IoT products, industrial-use devices and automotive related devices	4.1%
4.	Flextronics International Ltd	Singapore	Telecommunication devices, IoT products, industrial-use devices	3.6%
5.	Wistron Corporation	Taiwan	Telecommunication devices, IoT products, industrial-use devices and automotive related devices	2.8%
Sub total				70.3%
	Our Group			0.02%
	Others			29.68%
Total				100%

Source: CIC Report

OVERVIEW OF CHINA'S PCBA INDUSTRY

Market size of China's PCBA industry

PCBA industry is a segment of EMS industry. EMS providers may (1) manufacture PCBAs which are intermediate products for further manufacturing their fully-assembled products; and (2) manufacture PCBAs and sell them to other companies for their further processing. One PCBA generally account for 10% to 55% of the total value of the final fully-assembled products, depending on the type of electronic end products manufactured. The design and quality of the PCBAs would directly affect the quality and functioning of the ultimate electronic products. China's PCBA industry's average defective rate is about 0.1%. The market size of the PCBA industry in China increased from RMB282.3 billion in 2014 to RMB338.2 billion in 2018, representing a CAGR of 4.6%, and it is anticipated to reach RMB406.1 billion in 2023. The growth of China's PCBA industry is expected to be stable and driven by the continued growth of downstream markets including telecommunication devices, IoT products, industrial use devices, and others.

As the PCBA industry in China is expected to become increasingly saturated, the competition in today's PCBA industry remains rather fierce with over three thousand players, and more PCBA manufacturers are shifting their focus to more high-end PCBAs to secure their market shares in the industry.

Hence, PCBA manufacturers with strong research and development (R&D) capabilities, strong integrated management capacity (such as supply chain management ability) and those who upgrade their production lines to more automated ones with better efficiency and performance are projected to differentiate their models from those of competitors and stand out in the industry's competitive dynamics.

There are more than three thousand players in China's PCBA industry. In terms of revenue in 2018, the top 5 manufacturers in China's PCBA market, including Hon Hai Precision Industry Co., Ltd, Pegatron Corporation, Jabil Circuit Inc., Flextronics International Ltd, Wistron Corporation, are estimated to account for approximately 81.8% of China's PCBA industry in 2018.

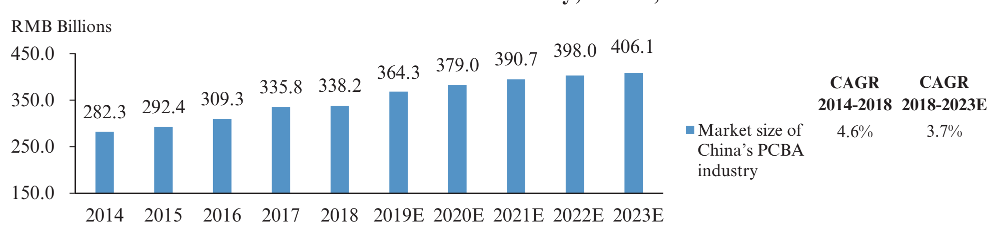
Top 5 manufacturers in terms of revenue in China's PCBA market, 2018

Company	Headquarters location	Downstream industries	Market share
Hon Hai Precision Industry Co., Ltd	Taiwan	Telecommunication devices, IoT products, automotive related devices	59.9%
Pegatron Corporation	Taiwan	Telecommunication devices, IoT products, automotive related devices	17.4%
Jabil Circuit Inc.	US	Telecommunication devices, IoT products, industrial-use devices and automotive related devices	1.8%
Flextronics International Ltd	Singapore	Telecommunication devices, IoT products, industrial-use devices	1.5%
Wistron Corporation	Taiwan	Telecommunication devices, IoT products, industrial-use devices and automotive related devices	1.2%

Note: China's top 5 PCBA manufacturers market shares are estimated based on these companies' proportions of different PCBAs that they produced for different end products.

Source: CIC Report

Market size of the PCBA industry, China, 2014–2023E



Note: The market size refers to revenue of PCBA providers.

Source: CIC Report

Market demand analysis for China's PCBA industry

1. Telecommunication devices

Telecommunication devices refer to products that enable communications and information exchange between different parties over a long distance, such as smartphones, laptops, routers, and etc. One of the most important telecommunication devices is smartphone. The continued development of the internet has fostered the growing popularity of smartphone devices. Moreover, smartphones have become more and more affordable for an increasing number of people as a result of increasing consumption power in developing countries, especially in view of China and other emerging Asian countries. Therefore, the rapidly growing economies of China and other emerging Asian countries are expected to further promote the expansion of the global smartphone industry. Furthermore, with the commercial use of 5G smartphones set to take off in 2020, a new round of smartphone replacements and upgrading is expected, which will promote both shipment volumes and sales values in the global smartphone industry.

The global shipment volumes of smartphone units have increased from 1,308.2 million in 2014 to 1,427.1 million in 2018, representing a CAGR of 2.2%. This number is expected to increase to 1,659.4 million in 2023, with a CAGR of 3.1% during the forecast period. Among which, the global shipment volumes of 5G smartphone units are expected to increase from approximately 3.1 million in 2020 to approximately 328.7 million in 2023.

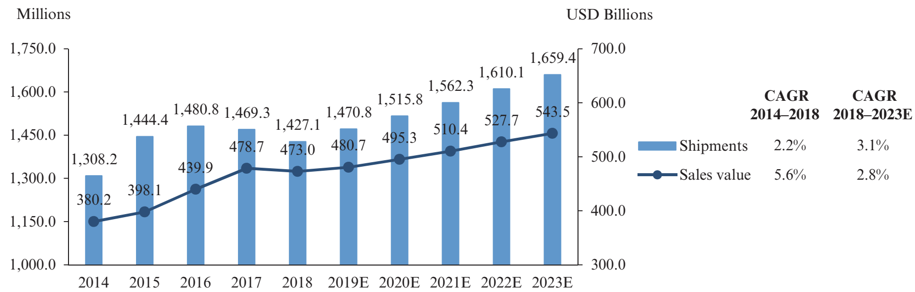
The shipment volumes of smartphone units in China increased from approximately 418.7 million in 2014 to approximately 437.0 million in 2018, representing a CAGR of approximately 1.1%. This number is expected to increase to approximately 466.7 million in 2023, with a CAGR of approximately 1.3% during the forecast period. Among which, the shipment volumes of 5G smartphone units in China are expected to increase from approximately 1.2 million in 2020 to approximately 133.3 million in 2023.

The sales value of smartphones in China increased from approximately RMB608.2 billion in 2014 to approximately RMB1,030.6 billion in 2018, representing a CAGR of approximately 14.1%. This number is expected to increase to approximately RMB1,324.6 billion in 2023, with a CAGR of approximately 5.1% during the forecast period. Among which, the sales value of 5G smartphones in China is expected to increase from approximately RMB5.1 billion in 2020 to approximately RMB426.5 billion in 2023.

The sales volume of OPPO ranked 1st in China in 2018, representing approximately 19.8% of the total sales volume. The Top 6 brand owners (OPPO, VIVO, HONOR, Xiaomi, Huawei, Apple) accounts for about 87.5% of the total market size.

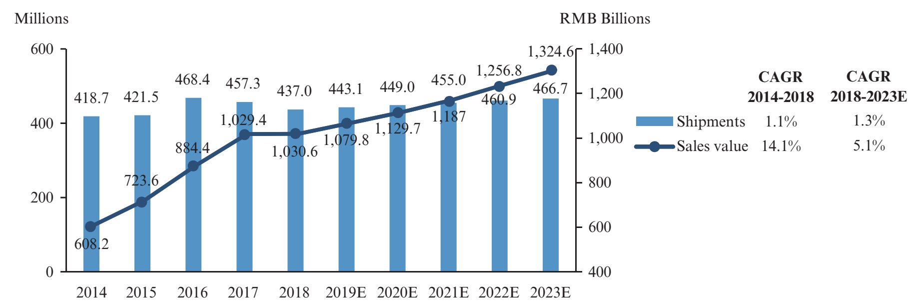
The total smartphone shipment of OPPO accounted for about 8.3% of the global smartphone shipment in 2018, which ranked 5th among all smartphone companies (after Samsung, Apple, Huawei and Xiaomi).

Sales value and shipments of smartphones, Global, 2014–2023E



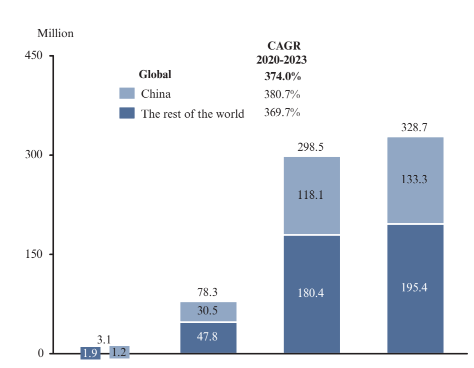
Source: CIC Report

Sales value and shipments of smartphones, China, 2014–2023E

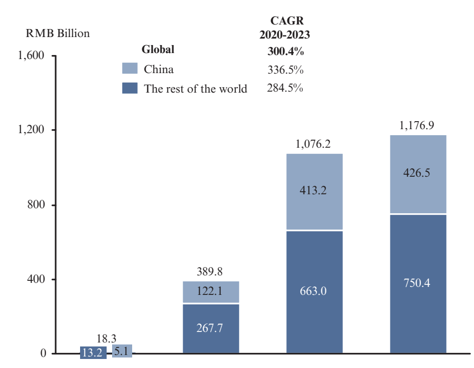


Source: CIC Report

Shipments of 5G smartphone, China and the rest of the world, 2020E-2023E



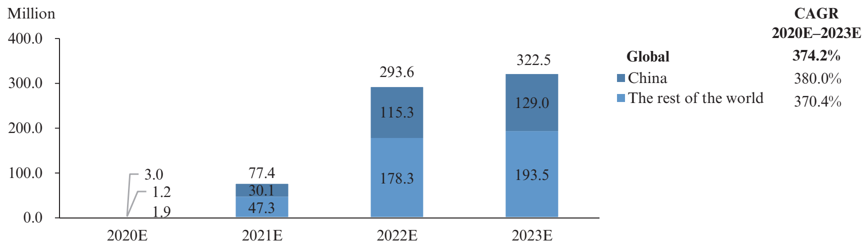
Sales value of 5G smartphone, China and the rest of the world, 2020E-2023E



Source: CIC Report

In anticipation of the launch of commercial 5G smartphones, China's top 4 smartphone brand owners, i.e., Huawei, OPPO, VIVO, and Xiaomi have accomplished many achievements. The commercial production of 5G smartphones in China is expected to begin in 2020. China's installed base of 5G smartphones is expected to increase from 1.2 million in 2020 to reach 129.0 million by 2023. China's emerging 5G smartphone market is expected to promote the continued expansion of the country's smartphone market, thereby providing an added boost to the expansion of China's smartphone PCBA manufacturers.

Number of installed base for 5G smartphones, China and the rest of the world, 2020E–2023E

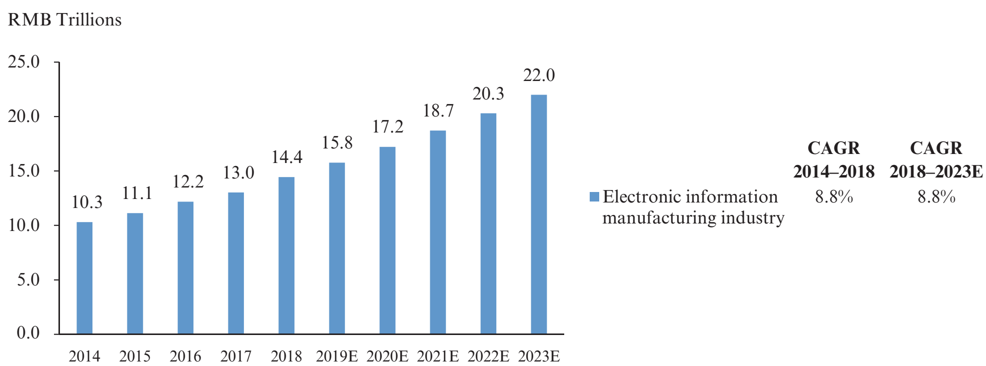


2. *Industrial-use devices*

Industrial-use devices refer to electronic products used in industrial manufacturing, such as industrial testing instruments, robotic assemblies, process control systems, etc. Driven by the rapid development of China's electronic information manufacturing industry, China's industrial electronics PCBA industry is expected to expand rapidly during the forecast period.

The electronic information manufacturing industry is both a capital- and technology-intensive industry. Hence, in order to deliver manufacturing services, companies must first invest heavily in a number of vital areas, such as R&D, manufacturing equipment, and technical personnel. Therefore, China's rapidly growing economy and technological development has promoted the swift expansion of China's electronic information manufacturing industry. Total revenues generated in China's electronic information manufacturing industry have meanwhile undergone a period of burgeoning growth, increasing from RMB10.3 trillion in 2014 to reach RMB14.4 trillion in 2018, representing a CAGR of 8.8%. This number is expected to continue increasing to reach RMB22.0 trillion by 2023, representing a CAGR of 8.8% from 2018 onwards.

Revenues in the electronic information manufacturing industry, China, 2014–2023E



Source: CIC Report

3. *IoT products*

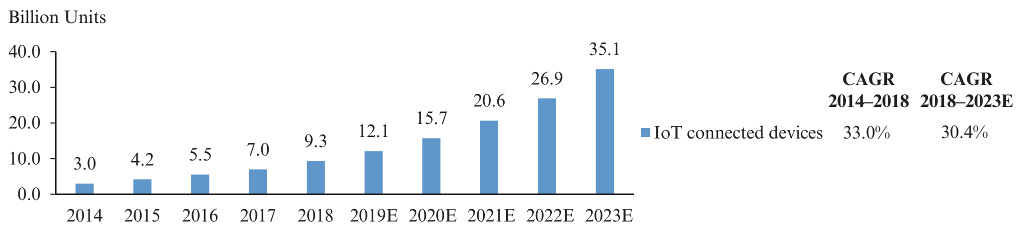
IoT is a network capable of integrating things-to-things, things-to-humans, and humans-to-humans. Compared with the traditional internet, IoT can extend internet connectivity beyond traditional devices. It connects desktops, laptops, smartphones and tablets with physical devices that previously lacked IoT capabilities, including access to the internet, such as home appliances. Therefore, these traditional devices without IoT capabilities are able to receive upgrades providing remote monitoring and control functions.

Compared with 4G, 5G provides faster data transfer speed, which enables faster transmission of images and videos. With faster transmission speed, 5G helps reduce time lags from the time when data is sent to the time when data is received. This improvement will enable high speed data processing and the viewing of virtual reality videos without delays. In addition, cell towers equipped with 5G are expected to possess larger capacities, which will allow more devices to be connected at the same time without overcrowding the network.

As a result, the development of 5G network is expected to contribute to revolutions and changes in IoT products and promote a wider range of emerging IoT products for which the functional requirements cannot be satisfied under 4G network. For example, 5G network enables high-speed virtual reality videos, for example, virtual reality/augmented reality equipment for gaming, medical services, educations, etc. will become possible and is expected to gain popularity. Moreover, 5G network enables the applications of personal wearable devices for physical health monitoring to be connected to high-tech diagnostic equipment, where high-precision sensors with real-time data transmission are required for curative purposes. Therefore, following the development of 5G network, many innovative IoT applications are expected to emerge. The development of 5G network is expected to contribute to the growth in the IoT products industry. The number of global IoT connected devices is expected to increase from approximately 9.3 billion in 2018 to approximately 35.1 billion in 2023, representing a

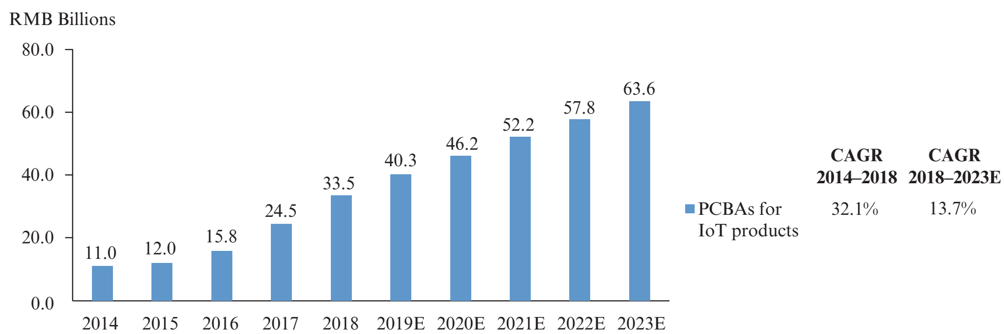
CAGR of approximately 30.4%; and the market size of PCBAs for IoT products in terms of revenue in China is expected to increase from approximately RMB33.5 billion in 2018 to approximately RMB63.6 billion in 2023, representing a CAGR of approximately 13.7%.

Number of IoT connected devices, Global, 2014–2023E



Source: CIC Report

Market size of PCBAs for IoT products in terms of revenue, China, 2014–2023E



Source: CIC Report

Major growth drivers of China's PCBA industry

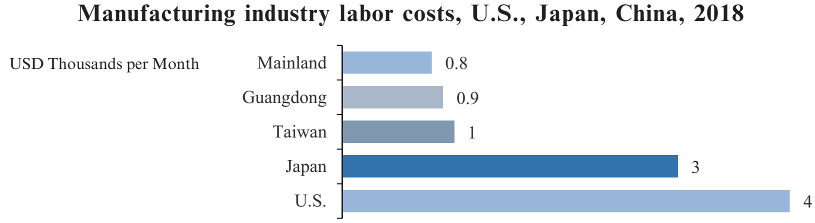
1. China's growing electronic information industry

China's rapidly growing economy and technological development has promoted the swift expansion of China's electronic information industry. Driven by the rapid development of China's electronic information industry, China's share of the global PCBA industry has increased steadily. Several major PCBA industrial clusters, including the Pearl River Delta, Yangtze River Delta, and Circum-Bohai Sea regions, have gradually taken root in China. These industrial clusters have aggregated together to form large community of suppliers, PCBA manufacturers, and third-party logistic companies. PCBA manufacturers can provide EMS solutions to brand owners.

2. China's relatively low labour cost

China's labor costs within the manufacturing industry averaged USD800 per month in 2018, lower than that of the U.S., Japan, and Taiwan, which have acquired similar levels of manufacturing technology. China's relatively low labor costs in the manufacturing industry are therefore also expected to attract a larger number of brand owners in the years ahead.

Manufacturing industry labor costs, U.S., Japan, China, 2018



Source: CIC Report

3. Development of 5G

Compared with 4G, 5G can provide faster data transfer speeds and reduce time lags from when data is sent to when it is received. Many national governments have established plans to promote the development of 5G. Given these advancements, the number of internet users and mobile internet users in China are both expected to maintain a stable growth trend, bolstered by the improved user experience provided by 5G technology.

Driven by the increasing number of internet users and mobile internet users in China, the demand for telecommunication devices, such as routers and positioning terminals, is therefore expected to increase rapidly, further promoting the continued expansion of telecommunication PCBA manufacturers.

4. Supporting policies and regulations

The Chinese government has put forward a series of regulations and policies, such as the Action Plan for Pilot Demonstrations of Intelligent Manufacturing in 2016 (智能製造試點示範2016專項行動實施方案) and the Made in China 2025 (中國製造2025) to promote the development of China's manufacturing industry and downstream markets in the country's PCBA industry.

Development trends of China's PCBA industry

1. Popularity of automated production

Labor costs are rising rapidly given the labor shortage arising from a shrinking workforce. Therefore, in order to solve the issue of rising labor costs, a growing number of PCBA manufacturers are expected to upgrade their operations to include automated production lines. When compared with manual production techniques, automated production can achieve higher production efficiency and can reduce human errors, increasing levels of accuracy and replication. In addition, automated production can promote the digitalisation of manufacturing, enabling the real-time monitoring of the production process from start to finish.

2. Higher levels of investment in R&D

Electronic products are being continuously upgraded and at great speeds. In order to swiftly respond to brand owners' demands for new product development, the expectation is that PCBA manufacturers will be willing to invest more in research and development, including market research, prototyping, and conceptual engineering in order to shorten the new product development cycle. Moreover, PCBA manufacturers are expected to invest more in the development of new manufacturing equipment. In order to make use of automated production techniques and provide their customers with integrated solutions, both of which are becoming critical for success in the PCBA industry, PCBA manufacturers have little choice other than to obtain advanced equipment, equipment which usually requires access to significant capital investments.

3. Enhanced cooperation with brand owners

With electronic products being upgrading constantly, an increasing number of brand owners are expected to begin partnering with PCBA manufacturers to assist with their new product development. By cooperating with PCBA manufacturers, who specialize in providing a great variety of value-added services, including design and supply chain management, brand owners can speed up the development process for their new products. Thus, driven by brand owners' demands for diversified and comprehensive manufacturing services, an increasing number of PCBA manufacturers are expected to transform themselves into EMS solution providers. As a result, offering integrated solutions is anticipated to become an essential marker of competitiveness for the PCBA manufacturers of the future.

4. Diversification of PCBA downstream markets

Driven by the rapid development of China's technological sophistication, an increasing number of novel electronic products are being launched on a rolling basis, with the overall breadth of relevant downstream markets in the PCBA industry therefore becoming wider and wider. This includes not only traditional markets such as televisions, computers, and smartphones, but also many emerging markets such as IoT, AI-powered smartphones, and automobile electronic products. The increased diversification of downstream markets is expected to encourage China's PCBA manufacturers to continue their expansion into a broad range of new markets.

Challenges in China's PCBA industry

1. Competition from large PCBA manufacturers

China has become the epicenter for manufacturing and consumption in the global electronics industry. With a positive investment environment and a large consumer market, mainland China has attracted many new PCBA manufacturers to set up shop in the country. Meanwhile, some of China's domestic brands have now leading global companies, and have already built up advanced supply chains in the mobile phone industry. Clients have high requirements in terms of the quality of products outsourced to PCBA manufacturers, with successful PCBA manufacturers operating in the industry having to expend a great deal of time and effort to develop their technological capabilities and client relationships. Therefore, as market competition has continued to intensify, China's smartphone industry has gradually shifted its attention towards the top PCBA manufacturers operating in the industry. Moreover, these companies possess advantages in terms of capital, production scale, and technology. However, most domestic PCBA manufacturers are still in an early stage of development, and many are relatively weak in terms of their scale, access to capital, and service portfolio. Hence, it will be quite challenging for these domestic companies to compete with the leading companies as the concentration rate in the industry continues to increase.

2. Continuous R&D investment driven by rapid upgrades to mobile phones

Mobile phones have been repeatedly upgraded within shortened timespans. The specifications of newer models have also become increasing more complex, which has consequently increased the demand for automated manufacturing. For example, the penetration rate for smartphones in China increased from about 43% in 2014 to 92% by 2018. Meanwhile, the number of new technologies applied in smartphones has increased rapidly, including larger and thinner screens as well as innovations in full-screen displays. These burgeoning new technologies and innovations require PCBA manufacturers to adopt more advanced SMT technologies in order to provide better manufacturing services. The constant upgrading of smartphones has led to higher costs for PCBA manufacturers, who must continually introduce new technologies and invest more and more in R&D as well as professional training to better manage future production. Thus, companies must continuously readjust to a rapidly changing industry in order to survive.

3. Increased labor costs leading to the migration of low level industries

Due to the influence of the "One Child" policy in place since 1980, growth in the number of people entering the country's working-age population segment has continued to fall since 2007. Meanwhile, the aging population has grown from 7% in 2007 to reach 11.4% in 2018. As a consequence, the benefits accrued from the country's demographic dividend have started to dry up, which will ultimately have a large impact on labor-intensive industries moving forward, with labor costs having subsequently undergone an increase. The average salary of a manufacturing worker in China increased from USD1.2 per hour in 2006 to USD3.6 per hour in 2016. As for the PCBA industry, the production of lower value components in China is anticipated to migrate to those countries and regions with cheaper labor costs, including Southeast Asia, India, and Mexico. However, those parts in the PCBA industry able to be produced with an increased level of automation are much less likely to suffer from the ongoing increase in labor costs.

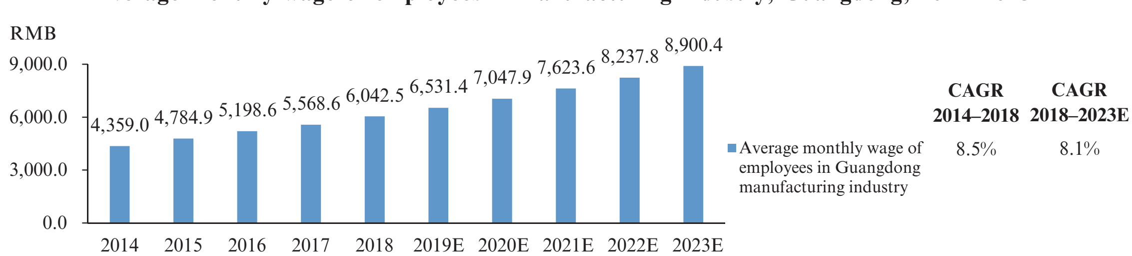
4. Growth for global smartphone shipments

Global smartphone shipments slowed down after 2016 but is expected to regain growth momentum in 2019. The reasons for the slowdown are mainly (i) the relatively high penetration rate for smartphones reaching 63.8% in 2018; and (ii) consumers were anticipating the commercialisation of 5G and slowing down replacement plan. As a result, growth in the smartphone market as well as the relevant demand for services provided by the PCBA industry is expected to remain relatively stable pending for the commercialisation of 5G.

Historical price trends of wages of manufacturing workers and PCBA raw materials

The average monthly wage of employees in manufacturing industry in Guangdong Province has increased from RMB4,359.0 in 2014 to RMB6,042.5 in 2018, representing a CAGR of 8.5%, and this number is expected to continue growing to reach RMB8,900.4 by 2023. The rising manufacturing industry wage is mainly due to China's growing economy, inflation and the shortage of labor supply in the manufacturing industry.

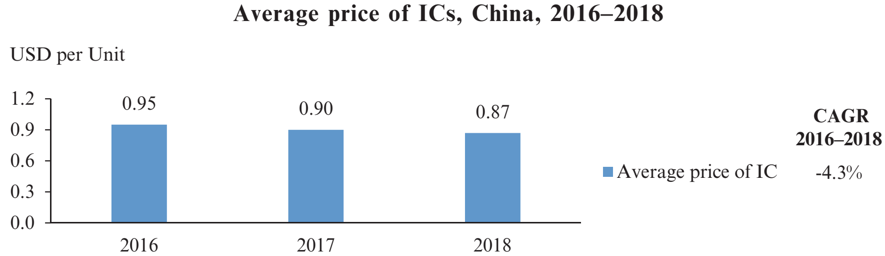
Average monthly wage of employees in manufacturing industry, Guangdong, 2014–2023E



Source: National Bureau of Statistics of China, CIC Report

The average price of ICs has decreased from USD0.95 per unit in 2016 to USD0.87 per unit as of 2018, representing a negative CAGR of 4.3%. The decreasing price of ICs was mainly caused by declining prices of raw materials and the intensified competition among IC manufacturers.

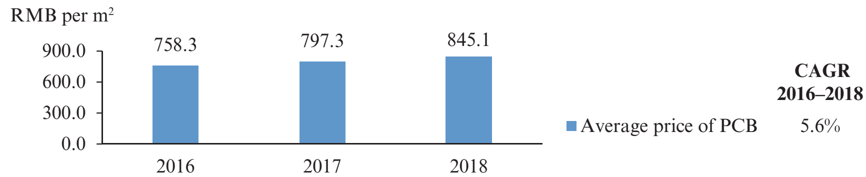
Average price of ICs, China, 2016–2018



Source: CIC Report

The average price of PCBs has increased at a CAGR of 5.6% between 2016 and 2018, having increased from RMB758.3 per m^2 in 2016 to reach RMB845.1 per m^2 in 2018. The short supply of PCBs and the rising cost of copper foils, one of the most important raw materials of PCBs, contributed to the increasing price of PCBs.

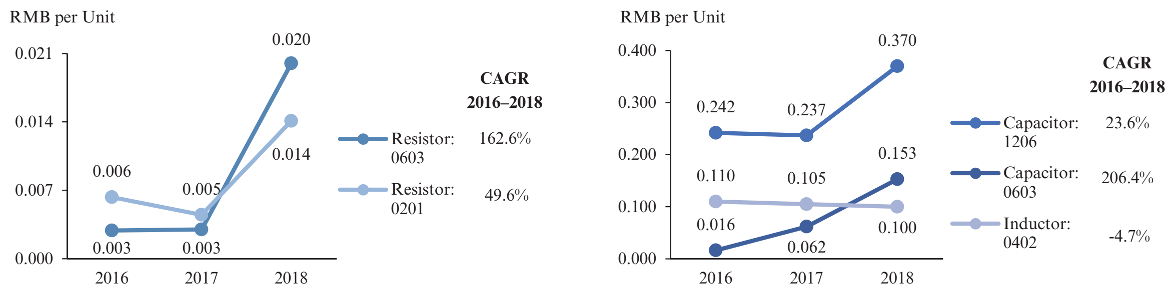
Average price of PCBs, China, 2016–2018



Source: CIC Report

The average prices for resistors, capacitors, inductors have continued to fluctuate over time, with most prices having increased from 2016 to 2018. The increase in the prices of these electronic components was mainly caused by the increasing raw material price, labor wages and environmental costs.

Average prices for resistors, capacitors, inductors, China, 2016–2018



Source: CIC Report

Entry barriers of China's PCBA industry

1. Large initial capital investment

A large initial investment is required before PCBA manufacturers can establish a factory. Brand owners, on the other hand, choose to outsource their manufacturing and other related processes to PCBA manufacturers in order to benefit from lower costs, which is mainly achieved through scaling up effects, which means that PCBA manufacturers will need to invest a great deal in upfront fixed assets. Furthermore, PCBA manufacturers will need to spend a significant amount of time before they get the chance to become a contract manufacturer with large brand owners. In addition, the PCBA manufacturers need to buy advanced equipment to achieve higher quality and efficiency, to meet the demand of clients and build competitive advantages. Large clients also have requirements in terms of scale and financial position.

2. Contract manufacturer certifications

For PCBA manufacturers, larger brand owners can offer stable and large-scale orders. PCBA manufacturers must undergo a rigorous and long-term period of oversight before becoming the contract manufacturers for large brand owners. They need to meet the advanced international industry standards, and pass the strict certification requirements of brand owners, including in terms of the production process, quality control management, working environment, and so on. The certification process in general lasts longer than one year, and involves many rounds of review. PCBA manufacturers have to pass a small-batch production well before formally becoming official suppliers. This drawn out process can last anywhere between 1 and 3 years.

3. Supply chain management capabilities

PCBA manufacturers provide their clients with EMS solutions, which includes procurement, manufacturing, logistics, and after-sales services. High-quality supply chain management is also an indispensable requirement for any PCBA manufacturer. In addition, the ability to achieve lower costs is one of the competitive advantages of PCBA manufacturers, and only those with adequate supply chain management capabilities are able to save on costs and accelerate deliveries. Moreover, PCBA manufacturers often serve large brand owners around the country and even from around the world, and the ability to manage such a complicated supply chain system is therefore essential.

4. Technological capabilities

In the PCBA industry, both depth of experience and strong technical strengths are required for successful operations, which reflects the complicated and difficult processes involved in SMT mounting, reflow soldering, AOI inspection, product assembly, and finished product testing. Moreover, the rapid development of scientific and technological advancements has led to the repeated upgrading of electronic products sold in the downstream segment. This has required PCBA manufacturers to apply constant updates and improvements to their processing technology, quality control, and production management over the long run.

LAWS AND REGULATIONS IN RELATION TO OUR GROUP'S BUSINESS IN THE PRC

Our business operations are subject to extensive supervision and regulation in the PRC. This Regulatory Overview sets out a summary of the laws, regulations and policies to which we are subject.

Regulations and policies relating to the industry

At present, China's PCBA industry is mainly managed by the Ministry of Industry and Information Technology of the People's Republic of China ("**MIIT**").

Pursuant to the *Interim Measures for the Administration of Announcement of Standard of Printed Circuit Board Industry* (《印製電路板行業規範公告管理暫行辦法》) and *Standard Conditions for the Printed Circuit Board Industry* (《印製電路板行業規範條件》) promulgated by the MIIT on 28 December 2018 and came into effect on 1 February 2019, the MIIT shall be in charge of the administration of announcement of standards of PCBA industry nationwide, organising the re-examination and verification, spot check and announcement of application materials, and dynamic management of the list of announcement of standard of PCBA industry. PCBA manufacturing enterprises complying with the following conditions may apply for announcement:

- having the qualification of independent legal person;
- complying with the requirements of national industry policies and relevant development plans;
- complying with the requirements of the Standard Conditions for Printed Circuit Board Industry;
- having no serious illegal acts.

Pursuant to the *Catalogue for the Guidance of Industrial Structure Adjustment* (《產業結構調整指導目錄》) (2011 Version) (Amended) promulgated by the National Development and Reform Commission ("**NDRC**") on 27 March 2011 and amended on 16 February 2013 and 25 March 2016, manufacture of new-type electronic components (including chip components, frequency components, hybrid integrated circuits, power electronic devices, optoelectronic devices, sensitive components and sensors, new-type electromechanical components, high-density PCBs, and flexible circuit boards, among others) are the industries being encouraged.

The establishment, operation and management of enterprises

The establishment, operation and management of corporate entities in China is subject to *the Company Law of the PRC* (《中華人民共和國公司法》), which was promulgated on 29 December 1993 and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018 receptively, and *Regulations on Corporate Registration of the People's Republic of China* (《中華人民共和國公司登記管理條例》) promulgated on 24 June 1994 and revised on 18 December 2005, 19 February 2014 and 6 February 2016. *The Company Law* and *Regulations on Corporate Registration* also apply to foreign-invested limited liability companies, subject to other stipulations under the laws on foreign investment which should prevail.

The Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) which was promulgated on 8 July 1979 and subsequently amended on 4 April 1990, 15 March 2001 and 3 September 2016 respectively, *the Implementing Regulations of the Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures* (《中華人民共和國中外合資經營企業法實施條例》), which was promulgated on 20 September 1983 and subsequently amended on 15 January 1986, 21 December 1987, 22 July 2001, 8 January 2011, 19 February 2014 and 2 March 2019, are applicable to the establishment procedures, operation and management of Sino-Foreign Equity Joint Ventures.

The Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 and subsequently amended on 31 October 2000 and 3 September 2016 respectively, the *Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People's Republic of China* (《中華人民共和國外資企業法實施細則》) promulgated on 12 December 1990 and revised on 12 April 2001 and 19 February 2014, are applicable to the establishment procedures, operation and management of wholly foreign-owned enterprises.

Pursuant to the *Provisional Administrative Measures on Filing of Establishment and Modifications of Foreign Investment Enterprises* (《外商投資企業設立及變更備案管理暫行辦法》) promulgated by the Ministry of Commerce of the PRC on 8 October 2016 and amended on 30 July 2017, 29 June 2018 respectively, if the establishment and modifications of foreign invested enterprises does not involve the implementation of special access administrative measures prescribed by the state, then such establishment and modifications of foreign invested enterprises shall be reported for recordation. If the investment conducted by investors from Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan does not involve the implementation of special access administrative measures prescribed by the state, the *Provisional Administrative Measures on Filing of Establishment and Modifications of Foreign Investment Enterprises* shall apply mutatis mutandis.

Foreign investments in different industries in the PRC are regulated through *the Catalogue of Industries for Guiding Foreign Investment* (《外商投資產業指導目錄》) (the "**Catalogue**"), *the Catalogue of Encouraged Foreign Investment Industries (2019 Version)* (《鼓勵外商投資產業目錄(2019年版)》) (the "**Encouraged Catalogue**"), the *Special Management Measures for Market Entry of Foreign Investment (Negative List) (2019 Version)* (《外商投資准入特別管理措施(負面清單)(2019版)》) (the "**Negative List**"), and the *Negative List for Market Access (2018 Version)* (《市場准入負面清單(2018年版)》) (the "**Market Access Negative List**") which were jointly promulgated by the NDRC and the Ministry of Commerce of the PRC. According to the 2017 version of the Catalogue promulgated on 28 June 2017 and came into effect on 28 July 2017, the 2019 version of the Encouraged Catalogue promulgated on 30 June 2019 and came into effect on 30 July 2019, the 2019 version of the Negative List promulgated on 30 June 2019 and came into effect on 30 July 2019 and the Market Access Negative List promulgated and came into effect on 21 December 2018, all kinds of market players may enter into industries, fields, business and so on outside the Market Access Negative List in a legal and equal way. We are an established EMS (Electronics Manufacturing Services) provider in the PRC offering assembling and production of PCBAs (Printed Circuit Board Assembly) and this industry has not been included in the Market Access Negative List.

Real property

In accordance with the *Property Law of the PRC* (《中華人民共和國物權法》) promulgated on 16 March 2007 and came into effect on 1 October 2007, the creation, change, transfer or elimination of the real right of a real property shall be registered according to law. The creation, change, transfer or elimination of the real right of a real property shall become effective after it is registered according to law; it shall have no effect if it is not registered according to law, except it is otherwise prescribed by any law.

In accordance with the *Land Administration Law of the PRC* (《中華人民共和國土地管理法》) promulgated on 25 June 1986 and amended on 29 December 1988, 29 August 1998 and 28 August 2004, land in urban areas is owned by the State. Land in rural and suburban areas, homestead and private plots in fields or on hillsides are collectively owned by peasants except those of which the ownership belongs to the State according to the law. Land owned by the State and land collectively owned by peasants may be lawfully determined to be used by entities or individuals. No entity or individual is allowed to occupy, trade, or otherwise illegally transfer land. Land use rights may be legally transferred. Any entity or individual that needs land for the purposes of construction must apply for the use of state-owned land by law, however land that is collectively owned by peasants and used by collective economic organisations for establishing local enterprises or building residential housing, or land collectively owned by peasants approved by law for use in the construction of township (town) public facilities or for public welfare projects are exempted.

In accordance with the *Administrative Measures of Guangdong Province for the Circulation of the Right to the Use of Collectively-owned Land for Construction Purposes* (《廣東省集體建設用地使用權流轉管理辦法》) promulgated on 23 June 2005 and came into effect on 1 October 2005, a written contract shall be signed for leasing the right to the use of collectively-owned land for construction purposes. The following construction projects may use collectively-owned land for construction purposes:

- setting up all kinds of industrial and commercial enterprises, including state-owned, collectively-owned and private enterprises, individual industrial and commercial households, foreign-invested enterprises (including Chinese and foreign equity joint ventures, Chinese and foreign contractual joint ventures, wholly foreign-owned enterprises and enterprises that process raw materials on clients' demands, assemble parts for clients and process according to the clients' samples), joint-stock enterprises and jointly operated enterprises, etc.;
- setting up public facilities and public welfare undertakings; and
- building peasants' dwelling houses.

Intellectual property

Patent

In accordance with *the Patent Law of the PRC* (《中華人民共和國專利法》) promulgated on 12 March 1984 and amended on 4 September 1992, 25 August 2000 and 27 December 2008 respectively, the patent administration division of the State Council shall be responsible for the patent administration throughout the PRC, and shall accept and examine patent applications and grant patent rights in accordance with laws. The patent administration department of the people's governments of provinces, autonomous regions or municipalities shall be responsible for the patent administration within their respective own jurisdictions.

Pursuant to *the Patent Law*, to be granted a patent, an invention or utility model shall be novel, inventive and practically applicable. Generally, only one patent right will be granted for each invention, utility model and design. The patent right for inventions shall be valid for 20 years, and the patent right for utility models and designs shall be valid for 10 years, both shall commence from the initial filing date of the patent application. An annual fee shall be paid since the year in which the patent right was granted. In any of the following cases, the patent right shall cease before the expiration of its duration:

- where an annual fee is not paid as prescribed;
- where the patent owner abandons his patent right by a written declaration.

Any cessation of the patent right shall be registered and announced by the patent administrative department of the State Council.

Trademark

In accordance with *the Trademark Law of the PRC* (《中華人民共和國商標法》) promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019 (will be effective on 1 November 2019) respectively, the Trademark Office of the administrative department for industry and commerce under the State Council shall be responsible for the registration and administration of trademarks in the PRC. The administrative department for industry and commerce under the State Council shall establish a Trademark Review and Adjudication Board to be responsible for handling trademark disputes. Any natural person, legal person, or other organisations that needs to acquire the exclusive right to use a trademark in the production and operation activities shall file an application for trademark registration with the Trademark Office.

Registered trademarks shall be valid for 10 years from the date when the registration is approved. If a registrant needs to continue to use the registered trademark after its expiration, an application for registration renewal shall be made within 12 months before the expiration date. If the registrant fails to apply in a timely manner, an extension period of an additional six months may be granted. If no application has been filed before the extension period expires, the registered trademark shall be deregistered. Each renewal of registration shall be valid for 10 years.

Copyright

According to the *Copyright Law of the People's Republic of China* (《中華人民共和國著作權法》) promulgated on 7 September 1990 and revised on 27 October 2001 and 26 February 2010 respectively, the *Regulations for the Implementation of the Copyright Law of the People's Republic of China* (《中華人民共和國著作權法實施條例》) promulgated on 30 May 1991 and revised on 2 August 2002, 8 January 2011 and 30 January 2013 respectively and the *Regulation for Computer Software Protection* (《計算機軟件保護條例》) promulgated on 4 June 1991 and revised on 20 December 2001, 8 January 2011 and 30 January 2013, works of citizens, legal persons or other organisations of the PRC, whether published or not, enjoy copyright protection under this law. According to the *Measures for the Registration of Computer Software Copyright* (《計算機軟件著作權登記辦法》) promulgated and came into effect on 20 February 2002, such measures are applicable to registration of software copyright, exclusive licensing contracts for software copyright and transfer contracts of software copyright. The state copyright administrative department shall encourage software registration and give priority to the protection of the registered software.

Domain name

According to the *Administrative Measures for Internet Domain Names* (《互聯網域名管理辦法》) promulgated by MIIT on 24 August 2017 which came into effect on 1 November 2017, MIIT shall be responsible for supervising and administering nationwide domain name services and the communications administrations of all provinces, autonomous regions and municipalities directly under the central government shall supervise and administer domain name services within their respective administrative region. The ".cn" and the ".中國" shall be China's national top-level domain names. Chinese domain names are an integral part of the internet domain name system of China. The State shall encourage and support the technical research, promotion and application of the Chinese domain name system.

According to the *Measures on Domain Name Dispute Resolution of China Internet Network Information Centre* (《中國互聯網絡信息中心域名爭議解決辦法》) amended by China Internet Network Information Centre on 1 September 2014, domain name disputes relating to the usage and registration of the domain name ".cn" and the ".中國" shall be submitted to the institutions recognised by the China Internet Network Information Centre for settlement.

Production safety

The principal law on production safety is *the Production Safety Law of the PRC* (《中華人民共和國安全生產法》) promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014 respectively. Pursuant to the Production Safety Law, manufacturing companies should establish a control system for production safety and improve work conditions as provided by this law and other relevant laws, administrative regulations and national standards or industrial specifications. Pursuant to *the Regulation on Production Safety Licenses* (《安全生產許可證條例》), which was promulgated on 13 January 2004 and was amended on 18 July 2013 and 29 July 2014 respectively, the PRC applies a production safety licensing system to enterprises engaged in mining, construction, and the production of dangerous chemicals, fireworks and crackers, and civil explosives. No such enterprises may conduct production activities without production safety licenses.

Product quality

According to *the PRC General Principles of Civil Law* (《中華人民共和國民法通則》) promulgated on 12 April 1986 and revised on 27 August 2009, manufacturers and sellers of defective products are subject to civil liability for damages or injuries by their products.

Productions in the PRC are subject to *the Product Quality Law of the PRC* (《中華人民共和國產品質量法》) which was promulgated on 22 February 1993 and amended on 8 July 2000, 27 August 2009 and 29 December 2018 respectively. According to the Product Quality Law, industrial products that impose potential health or safety threats to human being or property must comply with relevant national and industry standards. Production and sale of industrial products that are inconsistent with such standards and requirements are prohibited. A manufacturer of a product is responsible to compensate for the damages to any person or property caused by the defect of such a product, unless the manufacturer is able to prove that:

- it has not circulated the product;
- the defect did not exist at the time when the product was circulated;
- scientific or technological knowledge at the time when the product was circulated did not allow the defect to be discovered.

According to the *Regulations on Quality Responsibility for Industrial Products* (《工業產品質量責任條例》) promulgated on 5 April 1986 and came into effect on 1 July 1986, manufacturers shall ensure that the quality of their products meets the requirements of relevant laws and regulations, quality standard and contracts. Moreover, manufacturers must set up a well-knit, coordinating and effective quality assurance system to stipulate accountability of product quality.

According to the *Tort Law of the People's Republic of China* (《中華人民共和國侵權責任法》) promulgated on 26 December 2009 and came into effect on 1 July 2010 and the *Opinions of the Supreme People's Court of Several Issues concerning the Application of the Tort Law of the People's Republic of China* (《最高人民法院關於適用〈中華人民共和國侵權責任法〉若干問題的通知》) promulgated and came into effect on 30 June 2010, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation of the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek compensation from the manufacturer upon compensation of the victim.

Import and export sale of products

According to the *Foreign Trade Law of the People's Republic of China* (《中華人民共和國對外貿易法》) promulgated on 12 May 1994 and revised on 6 April 2004 and 7 November 2016 as well as the *Measures for the Archival Filing and Registration of Foreign Trade Business Operators* (《對外貿易經營者備案登記辦法》) promulgated on 25 June 2004 and revised on 18 August 2016, foreign trade operators engaged in the import and export of commodities or technologies shall be filed and registered with the competent department of foreign trade under the State Council or an institution entrusted by it, except those exempt from doing so pursuant to laws, administrative regulations and rules of the competent department of foreign trade under the State Council. Foreign trade operators failing to go through relevant filing and registration formalities accordingly shall not be permitted to proceed to declaration and Clearance at the Customs. According to the *Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Right to Foreign Trade by Foreign-funded Enterprises* (《商務部關於外商投資企業外貿權備案登記有關問題的通知》) promulgated by the Ministry of Commerce and came into effect on 17 August 2004, any foreign-funded enterprise lawfully established before 1 July 2004 that has not applied for changing its scope of business or adding any import/export business or any foreign-funded enterprise lawfully established after 1 July 2004 that undertakes import/export of self-use or self-produced goods and technologies of this enterprise need not complete the formalities of record-keeping and registration of foreign trade operators.

According to the *Customs Law of the People's Republic of China* (《中華人民共和國海關法》) promulgated on 22 January 1987 and revised on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, unless otherwise provided for, consignees and consigners of import or export commodities may go through declaration formalities on their own or entrust an agent to do so for them on the condition that both the said consignees and consigners and agents entrusted with such declaration formalities have been legally registered with the Customs.

According to the *Provisions on Administration of Registration of Customs Declaration Entities of the People's Republic of China* (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated on 13 March 2014, and revised on 20 December 2017, 29 May 2018, entities which provide customs declaration service shall be registered with the Customs in accordance with these provisions unless otherwise prescribed by laws, administrative regulations or customs rules. Such registration includes the registration of the entities and the registration of the consignees or consignors of imported/exported goods. The relevant entities may not provide customs declaration services until it has obtained a registration license from the local customs office directly under the General Administration of Customs or a subordinate customs office authorised by it. A consignee or consignor of imported/exported goods may directly go through the registration procedure at the local customs office.

According to the *Law of the People's Republic of China on Import and Export Commodity Inspection* (《中華人民共和國進出口商品檢驗法》) promulgated on 21 February 1989 and revised on 28 April 2002, 29 June 2013, 27 April 2018 and 29 December 2018, the *Regulations for the Implementation of the Law of the People's Republic of China on Import and Export Commodity Inspection* (《中華人民共和國進出口商品檢驗法實施條例》) promulgated on 23 October 1992 and revised on 31 August 2005, 18 July 2013, 6 February 2016, 1 March 2017 and 2 March 2019 and the *Administration of Entry-Exit Inspection, Quarantine and Inspection and Quarantine Reporting* (《出入境檢驗檢疫報檢規定》) promulgated on 17 December 1999 and revised on 6 March 2018, 28 April 2018, 29 May 2018 and 23 November 2018, the General Administration of Quality Supervision, Inspection and Quarantine and its local inspection and quarantine branches are in charge of the inspection of imported and exported commodities nationwide and locally respectively.

Import and Export Duties

According to the Regulations of the People's Republic of China on Import and Export Duties (《中華人民共和國進出口關稅條例》) promulgated on 7 March 1985 and revised on 12 September 1987, 18 March 1992, 23 November 2003, 8 January 2011, 7 December 2013, 6 February 2016 and 1 March 2017, all goods permitted to be imported into or exported out of and all articles allowed to enter into the People's Republic of China shall, unless otherwise provided for by the State Council, be subject to payment of customs duties on imports or exports.

According to the Announcement of the Customs Tariff Commission of the State Council on Imposing Additional Tariffs on USD50 Billion Worth of Imported Commodities Originating from the U.S. (《國務院關稅稅則委員會關於對原產於美國500億美元進口商品加徵關稅的公告》) promulgated on 16 June 2018, the Customs Tariff Commission of the State Council has decided to impose an extra 25 percent on tariffs on 659 US-sourced imported commodities worth approximately USD50 billion, among which 545 goods, worth around USD34 billion, will be subject to additional tariffs from July 6, 2018.

According to the Announcement of the Customs Tariff Commission of the State Council on Imposing Additional Tariffs on USD16 Billion Worth of Imported Goods Originating from the U.S. (《國務院關稅稅則委員會關於對原產於美國約160億美元進口商品加徵關稅的公告》) promulgated on 8 August 2018, the Customs Tariff Commission of the State Council has decided to impose an extra 25 percent on tariffs on US-sourced imported commodities worth approximately USD16 billion listed on the List 2 of US Imports Commodities with Additional Tariffs.

According to the Announcement of the Customs Tariff Commission of the State Council on Imposing Additional Tariffs on Some Imported Goods Originating from the U.S. (Second Batch) (《國務院關稅稅則委員會關於對原產於美國的部分進口商品(第二批)加徵關稅的公告》) promulgated on 3 August 2018, the Customs Tariff Commission of the State Council has decided to impose extra tariffs on 5,207 imported goods originating from the US. These additional tariffs target USD60 billion worth of US imports.

According to the *Announcement of the Customs Tariff Commission of the State Council on Imposing Additional Tariffs on Some Imported Goods Originating from the U.S. (Third Batch)* (《國務院關稅稅則委員會關於對原產於美國的部分進口商品(第三批)加徵關稅的公告》) promulgated on 23 August 2019, the Customs Tariff Commission of the State Council has decided to impose extra tariffs on 5,078 imported goods originating from the US. These additional tariffs target USD75 billion worth of US imports.

Environmental protection

According to *the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) promulgated on 26 December 1989 and amended on 24 April 2014, the former Ministry of Environmental Protection is responsible for implementing uniform supervision and administration of environmental protection nationwide and establishing the national waste discharge standards. Local environmental protection bureaus are responsible for environmental protection in their respective jurisdictions. Enterprises discharging pollutant and hazardous materials must incorporate environmental protection measures into their business planning and establish environmental protection systems. Such enterprises must also adopt effective measures to prevent the release of pollutant or hazardous materials to the environment.

According to *the Law of the People's Republic of China on Environmental Impact Assessment* (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and revised on 2 July 2016 and 29 December 2018, the *Regulations on the Administration of Construction Project Environmental Protection* (《建設項目環境保護管理條例》) promulgated on 29 November 1998, revised on 16 July 2017, the *Classification Management Directory of the Construction Project Environmental Impact*

(《建設項目環境影響評價分類管理名錄》) promulgated on 2 September 2008 and revised on 9 April 2015, 29 June 2017 and 28 April 2018, the Chinese government implements the construction project environmental impact evaluation system and manages environmental impact assessment according to the environmental impacts. The construction enterprise shall submit environmental impact report or environmental impact statement or environmental impact registration form to relevant environmental protection authority for approval. Without the approval of relevant environmental protection authority, no enterprise shall carry out its construction project.

According to the *Water Pollution Prevention and Control Law of the People's Republic of China* (《中華人民共和國水污染防治法》) promulgated on 11 May 1984 and revised on 15 May 1996, 28 February 2008, 27 June 2017, environmental impact assessment shall be conducted to new construction, expansion or reconstruction projects or construction projects and other marine facilities which directly or indirectly discharge pollutants into water. Enterprises, public institutions and other business entities which directly or indirectly discharge industrial waste water and medical sewage to water or which are required to obtain pollutant discharge licenses before discharging waste water and sewage water must obtain pollutant discharge licenses; and entities operating facilities for the concentrated treatment of urban sewage must also obtain pollutant discharge licenses. Pollutant discharge licenses shall specify requirements including categories, concentrations, gross quantities and discharging directions of the pollutants discharged to water.

According to 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》) promulgated on 5 September 1987 and revised on 29 August 1995, 29 April 2000, 29 August 2015 and 26 October 2018, when construction projects that have an impact on the atmosphere, enterprises, public institutions and other business entities shall conduct environmental impact assessments and publish the environmental impact assessment documents according to the law; when discharging pollutants to the atmosphere, they shall conform to the air pollutant discharge standards and abide by the total quantity control requirements for the discharge of key air pollutants. Enterprises and public institutions discharging industrial waste gases or the toxic or hazardous air pollutants listed in the catalogue of toxic or hazardous air pollutants, the producers and operators of the coal heating sources of central heating facilities, and other entities subject to pollutant discharging licensing administration, shall obtain pollutant discharge licenses. The specific measures and implementation steps for pollutant discharge licensing shall be determined by the State Council. Air pollutant discharge outlets shall be set according to the laws, regulations and the provisions of the environmental protection administrative department under the State Council.

According to the *Law of the People's Republic of China on the 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》) promulgated on 30 October 1995 and revised on 29 December 2004, 29 June 2013, 24 April 2015 and 7 November 2016, entities that discharge industrial solid waste shall set up and optimise the liability system for the prevention and control of environmental pollution and take measures to prevent environmental pollution by industrial solid waste discharged. The State has now set up a system of report and registration for industrial solid waste. Entities that discharge industrial solid waste shall, according to laws and regulations, submit information about the type, quantity, flow, storage and treatment of the relevant solid wastes to the environmental protection administrative department of the local people's government at or above the county level where such entities are located, and any material changes to such matters shall be reported promptly.

According to the *Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise* (《中華人民共和國環境噪聲污染防治法》) promulgated on 29 October 1996 and revised on 29 December 2018, every project under construction, expansion or renovation must conform to the regulations of the state governing environmental protection. Any industrial enterprise that produces environmental noise pollution due to the use of permanent equipment in the course of industrial production must, in accordance with the regulations of the competent administrative department for environmental protection under the State Council, report to the competent administrative department for environmental protection of the local people's government at or above the county level the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Any industrial enterprise that intends to make a substantial change in the types or quantity of the equipment that produces environmental noise pollution, in the noise level or facilities for prevention and control of such pollution must submit a report without delay and take prevention and control measures.

According to the *Law of the People's Republic of China on Promoting Clean Production* (《中華人民共和國清潔生產促進法》) promulgated on 29 June 2002 and revised on 29 February 2012, the enterprises may, on the principle of free will and in accordance with the national regulations on verification by the environmental management system, apply for verification to the verification authorities acknowledged by the verification and supervision department under the State Council, so as to raise their standards of clean production. Enterprises shall monitor the consumption of resources and the generation of wastes in the production and rendering of services, and where it is necessary, shall carry out clean production checks over their production and services. The clean production of the following enterprises shall be compulsorily reviewed, if they fall within one of the following conditions: discharge pollutants in excess of the standard specified by the State or local authorities, or not exceeding the above standard but exceeding the total controlling indicator of the main pollutants discharge; exceed the limited energy-consumption standards allowed for unit products, resulting in high energy consumption; use toxic or harmful raw materials for production or discharge toxic or harmful substances in the course of production.

In addition, in accordance with the *Measures for Pollutant Discharge Permitting Administration (For Trial Implementation)* (《排污許可管理辦法(試行)》) promulgated by the former Ministry of Environmental Protection and came into effect on 10 January 2018 and revised by the Ministry of Ecology and Environment on 22 August 2019, the former Ministry of Environmental Protection shall lawfully formulate and issue the catalogue of classified management of pollutant discharge licenses for stationary pollution sources, and define the scope of stationary pollution sources included in pollutant discharge licensing management and the time limit for the application for pollutant discharge licenses. Enterprises, public institutions and other production operators (the "**pollutant discharge entities**") included in the catalogue of classified management of pollutant discharge licenses for stationary pollution sources shall apply for and obtain a pollutant discharge license as per the prescribed time limit; and, it is temporarily unnecessary for pollutant discharge entities not included in the catalogue of classified management of pollutant discharge licenses for stationary pollution sources to apply for a pollutant discharge license.

According to the *Classification and Administration Lists of Pollutant Discharge Permits for Stationary Pollution Sources (Version 2017)* (《固定污染源排污許可分類管理名錄(2017年版)》) promulgated by the former Ministry of Environmental Protection on 28 July 2017, the existing enterprises and public institutions and other producers and operators should apply for pollutant discharge permits within the execution period in accordance with the requirements under the list.

Labour protection

Labour contracts

Pursuant to *the Labour Law of the PRC* (《中華人民共和國勞動法》) which was promulgated on 5 July 1994 and was amended on 27 August 2009 and 29 December 2018, *the Labour Contract Law of the PRC* (《中華人民共和國勞動合同法》) which was promulgated on 29 June 2007 and was amended on 28 December 2012, and the *Regulations on the Implementation of Labour Contract Law of the PRC*

(《中華人民共和國勞動合同法實施條例》) which was promulgated on 18 September 2008, the labour contract is the basic form of employment adopted by PRC enterprises, and employers shall enter into labour contracts with employees within one month since the date of employment.

Social insurance

According to *The Law of Social Insurance of the PRC* (《中華人民共和國社會保險法》) which was promulgated on 28 October 2010 and was amended on 29 December 2018, the Chinese social security system basically consists of five major types of social insurances, namely maternity insurance, endowment insurance, medical insurance, unemployment insurance and industrial injury insurance, and each company in the PRC is required to contribute social insurance for its employees. If any company fails to fully pay the social insurance premiums, the social insurance contributions collecting agency shall place an order with the employer demanding full payment within a prescribed period, and an overdue payment at the rate of 0.05% shall be levied as of the payment due date. When the payment is not made at the expiry of the prescribed period, a fine above the overdue amount but less than its triple shall be demanded by the authoritative administrative department.

Under the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* (《社會保險費徵繳暫行條例》) promulgated on 22 January 1999 and revised on 24 March 2019, employers and individuals shall pay social insurance premiums timely in full amount. At the same time, it clarified that if an employer fails to pay and withhold social insurance premiums, the labour insurance administrative department or the tax authority shall order it to pay within a prescribed time limit. When the payment is not made at the expiry of the prescribed time limit, 0.2% of the amount of arrears per day shall be collected.

Housing provident fund

According to the *Regulation on Management of Housing Provident Fund* (《住房公積金管理條例》) promulgated on 3 April 1999 and amended on 24 March 2002 and revised on 24 March 2019, employers in the PRC must register with the housing provident fund management centre. Employers will then need to open housing fund accounts with specified banks for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.

Any entity fails to make payment and deposit registration of housing provident fund or go through the formalities for opening housing provident fund account for its employees will be ordered by the housing provident management centre to process the foregoing within prescribed period, otherwise it will be imposed a fine ranging from RMB10,000 to RMB50,000. Any entity fails to make payment of housing provident fund timely or have shortfall in payment of housing provident fund will be ordered to make the payment or make up the shortfall within the prescribed time limit, otherwise, the housing provident management centre is entitled to apply for compulsory enforcement with the court.

Tax

Enterprise income tax ("EIT")

According to the *EIT Law of the PRC* (《中華人民共和國企業所得稅法》) (the "**EIT Law**") which was promulgated on 16 March 2007 and was amended on 24 February 2017 and 29 December 2018, and the *Regulation on Implementation of the EIT Law of the PRC* (《中華人民共和國企業所得稅法實施條例》) which was promulgated on 6 December 2007 and revised on 23 March 2019, unless specified, a uniform income tax rate of 25% applies to all enterprises within the territory of the PRC. These enterprises are classified as either resident companies or non-resident companies. Under the EIT Law, enterprises established under the laws of foreign countries or regions and whose "de facto management bodies" are located within the PRC are considered "resident enterprises" and thus will generally be subject to enterprise income tax at the rate of 25% on their global income. Also, the said regulation defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises".

According to the EIT Law, certain high-tech enterprises are entitled to a reduced EIT rate of 15%. The *Administrative Measures for the Determination of High and New Technology Enterprise* (《高新技術企業認定管理辦法》) provides that, a company that is to be certified as a high-tech enterprise shall meet certain criteria under relevant laws and regulations. Once an enterprise obtains the high-tech enterprise qualification, it may apply for the tax reduction or exemption with the competent tax authorities.

According to the *Announcement of the State Administration of Taxation on Issuing the Revised Measures for the Handling of Matters concerning Preferential Enterprise Income Tax Policies* (《國家稅務總局關於發佈修訂後的〈企業所得稅優惠政策事項辦理辦法〉的公告》), which was issued and became effective on 25 April 2018, preferential enterprise income tax refers to those preferences prescribed in the EIT Law and those developed by the State Council and ethnical autonomous areas upon authorisation by the EIT Law. An enterprise shall, based on its operating conditions and related tax regulations, determine on its own whether it meets the conditions stipulated in the preferential items. Those enterprises who meet the conditions may calculate the tax deductions accordingly and may enjoy EIT preferences by filing an EIT return. Such enterprises shall collect and save relevant documents for future reference. The Measures for the Handling of Matters concerning Preferential Enterprise Income Tax Policies (《企業所得稅優惠政策事項辦理辦法》) applies to annual EIT settlement of and after 2017.

Income Tax on Indirect Property Transfer of Non-resident Enterprise

According to the *Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises* (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) ("**SAT Circular No. 7**") promulgated by the State Administration of Taxation and came into effect on 3 February 2015, where a non-resident enterprise indirectly transfers equities and other properties of a Chinese resident enterprise to evade its obligation of paying enterprise income tax by implementing arrangements that are not for bona fide commercial purpose, such indirect transfer shall, in accordance with the provisions of Article 47 of the EIT Law, be re-identified and recognised as a direct transfer of equities and other properties of the Chinese resident enterprise.

SAT Circular No. 7 provides two exemptions: (i) where a non-resident enterprise buys and sells equity of the same listed foreign enterprise in the open market and obtains the proceeds from indirect transfer of Chinese taxable property; and (ii) under the circumstance that a non-resident enterprise directly hold and transfer Chinese taxable property, the proceeds from transfer of such property can be exempted from enterprise income tax in China in accordance with the applicable provisions of tax conventions or arrangements.

Withholding Tax on Dividends

According to the *Arrangements between the Mainland 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 was signed on 21 August 2006, the withholding tax rate for dividends paid by the PRC resident enterprise to a Hong Kong resident enterprise is 5%, if the Hong Kong enterprise holds at least 25% of equity interests of the PRC enterprise directly. According to the *Notice of the State Administration of Taxation on Issues Concerning the Implementation of the Dividend Clauses of Tax Agreement* (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated on 20 February 2009, all of the following requirements should be satisfied where a fiscal resident to a tax agreement is entitled to tax treatment specified in the tax agreement in respect of the dividends paid to it by a PRC resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the obtainment of the dividends, reaches a percentage specified in the tax agreement.

Regulations on Transfer Price

According to *the Circular of the SAT on Printing and Distributing the Implementing Measures for Special Tax Adjustments (for Trial Implementation)*(國家稅務總局關於印發《特別納稅調整實施辦法(試行)》的通知) promulgated by SAT on 8 January 2009 and became effective on 1 January 2008, business transactions between an enterprise and its related parties shall follow the arm's length principle. According to the *Implementation Regulations for the EIT Law* (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on 6 December 2007 and revised on 23 April 2019, for the transactions between the enterprise and its related parties, if the arm's length principle is not satisfied, or if it was done for unreasonable commercial purpose, the tax authority may adjust the taxable revenue or income in compliance with reasonable methods (including comparable uncontrolled price method, resale price method, cost-plus method, transactional net profit method, profit split method and other methods that meet the arm's length principle).

Value-added tax ("VAT")

Pursuant to the *Interim Regulations of the PRC on Value-added Tax* (《中華人民共和國增值稅暫行條例》) promulgated on 13 December 1993 and amended on 10 November 2008, 6 February 2016 and 19 November 2017 respectively, and the *Detailed Rules for Implementing 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 25 December 1993, amended on 15 December 2008 and 28 October 2011, all enterprises and individuals engaged in sale of goods, provision of processing, repair and replacement services, sale of services, intangible assets, real estate, and the importation of goods within the territory of the PRC shall pay VAT. For general VAT taxpayers selling or importing goods other than those specifically listed in relevant laws and regulations, the VAT rate is 17%, and in certain limited circumstances the VAT rate is 11%. For taxpayers exporting goods, the tax rate is 0%, except as otherwise stipulated by the State Council.

Pursuant to the *Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates* (《財政部、稅務總局關於調整增值稅稅率的通知》) which was issued by the Ministry of Finance and the State Administration of Taxation on 4 April 2018 and became effective on 1 May 2018, the tax rates of 17% and 11% applicable to any taxpayer's VAT taxable sale or import of goods were adjusted to 16% and 10% respectively.

Pursuant to the *Announcement on Relevant Policies for Deepening Value-Added Tax Reform* (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》) which was issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on 20 March 2019 and became effective on 1 April 2019, the tax rates of 16% and 10% applicable to any taxpayer's VAT taxable sale or import of goods were adjusted to 13% and 9% respectively.

Urban maintenance and construction tax and education surcharges

According to the *Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharges Paid by Domestic and Foreign-invested Enterprises and Individuals* (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which was promulgated by the State Council on 18 October 2010 and became effective on 1 December 2010, the *Interim Regulations of the PRC on Urban Maintenance and Construction Tax*

(《中華人民共和國城市維護建設稅暫行條例》) which was promulgated by the State Council on 8 February 1985, amended and became effective on 8 January 2011, and the *Interim Provisions on the Collection of Education Surcharges* (《徵收教育費附加的暫行規定》) which was promulgated by the State Council on 28 April 1986 and amended on 7 June 1990, 20 August 2005, 8 January 2011 respectively, the urban maintenance and construction tax and education surcharges policies shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to the *Interim Regulations of the PRC on Urban Maintenance and Construction Tax*, all entities or individuals who are required to pay consumption tax, value-added tax and business tax shall also be subject to urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the amount of the consumption tax, value-added tax and business tax actually paid by the taxpayer and shall be made simultaneously. The rates of urban maintenance and construction tax shall be set at 7%, 5% and 1% for a taxpayer located in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with the *Interim Provisions on the Collection of Education Surcharges*, all entities and individuals who pay consumption tax, value-added tax and business tax, except for those paying rural education surcharges in accordance with *Notice of the State Council on Raising Operational Funds of Rural School* (《國務院關於籌措農村學校辦學經費的通知》), shall also be subject to education surcharges. The rate of education surcharges is set at 3% of the amount of value-added tax, business tax and consumption tax actually paid by each entity or individual, and the education surcharges shall be paid simultaneously with the value-added tax, business tax and consumption tax.

Environmental protection tax

The *Environmental Protection Tax Law of the PRC* (《中華人民共和國環境保護稅法》) (the "**Environmental Protection Tax law**") was promulgated on 25 December 2016 and amended on 26 October 2018. The *Implementation Rules of the Environmental Protection Tax Law of the PRC* (《中華人民共和國環境保護稅法實施條例》) was promulgated on 25 December 2017 and came into force on 1 January 2018. According to the *Environmental Protection Tax Law* and its implementation rules, within the territory of the PRC and other sea areas under the jurisdiction of the PRC, the enterprises, public institutions and other producers or operators that directly discharge taxable pollutants to the environment such as air pollutants, water pollutants, solid wastes and noises as prescribed in the Schedule of Tax Items and Tax Amounts of Environmental Protection Tax and the Schedule of Taxable Pollutants and Equivalent Values shall pay environmental protection tax. However, an enterprise, a public institution or any other producer or operator falls under any of the following circumstances, it shall not be deemed as directly discharging pollutants to the environment and shall be exempt from the environmental protection tax on the corresponding pollutants:

- It discharges taxable pollutants to a centralised sewage or domestic garbage treatment site established in accordance with law.
- It stores or disposes solid wastes at a facility or site that meets the national and local environmental protection standards.

Foreign exchange

According to the *Foreign Exchange Control Regulations of the PRC* (《中華人民共和國外匯管理條例》) promulgated by the State Council on 29 January 1996 and amended on 14 January 1997 and 5 August 2008, foreign exchange receipts of domestic institutions or individuals may be transferred to the PRC or deposited abroad; the conditions for transfer to the PRC or overseas deposit, time limit and other details will be specified by the foreign exchange control department of the State Council. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaging in the settlement of foreign exchange in accordance with relevant regulations. For foreign exchange proceeds under the capital accounts, approval from the State Administration of Foreign Exchange ("**SAFE**") is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the State. Accordingly, domestic institutions or individuals that make direct investments abroad or are engaging in the overseas distribution or trade of valuable securities or derivative products should register according to the provisions of the foreign exchange control department of the State Council. Relevant institutions or individuals should submit relevant documentation for examination and approval or for record-filing prior to foreign exchange registration, if they are required to file with, or receive approval from, the competent administration departments in advance as required by the State. However, no prior approval from the SAFE is required for a foreign invested enterprise to convert after-tax dividends into foreign exchange and to remit abroad such foreign exchange from their bank accounts in the PRC. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

According to the *Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment and Financing and Round-trip Investment conducted by PRC Residents via Special-Purpose Vehicles (SAFE Circular No. 37)* (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), which was promulgated and implemented by the SAFE on 4 July 2014, domestic residents (including domestic institutions and resident individuals) are required to register with the competent local branch of SAFE before they make contribution to any offshore special purpose vehicles with legitimate holdings of domestic or overseas assets or interests.

Pursuant to the *Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Administration Policies of Direct Investment (SAFE Circular No. 13)* (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》(匯發[2015]13號)) which was promulgated on 13 February 2015 and became effective on 1 June 2015, foreign exchange registration for domestic direct investment and foreign exchange registration for overseas direct investment shall be directly reviewed and handled by banks in accordance with the SAFE Circular No.13 and its appendix the Direct Investment Foreign Exchange Operating Guidelines for Foreign Exchange Business in Direct Investment (《直接投資外匯業務操作指引》).

According to the *Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (SAFE Circular [2016] No. 16)* (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》(匯發[2016]16號)), which was promulgated by SAFE on 9 June 2016 and implemented on the same date, the tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjustment of the SAFE in due time in accordance with international revenue and expenditure conditions. The use of foreign exchange incomes of capital accounts by domestic institutions shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in RMB obtained by the domestic institutions from foreign exchange settlement shall not be used for the following purposes:

- directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;
- directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by relevant laws and regulations;
- used for granting loans to non-connected enterprises, unless otherwise permitted by its business scope; and
- used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

M&A Rules

According to the *Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors* (《關於外國投資者併購境內企業的規定》), which was promulgated by six PRC governmental and regulatory agencies on 8 August 2006 and amended on 22 June 2009, if any domestic company, enterprise or natural person merges its affiliated domestic company in the name of a company legally established or controlled by the aforesaid domestic company, enterprise or natural person in foreign countries or regions, it shall be subject to the approval of the Ministry of Commerce of the PRC.

LAWS AND REGULATIONS IN RELATION TO OUR GROUP'S BUSINESS IN THE UNITED STATES

During the Track Record Period, we have sold and delivered PCBAs for IoT products to the United States. Certain U.S. federal and state product safety laws and regulations and other laws and regulations may be applicable to our products sold to the United States. The laws, rules and regulations with the most significant impact on our operations are described below. However, other U.S. federal, state and local laws may also impose certain obligations on us and affect our products sold within the United States.

Product liability laws

Product liability regulations are not generally promulgated under U.S. federal law, but rather state law in the United States, most of which are based on common law. Although differences do exist, the vast majority of states have adopted similar laws that share common principles as discussed below. Parties involved in manufacturing, distributing or selling a product may be subject to liability for harm caused by a defect in that product. There are three types of product defects, namely, design defects, manufacturing defects and defects in marketing. Product liability claims may be based on negligence, strict liability or breach of warranty. In a negligence claim, a defendant may be held liable for personal injury or property damage caused by the failure to use due care. Strict liability claims, however, do not depend on the degree of carefulness by the defendant. A defendant is liable when it is shown that an injury (personal or to property) occurred as the result of a product's defect. Breach of warranty is also a form of strict liability in the sense that a showing of fault is not required. The plaintiff only needs to establish the warranty was breached, regardless of how that came about. Companies that manufacture, distribute or sell a product in a particular state would fall under the jurisdiction of such state's product liability laws, whether the company's jurisdiction of incorporation or principal place of business is in that state, in another U.S. state or in a non-U.S. jurisdiction.

Product safety laws

The law of product safety is regulatory law and is governed primarily by the Consumer Product Safety Commission ("**CPSC**"), an administrative agency of the United States federal government that regulates certain classes of products sold to the public.

The Consumer Product Safety Improvement Act of 2008 ("**CPSIA**") was passed by Congress in 2008. The CPSIA constituted a significant overhaul of consumer product safety laws in the United States and was designed to enhance federal and state efforts to improve the safety of all products imported into and distributed in the United States. Products imported into the United States which fail to comply with CPSIA's requirements are subject to confiscation and the importer and/or distributor in the United States is subject to civil penalties and fines, as well as possible criminal prosecution. However, while the CPSC works closely with U.S. custom agents, its jurisdiction does not extend beyond the territorial limits of the United States.

Under the CPSIA, a "general conformity certification" is required for any consumer product imported into the United States that is subject to a consumer product safety rule issued under the Consumer Product Safety Act ("**CPSA**"), or a similar rule, standard, regulation, or ban issued by the CPSA or under any statute issued by the CPSC. The requirement applies to all manufacturers and importers of goods. Those parties must certify that their products comply with all applicable consumer product safety rules and similar rules, bans, standards, and regulations under any law administered by the CPSC. Such laws include the CPSA, Flammable Fabrics Act, Federal Hazardous Substance Act, and Poison Prevention Act.

The CPSIA specifies that certification must be based on a "test of each product or a reasonable testing program." The certificate must accompany the product or shipment of products, and a copy must be furnished to each distributor or retailer. The certification must also be furnished to the U.S. Customs and Border Protection ("**CBP**"). Also, if requested by the CPSC, a copy must be furnished to them. Where there is more than one manufacturer or importer for a product, the party providing the certification should be the importer for imported products.

Federal Communications Commission regulations

The Federal Communications Commission ("**FCC**") regulates all communications by radio, television, wire, satellite, and cable in the United States. The FCC's mandate is to regulate private sector telecommunications in the public interest. It is done by establishing technical regulations for transmitters and other devices that generate or use radio frequency ("**RF**") energy to minimise their potential for causing interference. The FCC establishes procedures for products that use or emit radio frequency energy.

Electronics create radio frequency energy by themselves, either intentionally (e.g. Wi-Fi enabled tablets, smartphones and global positioning system ("**GPS**") receivers) or unintentionally (e.g. power supplies). Therefore, the FCC scope of regulations also applies to most consumer electronics and electrical equipment, and not only products intentionally transmitting radio waves. In general, there are two classifications related to electronics set by the FCC:

- *Intentional Radiators* — An "*intentional radiator*" is a device that is intended to emit radio energy. This includes, among many other products, smartphones, tablets, GPS receivers, Wi-Fi routers, "*walkie-talkies*" and Bluetooth headsets — essentially any item that transmits radio waves. Products that fall within one, or more, of the following definitions, are likely classified as an intentional radiator: (i) radio enabled, (ii) Wi-Fi-enabled, (iii) Bluetooth enabled, and/or (iv) broadcast equipment. Compliance with FCC regulations is mandatory when importing products classified as intentional radiators, and must therefore undergo an equipment authorisation procedure.

- *Unintentional Radiators* — An "*unintentional radiator*" is defined in 47 CFR 15.3 as any electrical device "*operating at over 9,000 pulses per second (9 kHz) and using digital techniques*". This definition includes most consumer electronics containing a chip, such as USB enabled devices, even if not equipped with a Wi-Fi or Bluetooth transmitter.

There are various certification procedures put forth by the FCC. The certification processes are verification, declaration of conformity and Certification. Verification is a self-approval process where any capable testing facility can test a device to ensure the product complies with appropriate requirements. Declaration of conformity requires a product be tested by an accredited and FCC recognised laboratory to ensure that the product complies with the requirements. Certification is an equipment authorisation issued by an independent entity recognised by the FCC to approve products within their scope of recognition. These entities, known as Telecommunication Certification Bodies, approve products to the FCC requirements. Products approved under the Certification process are identified by FCC identification number.

The supplier is, for certain products, allowed to issue an FCC Verification of Compliance based on their own compliance testing. As said, this is limited to specific products, and not applicable to all items. Many other products must pass an equipment authorisation procedure performed by an authorised third party. Before importing electronics to the United States, manufacturers need to confirm which equipment authorisation procedure applies to its product(s). Unless the manufacturer has the expertise and equipment to verify that the product is compliant with all applicable FCC regulations, it is best practice to engage a third-party testing company do it for the manufacturer.

It is important to understand that an FCC declaration of conformity, or FCC verification of conformity, only applies to a specific device, and not the manufacturer itself. Therefore, importers must not only verify that the manufacturer/supplier has an extensive compliance track record, but also that the specific products to be imported are each documented. Thus, the compliance rate within a supplier/manufacturer may also vary. While some manufacturers can show extensive documentation, others can only show certificates for one or a few products. A declaration of conformity is only valid to the specific component set up used at the time of testing. The radiation level can be affected, to a varying degree, if the supplier decides to change components.

Most FCC regulated products must also comply with the applicable United States labeling requirements. As with the certification procedure, different labelling requirements apply depending on the product, and whether it is classified as an intentional or unintentional radiator. Typically, the FCC label is permanently affixed to the product unit (i.e. no stickers or temporary labels). Businesses may also label the items digitally (e.g. in the software), rather than printing the FCC logo, or compliance statement, on the product unit.

Finally, the FCC imposes significant non-compliance penalties for failures to comply with its requirements, which may include, without limitation, cash penalties, cease and desist orders, fines and/or imprisonment. The company importing the items is responsible to ensure compliance with all applicable regulations. The only way to be sure that the items comply with all applicable FCC rules is by submitting samples to a third-party testing company, which is, as specified above, also mandatory when importing wide range of products.

Federal Trade Commission Act

The Federal Trade Commission Act (the "**FTC Act**") broadly prohibits unfair or deceptive acts or practices in or affecting commerce. The Federal Trade Commission ("**FTC**") will find deception if, either by the inclusion or exclusion of information, it is likely to mislead consumers acting reasonably under the circumstances, or affect the consumer's choice or conduct, thereby leading to injury. The FTC Act allowed the FTC to enact several related acts and regulations intended to prohibit unfair or deceptive acts or practices.

Import regulations and anti-dumping

Shipments of products to the United States are subject to customs inspection and compliance. The CBP, which is part of the U.S. Department of Homeland Security, is responsible for enforcing all laws and regulations on the importation of carriers and commodities. An importer of goods and commodities to the United States is responsible to exercise reasonable care to confirm that all information declared to the CBP is complete and accurate. Importers have the right to prepare and file a customs entry for goods that they import or hire a commercial broker licensed by CBP to file customs entries on their behalf. Importers must execute a power of attorney to appoint a customs broker as attorney-in-fact and remain liable to CBP for any errors committed by the customs broker in connection with preparation of import paperwork on their behalf. In addition, an importer is required to obtain a customs bond from a surety company, which is a third-party guarantee for payment of duties and certain penalties associated with violations of U.S. import laws. As our products that are sold and delivered to the United States were generally sold on an FOB basis, we are not deemed to be the importer of our products, and this burden is borne by our customers rather than our Group.

The Customs and Border Protection agency requires all products imported into the United States to confirm to certain "*Country of Origin Marking*" regulations. These regulations require that every article of foreign origin (or its container) imported into the United States be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or its container) will permit, in such a manner as to indicate to an ultimate purchaser in the United States, the English name of the country of origin of the article at the time of importation.

Import Tariffs

The United States generally imposes tariffs on goods imported from most countries. General tariff rates are set forth in the Harmonised Tariff Schedules of the United States (the "**HTSUS**"). The goods must also bear markings of the country of origin which identify where the product is made. Note that embargoes, anti-dumping duties, countervailing duties, and other specific matters administered by the United States executive branch are not contained in the HTSUS and that various regulations or administrative actions could result in modification of these duties.

Section 201 of the Trade Act of 1974, 19 USC. § 2101 et. seq. (the "**Trade Act**") permits the President of the United States to grant temporary import relief by raising import duties or imposing non-tariff barriers (e.g. quotas) on goods entering the United States that injure or threaten to injure domestic industries producing similar goods. Section 301 of the Trade Act authorises the President of the United States to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce. The law does not require that the U.S. government wait until it receives authorisation from the World Trade Organisation to take enforcement actions.

During 2018 and 2019, the United States and the PRC have been involved in various negotiations relating to the export and import of products and technology, and have implemented various tariffs and placed other restrictions on goods to be exported to each country. In particular, certain products manufactured in the PRC listed on the September 2018 Tariffs List including aerospace, information and communication technology, robotics and machinery, among other items, are currently subject to import tariffs of 25%, which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019. Further, certain products manufactured in the PRC and listed on the September 2019 Tariffs List and the December 2019 Tariffs List would be subject to import tariffs of 15% starting from 1 September 2019 and 15 December 2019 respectively. The September 2019 Tariffs List and the December 2019 Tariffs List cover essentially all products not covered by the September 2018 Tariffs List, but excludes pharmaceuticals, certain pharmaceutical inputs, select medical goods, rare earth materials, and critical minerals, and certain products based on health, safety, national security and other factors.

None of our Group's products sold to customers located in the United States during the Track Record Period and up to the Latest Practicable Date were named on the then effective tariffs lists. However, as advised by our U.S. Legal Advisers and based on the communication between individual customers and us and our understanding on the applicability of our PCBAs, some of our customers' ultimate electronic products that incorporate our products were named on the tariffs lists (including the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List) as at the Latest Practicable Date.

While certain of our Group's products may be subject to the tariffs imposed by the U.S. government if we sell to customers located in the United States in the future (since 1 January 2019 and up to the Latest Practicable Date, we have not sold our products to customers located in the

United States), our Group's products are generally exported by Shenzhen Confidence to our customers in the United States through shipment on an FOB basis. In other words, title to the products that our Group delivers to our U.S. customers transfers to the customer when the products pass the ship's rail at the named port in China from which the shipment is made, and our U.S. customers then bear all costs and risks to the products from that point. Such costs and risks include the costs and risks associated with import clearance when the products reach the United States, and specifically include any import tariffs payable on such products. As advised by our U.S. Legal Advisers, under this arrangement, our Group is not the party that imports products into the U.S., and as the U.S. tariffs imposed on PRC products are import tariffs borne by importers, our Group is not responsible for the payment of any such tariffs.

However, if these products, or any other products we manufacture or export to the United States are subject to the increased tariffs, it could increase the cost to our U.S. customers and thus make our products less competitive in the U.S. market. This could adversely impact our revenues from U.S. sales.

The Export Administration Regulations

The Export Administration Regulations ("**EAR**") are a set of regulations that control the export and re-export of commercial and dual-use products, software and technology, and are administered by the Bureau of Industry and Security. In turn, the Bureau of Industry and Security has compiled a list of names of certain foreign persons — including businesses, research institutions, government and private organisations, individuals, and other types of legal persons that are subject to specific license requirements for the export, re-export and/or transfer (in-country) of specified items in Supplement No. 4 to Part 744 of the EAR (the "**Entity List**"). The U.S. government announced in June 2019 the addition of five new Chinese entities to the Entity List which are barred from buying U.S. technology and components without prior governmental approval. None of our Group's suppliers or customers fell within the Entity List as at the Latest Practicable Date.

Anti-dumping Laws

There are a range of trade laws in the United States which address the issue of imports which may injure or threaten U.S. industries. Under anti-dumping laws (Title VII of the Tariff Act of 1930), the U.S. International Trade Commission ("**USITC**"), conducts investigations into whether dumping or subsidisation is occurring in products brought into the U.S. market.

Whether an item is being dumped or not is assessed on the basis of whether it is being sold at less than fair value in the United States. This means that it is being sold below the producer's sales price in its home market, or at a price which is lower than the cost of production. Subsidisation occurs when a government provides countervailable financial assistance to benefit production, manufacture and/or export of a good. There is first an assessment made by the Commerce Department that dumping or subsidisation is occurring, together with a calculation of the estimated margin of dumping or amount of subsidy, and then the USITC is called upon to determine whether or not there is a material injury or threat to U.S. industry. If such a threat is found, the Commerce Department will issue an anti-dumping duty and/or countervailing duty order. When such an order is imposed, CBP is instructed to assess special duties on products subject to the order at the time of their import.

After an order has been issued, there is an automatic "sunset" review, pursuant to the Uruguay Round Agreement Act, approved in late 1994, no later than five years after the order is issued, which is conducted to assess whether a revocation of the order would lead to the continuation or recurrence of dumping or subsidies and of material injury within a reasonably foreseeable time.

United States Tax Laws

If a foreign corporation is engaged in a trade or business within the United States, it is subject to U.S. corporate income tax (currently 35% maximum rate) on its income that is effectively connected with its U.S. business. A branch profits tax (currently 30%) applies to such a corporation's "dividend equivalent amount". If the foreign corporation is eligible to claim benefits under a double tax treaty with the United States, the foreign corporation will be subject to U.S. corporate income tax only with respect to profits attributable to a permanent establishment in the United States. The branch profits tax rate may be reduced under the treaty.

Failure to pay U.S. income taxes results in interest charges and potential penalties in addition to payment of the tax. A foreign corporation engaged in a U.S. trade or business is required annually to file a U.S. corporate income tax return. Failure to file a timely return could result in the denial of deductions. An annual return is also required to be filed by a foreign corporation that claims that it does not have a U.S. permanent establishment.

State and local tax may also be applicable.

As we make direct sales to buyers incorporated in the United States via Shenzhen Confidence and the goods are imported by the buyers to the United States, our U.S. Legal Advisers are of the view that (i) the income we earned from sales to buyers would not be considered to be effectively connected with the conduct of a U.S. trade or business and subject to U.S. federal corporate income tax or to the U.S. branch profits tax and (ii) in principle, our Group would not be expected to have a nexus in a state for state or local tax purposes (although this ultimately depends on the laws of each state).

OVERVIEW

Our history can be traced back to 2000 when Shenzhen Confidence, our major operating subsidiary, was established by Mr. Li, Ms. Xu Wanping (who is Mr. Li's mother) and an Independent Third Party with their personal wealth.

Prior to 2014, Shenzhen Confidence mainly engaged in the assembling and production of PCBAs for telecommunication devices, including 3G telecommunication devices. In 2014, considering the decrease in demand for and the unit price of 3G telecommunication devices after the introduction of 4G technology in late 2013, Shenzhen Confidence sought to diversify its customer base and product portfolio to explore growth opportunities for our business.

Since 2014, through the business network with our then existing customer, we secured increasing orders from OPPO Group, one of our top five customers during the Track Record Period, to provide PCBA assembling and production services for 4G telecommunication devices. Since then, our production and engineering teams have been working closely with the production and engineering staff of OPPO Group who were designated by OPPO Group to station at our production facilities to monitor the production process and from whom our knowledge and expertise for production of these new products could be enriched. In addition, we expanded our business to provide solutions and PCBA assembly and production services for industrial-use devices for Sunway Group since 2014 and commercialised our production of PCBAs for IoT products for Innovation Sound since 2015. We have also reduced the need of subcontracting production to third party subcontractors and enhanced our utilisation rate since 2015. Since 2016, we began to increase our acquisition of new machines and equipment including new-model SMT mounting machines to improve production capacity and efficiency, where addition of plant and machinery amounted to approximately RMB33.5 million, RMB29.9 million, RMB29.8 million and RMB1.4 million for each of the three years ended 31 December 2018 and the four months ended 30 April 2019 respectively. Through our continuous effort in optimising our product mix and enhancing our production capacity and efficiency, Shenzhen Confidence has improved its profitability and financial performance. Over the years of our operation, we have maintained business relationships with renowned and established manufacturers, OEMs and brand owners of electronic products as our customers.

In light of the business growth of Shenzhen Confidence and for the purpose of business expansion, Shenzhen Confidence was listed on NEEQ on 10 May 2016. It was subsequently delisted voluntarily from NEEQ on 4 December 2018.

As at the Latest Practicable Date, we are an established EMS provider in the PRC with our production facilities based in Shenzhen. As at the Latest Practicable Date, the PCBAs produced by us are generally incorporated in downstream electronic products such as (i) telecommunication devices; (ii) industrial-use devices; (iii) IoT products; and (iv) other devices *(Note)*.

Note: The breakdown is based on the communication between individual customers and us and our understanding on the applicability of our PCBAs.

BUSINESS MILESTONE

The following table sets out the key developments and milestones of our Group since our establishment:

Year	Events
2000	Shenzhen Confidence was established in the PRC and engaged in the assembling and production of PCBAs for electronic products
2009	We began to provide PCBA assembly and production services for telecommunication devices, including 3G telecommunication devices
2011	We were accredited by Intertek Certification Limited with ISO 9001:2008 certification in respect of our quality management system for assembly of PCB
	We were recognised as High and New Technology Enterprise* (高新技術企業) by the Science, Technology and Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Finance Commission of Shenzhen Municipality* (深圳市財政委員會), SAT Shenzhen Municipal Office* (深圳市國家稅務局), and Shenzhen Local Taxation Bureau* (深圳市地方稅務局)
2012	We were accredited by Intertek Certification Limited with ISO 14001:2004 certification for the assembly of PCB
	We began to provide PCBA assembly and production services for IoT products on prototype basis to Innovation Sound
2014	We began to provide PCBA assembly and production services for 4G telecommunication devices for OPPO Group, one of the top five smartphone manufacturers in the PRC in 2018
	We went through the trial production process to the satisfaction of Sunway Group and became one of the approved suppliers of Sunway Group
	We began to provide solutions and PCBA assembly and production services for industrial-use devices for Sunway Group
2015	We began to commercialise the production of PCBAs for IoT products for Innovation Sound
2016	We became listed on NEEQ

Year	Events
2017	We were recognised as 2016 Top 100 Enterprises of Taxation in Fuyong* (福永納稅百強企業) by Fuyong Sub-district Office of Bao'an District of Shenzhen City* (深圳市寶安區福永街道辦事處), Fuyong Branch of State Taxation Bureau of Bao'an District of Shenzhen City* (深圳市寶安區國家稅務局福永分局), Shenzhen Bao'an District Fuyong Industry and Commerce Federation (Commerce Chamber)* (深圳市寶安區福永工商業聯合會(商會)) and Fuyong Branch of Local Taxation Bureau of Bao'an District of Shenzhen City* (深圳市寶安區地方稅務局福永所)
	We were accredited by TÜV SÜD Management Service GmbH with IATF 16949 certification for manufacture of PCBA for automobile
2018	We were accredited by TÜV SÜD America Inc. with ANSI/ESD S20.20-2014 for manufacture of PCBA
	We were accredited by TÜV SÜD Management Service GmbH with ISO 9001:2015 certification in respect of our quality management system for manufacture, assembly and sales of PCBA
	We were accredited by Intertek Certification Limited with ISO 14001:2015 in for assembly of PCB
2019	We were accredited by TÜV SÜD Management Service GmbH with ISO 9001:2015 for manufacture, assembly and sales of PCBA and vehicular wireless terminal

CORPORATE HISTORY AND DEVELOPMENT

The following sets forth the corporate development of each member of our Group since their respective dates of incorporation.

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 December 2018 and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 11 March 2019. As at the date of incorporation, our Company had an authorised share capital of HK$390,000 divided into 39,000,000 Shares of par value HK$0.01 each, of which one Share was allotted and issued as fully paid to an independent initial subscriber at par. On the same date, such subscriber Share was transferred to Skyflying Company at par, and additional 5,727 new Shares, 2,692 new Shares and 1,580 new Shares were allotted and issued as fully paid to Skyflying Company, Central Wealth and Realtime at par respectively.

On 14 February 2019, our Company allotted and issued as fully paid 753 new Shares to Bright Shine at par.

Following the completion of the Reorganisation, our Company became the holding company of our subsidiaries. For details of the Reorganisation, please refer to the paragraph headed "Reorganisation" below in this section.

New Trive (BVI)

New Trive (BVI) was incorporated in BVI on 2 January 2019 as a limited liability company and was authorised to issue a maximum of 50,000 shares of US$1.00 each, of which one share was allotted and issued as fully paid to our Company on the same date.

As at the Latest Practicable Date, New Trive (BVI) was an intermediate holding company of our Group.

New Trive (HK)

New Trive (HK) was incorporated in Hong Kong on 7 January 2019 as a limited liability company. As at the date of incorporation, New Trive (HK) allotted and issued as fully paid one share to an independent initial subscriber and 9,999 shares to New Trive (BVI) of HK$1.00 each. On 9 January 2019, the one share held by the said independent initial subscriber was transferred to New Trive (BVI) at HK$1 and such transfer was legally completed on the same date.

As at the Latest Practicable Date, New Trive (HK) was a wholly-owned subsidiary of New Trive (BVI) and an intermediate holding company of our Group.

Xinzhi (Shenzhen)

Xinzhi (Shenzhen) was established in the PRC on 8 March 2019 as a limited liability company with a registered share capital of RMB100,000. As at the date of establishment, Xinzhi (Shenzhen) was wholly-owned by New Trive (HK).

As at the Latest Practicable Date, Xinzhi (Shenzhen) was an intermediate holding company of our Group.

Shenzhen Confidence

Shenzhen Confidence, formerly known as Shenzhen Confidence Industries Co., Ltd.* (深圳市信懇實業有限公司), was established in the PRC on 23 March 2000 as a limited liability company with a registered capital of RMB1,000,000. As at the date of establishment, Shenzhen Confidence was owned as to 49% by an independent shareholder, 31% by Mr. Li and 20% by Ms. Xu Wanping, who is Mr. Li's mother and held the interest in Shenzhen Confidence for the benefit of Mr. Li.

On 29 January 2002, Mr. Li and Mr. Yuan (as purchasers) entered into an equity transfer agreement with the independent shareholder (as vendor) to acquire 39% and 10% equity interest of Shenzhen Confidence at the cash consideration of RMB390,000 and RMB100,000 respectively which was equivalent to the respective amount of the registered capital as represented by their respective shareholding. As a result, Shenzhen Confidence was owned as to 70% by Mr. Li, 20% by Ms. Xu Wanping and 10% by Mr. Yuan.

Between 2002 and 2010, there were various transfers of the equity interest and an increase of registered capital of Shenzhen Confidence. On 21 December 2010, Mr. Yuan, Mr. Zhang, Mr. Ling Qing (who is an Independent Third Party) and Mr. Xu (as purchasers) entered into an equity transfer agreement with an independent shareholder at that time (as vendor) to acquire 11.06%, 8.2%, 2.87% and 2.87% equity interest of Shenzhen Confidence at cash consideration of RMB110,600, RMB82,000, RMB28,700 and RMB28,700 respectively which was equivalent to the respective amount of the registered capital as represented by their respective shareholding. After the said transfer, Shenzhen Confidence was owned as to 42.5% by Mr. Li, 23.56% by Mr. Yuan, 20% by Ms. Xu Wanping, 8.2% by Mr. Zhang, 2.87% by Mr. Ling Qing and 2.87% by Mr. Xu.

During 2010 to 2015, the registered capital of Shenzhen Confidence was increased for several times and Ms. Xu Wanping ceased to be a shareholder of Shenzhen Confidence. Immediately prior to the application for listing on NEEQ in 2015, the registered capital of Shenzhen Confidence was RMB27,600,000 which was owned as to approximately 51.09% by Mr. Li, 30.44% by Mr. Yuan, 10.87% by Mr. Zhang, 3.80% by Mr. Ling Qing and 3.80% by Mr. Xu.

On 2 December 2015, in anticipation for the application for listing on NEEQ, Shenzhen Confidence was converted from a limited liability company to a joint-stock company. On 10 May 2016, the shares of Shenzhen Confidence commenced trading on NEEQ. For details of Shenzhen Confidence's application for listing on the NEEQ and the subsequent delisting, please refer to the paragraph headed "Prior listing and subsequent delisting of Shenzhen Confidence on NEEQ" in this section below.

On 17 December 2015, shareholders resolutions were passed to issue 2,400,000 new shares of RMB1.5 each, the price of which was determined with reference to the net asset value of Shenzhen Confidence as at 31 August 2015. Hence the share capital of Shenzhen Confidence was increased from RMB27,600,000 to RMB30,000,000. All additional shares were subscribed by a new shareholder, Xin Ju Ding Fu, and contributed in cash at RMB3,600,000, of which RMB1,200,000 was converted into capital surplus. As a result, Shenzhen Confidence was owned as to 47% by Mr. Li, 28% by Mr. Yuan, 10% by Mr. Zhang, 8% by Xin Ju Ding Fu, 3.5% by Mr. Ling Qing and 3.5% by Mr. Xu. Xin Ju Ding Fu is a limited partnership established under the laws of the PRC and Mr. Li is the sole general partner who has the power to control the activities of Xin Ju Ding Fu pursuant to the relevant laws and the agreement among the general partner and limited partners.

On 16 January 2017, shareholders resolutions were passed to issue 1,200,000 new shares of RMB8.35 each, the price of which was determined after arm's length negotiation among the shareholders and the subscribers. As such, the share capital of Shenzhen Confidence was increased from RMB30,000,000 to RMB31,200,000. The additional shares were subscribed by Mr. Li, Mr.

Deng Su, Mr. Wu Wentai and Mr. Lan Jianbo (who were Independent Third Parties except for Mr. Li) in cash consideration, of which RMB8,820,000 was converted into capital surplus. As a result, Shenzhen Confidence was owned as to approximately 46.76% by Mr. Li, 26.92% by Mr. Yuan, 9.61% by Mr. Zhang, 7.69% by Xin Ju Ding Fu, 3.37% by Mr. Xu, 3.37% by Mr. Ling Qing, 0.80% by Mr. Deng Su and 0.74% by each of Mr. Wu Wentai and Mr. Lan Jianbo.

On 11 September 2017 and 28 September 2018, shareholders resolutions were passed to enlarge the share capital of Shenzhen Confidence from RMB31,200,000 to RMB46,800,000 and to RMB107,172,000 respectively through the issue of bonus shares.

On 18 December 2018, in preparation for the Listing, Shenzhen Confidence was converted back from a joint-stock company to a limited liability company.

On 24 December 2018, as part of the Reorganisation, Mr. Li (as purchaser) entered into equity transfer agreements with Mr. Deng Su, Mr. Wu Wentai and Mr. Lan Jianbo (as vendors) respectively to acquire approximately in aggregate their 2.28% equity interest of Shenzhen Confidence at cash consideration of RMB2,204,900, RMB2,029,700 and RMB2,029,900 respectively which was determined after arm's length negotiation taking into account the value of investment made by the said vendors.

On 29 December 2018, as part of the Reorganisation, Mr. Li and Mr. Zhang (as purchasers) respectively entered into equity transfer agreements with Xin Ju Ding Fu (as vendor) pursuant to which Mr. Li and Mr. Zhang acquired approximately 1.51% and 6.18% equity interest of Shenzhen Confidence respectively at cash consideration of RMB1,765,100 and RMB7,248,100 respectively which was determined with reference to the valuation of Shenzhen Confidence as of 31 July 2018 as assessed by an independent valuer. On the same date, Mr. Li (as purchaser) further entered into equity transfer agreements with Mr. Ling Qing and Mr. Xu (as vendors) respectively to acquire approximately each of their 3.37% equity interest of Shenzhen Confidence at respective cash consideration of RMB3,943,300 which was determined with reference to the valuation of Shenzhen Confidence as of 31 July 2018 as assessed by an independent valuer. Upon completion of the above transfers, Shenzhen Confidence was held as to approximately 57.28% by Mr. Li, 26.92% by Mr. Yuan and 15.80% by Mr. Zhang. For details of the Reorganisation, please refer to the paragraph headed "Reorganisation" in this section.

On 29 December 2018, as part of the Pre-IPO Investment, an increase of registered capital agreement was entered into between Shenzhen Confidence, Mr. Li, Mr. Yuan, Mr. Zhang and Million Way pursuant to which the registered capital of Shenzhen Confidence was increased from RMB107,172,000 to RMB115,238,710 and the additional registered capital was contributed in cash by Million Way at the consideration of RMB8,819,400, of which RMB752,690 was converted into capital surplus. The increase of registered capital was legally completed on 4 January 2019. As a result, Shenzhen Confidence became a Sino-foreign joint venture company and was owned as to approximately 53.27% by Mr. Li, 25.04% by Mr. Yuan, 14.69% by Mr. Zhang and 7% by Million Way. For details of the Pre-IPO Investment, please refer to the paragraph headed "Pre-IPO investment" in this section.

On 9 March 2019, as part of the Reorganisation, Xinzhi (Shenzhen) (as purchaser) entered into equity transfer agreements with Mr. Li, Mr. Yuan, Mr. Zhang and Million Way (as vendors) respectively to acquire the entire equity interest in Shenzhen Confidence at the cash consideration of RMB3,200,000, RMB1,500,000, RMB880,000 and RMB420,000 respectively, which was arrived at after arm's length negotiations between the parties on a pro rata basis. The transfer was legally completed on 12 March 2019. Upon completion of the said transfer, Shenzhen Confidence became a wholly-owned subsidiary of Xinzhi (Shenzhen). For details of the Reorganisation, please refer to the paragraphs headed "Reorganisation" in this section.

As at the Latest Practicable Date, Shenzhen Confidence was principally engaged in the assembling and production of PCBAs in the PRC.

Confidence Intelligence (HK)

Confidence Intelligence (HK) was incorporated in Hong Kong on 6 April 2017 as a limited liability company with an issued share capital of HK$3,000,000 divided into 3,000,000 shares of HK$1.00 each, of which 3,000,000 shares were issued to Shenzhen Confidence and the transfer was legally completed on the same date.

As at the Latest Practicable Date, Confidence Intelligence (HK) was a wholly-owned subsidiary of Shenzhen Confidence and was incorporated as an offshore subsidiary for our Group to serve potential overseas customers.

Confidence Intelligence (U.S.)

Confidence Intelligence (U.S.) was incorporated in the U.S. on 17 April 2017 as a domestic stock corporation authorised to issue common stock of 1,000,000 shares, of which 10,000 shares were issued to Confidence Intelligence (HK).

As at the Latest Practicable Date, Confidence Intelligence (U.S.) was a wholly-owned subsidiary of Confidence Intelligence (HK) and was incorporated as an offshore subsidiary for our Group to serve potential overseas customers.

PRIOR LISTING AND SUBSEQUENT DELISTING OF SHENZHEN CONFIDENCE ON NEEQ

Aligning with Shenzhen Confidence's business growth, Shenzhen Confidence applied for listing on NEEQ in 2016 to raise funds for its business expansion. On 18 March 2016, Shenzhen Confidence received approval for its shares to be listed on NEEQ and commenced trading its shares on NEEQ on 10 May 2016.

During the listing of Shenzhen Confidence on NEEQ, it completed a non-public offering of shares in April 2017. The offering price was RMB8.35 per share and the total share capital was 31,200,000 shares after the offering. Based on the offering price, the market capitalisation was RMB260.5 million. After the said non-public offering, apart from conversion into capital from capital reserve and issuing of bonus shares that led to changes in the total share capital, Shenzhen Confidence did not have any public share transactions during its listing.

On 3 November 2018, Shenzhen Confidence's shareholders unanimously resolved to voluntarily delist their shares from NEEQ (the "**Delisting**"). On 4 December 2018, Shenzhen Confidence obtained approval and was delisted from NEEQ. As Shenzhen Confidence had no public trading before its delisting on the NEEQ, the market capitalisation cannot be determined with reference to its closing price in any public trading.

The Delisting was a commercial and strategic decision made by Shenzhen Confidence's directors. Our Directors confirm, to the best of their knowledge and belief, that during the period that Shenzhen Confidence was listed on NEEQ, Shenzhen Confidence had complied with all applicable laws and regulations in all material aspects and had not been subject to any disciplinary action by any relevant authorities. As advised by our PRC Legal Advisers and based on publicly available information, there has been no breach or suspected breach of the rules and regulations of NEEQ by, or any disciplinary action by any relevant law enforcement authority or regulation against, Shenzhen Confidence or its directors during the period of its quotation on the NEEQ up to the date of Delisting and the Delisting has fulfilled the required legal procedures. Our Directors further confirm that there is no matter that needs to be brought to the attention of the regulators and investors in relation to Shenzhen Confidence's listing on and delisting from NEEQ mentioned above.

PRE-IPO INVESTMENT

Background of the Pre-IPO Investors

Background of Mr. Yuen Hoi Po

Mr. Yuen Hoi Po was introduced to Mr. Li around four years ago through their mutual friend and has been acquainted with Mr. Li since then. Mr. Yuen Hoi Po has over 20 years of experience in various industries including trading, real estates and retail services. Given his outstanding record in the commercial field and strong personal influence over the society, Mr. Yuen Hoi Po has served as the member of the standing committee of the Beijing Youth Federation for many years. Since August 2010, Mr. Yuen Hoi Po has been an executive director of Huayi Tencent Entertainment Company Limited, a company listed on the Stock Exchange (stock code: 419). Since November 2018, Mr. Yuen Hoi Po has been an independent non-executive director of Man Sang International Limited, a company listed on the Stock Exchange (stock code: 938). Our Directors are of the view that Mr. Yuen Hoi Po possesses relevant experience and networks in the Hong Kong capital market and can advise on our Group's development and corporate governance.

Background of Million Way

Million Way is an investment holding company incorporated in Hong Kong on 22 January 2014, with Mr. Yuen Hoi Po as the sole legal and beneficial owner and the sole director. Million Way served as a vehicle of Mr. Yuen Hoi Po to invest in approximately 7% equity interest of Shenzhen Confidence directly and on 9 March 2019, Million Way transferred its investment in Shenzhen Confidence to Xinzhi (Shenzhen) as part of the Reorganisation and since then ceased to hold any interest in any member of our Group.

Background of Bright Shine

Bright Shine is an investment holding company incorporated in BVI on 11 October 2018 with Mr. Yuen Hoi Po as the sole legal and beneficial owner and the sole director. As at the Latest Practicable Date, Bright Shine served as a vehicle of Mr. Yuen Hoi Po to hold his 7% shareholding interest in our Company.

Prior to the investment in our Company, Mr. Yuen Hoi Po, Million Way and Bright Shine are Independent Third Parties.

To the best knowledge and belief of our Directors, Mr. Yuen Hoi Po decided to invest in our Group in view of the prospects and growth potential of our Group. The investment by Million Way was financed by Mr. Yuen Hoi Po's personal wealth.

Investment

On 29 December 2018, an increase of registered capital agreement was entered into between *inter alia* Million Way (a company wholly owned by Mr. Yuen Hoi Po) and Shenzhen Confidence, pursuant to which Million Way contributed to the increase of registered capital of Shenzhen Confidence at the consideration of RMB8,819,400 and obtained approximately 7% equity interest of Shenzhen Confidence. The consideration was arrived at after arm's length negotiations between the parties taking into account, among others, (i) the valuation of Shenzhen Confidence as of 31 July 2018 as assessed by an independent valuer; and (ii) the prospective growth potential of the business of our Group. As part of the Reorganisation, Xinzhi (Shenzhen) acquired approximately 7% equity interest of Shenzhen Confidence held by Million Way as a result of which Shenzhen Confidence became a wholly owned subsidiary of our Company and Million Way ceased to hold any interest in our Group. On the other hand, our Company allotted and issued 753 Shares at par, credited as fully paid, to Bright Shine (a company wholly owned by Mr. Yuen Hoi Po). As a result, Bright Shine held approximately 7% shareholding interest in the Company.

The table below sets out a summary of the details of the Pre-IPO Investment:

Amount of consideration paid:	RMB8,819,400
Payment date of consideration in full:	11 February 2019
Number of shares of our Company subscribed:	753 shares (representing approximately 7% of the total issued share capital of our Company upon completion of the Pre-IPO Investment)
Investment cost per Share on the basis of the enlarged share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue and discount to mid-point of the Offer Price range:	approximately HK$0.77, representing approximately 65.7% discount to the mid-point of the indicative Offer Price range
Use of proceeds from the Pre-IPO Investment: *(Note)*	General working capital of our Group
Benefit from the Pre-IPO Investment:	Considering Mr. Yuen Hoi Po's familiarity of Hong Kong capital market through his directorship and management roles in the Hong Kong listed companies, our Directors believe that he will bring in strategic benefits to our Group by providing recommendations on investment and financing to support our future business development.
Approximate shareholding in our Company after completion of the Share Offer and the Capitalisation Issue:	5.25%
Special rights:	Nil
Lock-up:	The Shares held by Bright Shine are not subject to any lock-up period.

Note: As at the Latest Practicable Date, 100% of the net proceeds from the Pre-IPO Investment has been utilised.

Public float

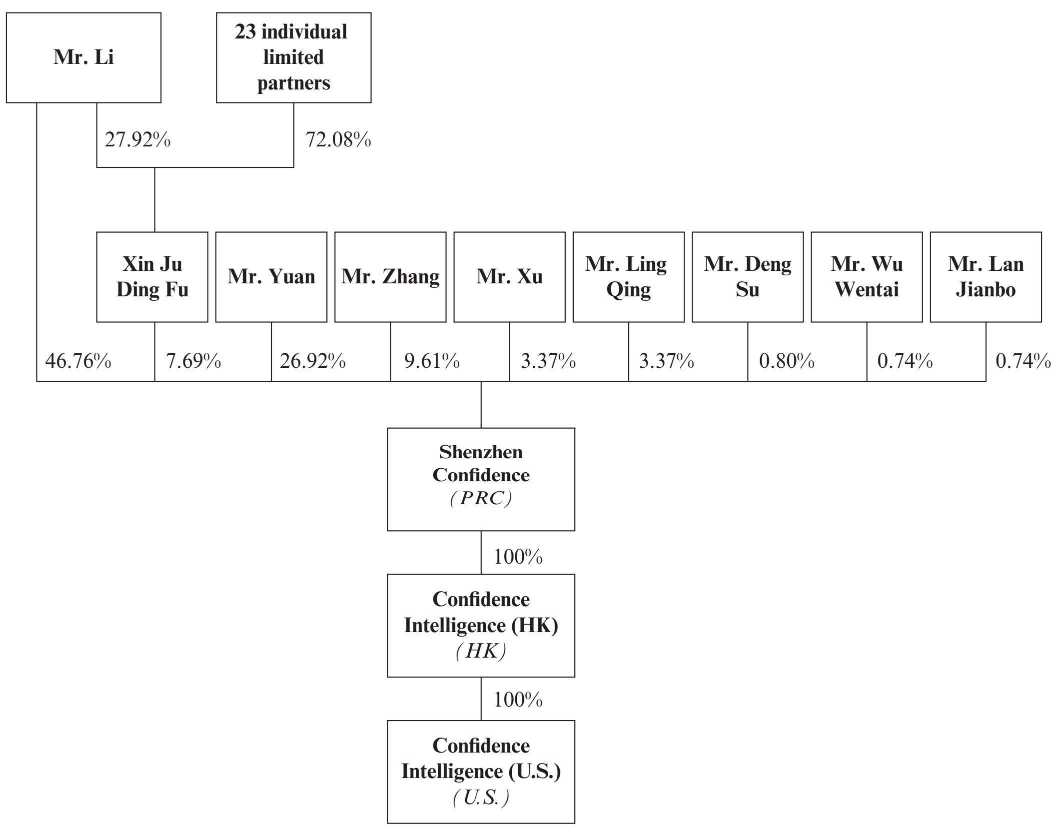
As each of Bright Shine and its beneficial owner is not a connected person of our Company, the Shares held by Bright Shine will be counted towards the public float after the Listing.

Sole Sponsor's confirmation

The Sole Sponsor has confirmed that the Pre-IPO Investment is in compliance with the "Interim Guidance on Pre-IPO Investment" (HKEx-GL29-12) issued on 13 October 2010 (and updated in March 2017) by the Stock Exchange and the "Guidance on Pre-IPO Investments" (HKEx-GL43-12) issued in October 2012 (and updated in July 2013 and March 2017) by the Stock Exchange based on their review of relevant documents.

REORGANISATION

Prior to the Reorganisation and Share Offer, the structure of our Group was as follows:



In preparation for the Listing, our Group underwent various corporate restructuring, more particularly described as follows:

(1) On 8 November 2018, Skyflying Company, Central Wealth and Realtime were incorporated in BVI with limited liability. Each of Skyflying Company, Central Wealth and Realtime were authorised to issue a maximum of 50,000 shares with par value of US$1.00 each, of which one share was allotted and issued as fully paid to Mr. Li, Mr. Yuan and Mr. Zhang respectively at par. Skyflying Company, Central Wealth and Realtime were set up as vehicles of Mr. Li, Mr. Yuan and Mr. Zhang respectively to hold their interests in our Company.

(2) On 7 December 2018, our Company was incorporated in the Cayman Islands with limited liability with an authorised share capital of HK$390,000 divided into 39,000,000 Shares of par value HK$0.01 each, of which one Share was allotted and issued as fully paid to an independent initial subscriber at par. On the same date, such subscriber Share was transferred to Skyflying Company at par and additional 5,727 new Shares, 2,692 new Shares and 1,580 new Shares were allotted and issued as fully paid to Skyflying Company, Central Wealth and Realtime at par respectively.

(3) On 18 December 2018, Shenzhen Confidence was converted from a joint-stock company to a limited liability company.

(4) On 24 December 2018, Mr. Li (as purchaser) entered into equity transfer agreements with Mr. Deng Su, Mr. Wu Wentai and Mr. Lan Jianbo (as vendors) respectively, pursuant to which Mr. Li agreed to acquire approximately in aggregate their 2.28% equity interest of Shenzhen Confidence held by Mr. Deng Su, Mr. Wu Wentai and Mr. Lan Jianbo at the consideration of RMB2,204,900, RMB2,029,700 and RMB2,029,900 respectively.

(5) On 29 December 2018, Mr. Li and Mr. Zhang (as purchasers) respectively entered into equity transfer agreements with Xin Ju Ding Fu (as vendor), pursuant to which Mr. Li and Mr. Zhang agreed to acquire approximately 1.51% and 6.18% equity interest of Shenzhen Confidence held by Xin Ju Ding Fu at the consideration of RMB1,765,100 and RMB7,248,100 respectively.

(6) On 29 December 2018, Mr. Li entered into equity transfer agreements with Mr. Xu and Mr. Ling Qing (as vendors) respectively, pursuant to which Mr. Li (as purchaser) agreed to acquire approximately each of their 3.37% equity interest of Shenzhen Confidence held by Mr. Xu and Mr. Ling Qing at the respective consideration of RMB3,943,300.

(7) On 2 January 2019, New Trive (BVI) was incorporated in BVI with limited liability. New Trive (BVI) was authorised to issue a maximum of 50,000 shares with par value of US$1.00 each, of which one share was allotted and issued as fully paid to the Company at par.

(8) On 7 January 2019, New Trive (HK) was incorporated in Hong Kong with limited liability. On the date of incorporation of New Trive (HK), one and 9,999 shares of New Trive (HK) were allotted and issued as fully paid to an independent initial subscriber and New Trive (BVI) respectively. On 9 January 2019, the said subscriber share was transferred to New Trive (BVI) at par.

(9) On 14 February 2019, our Company allotted and issued as fully paid 753 new Shares to Bright Shine at par, which represented approximately 7% of the shareholding interest of our Company.

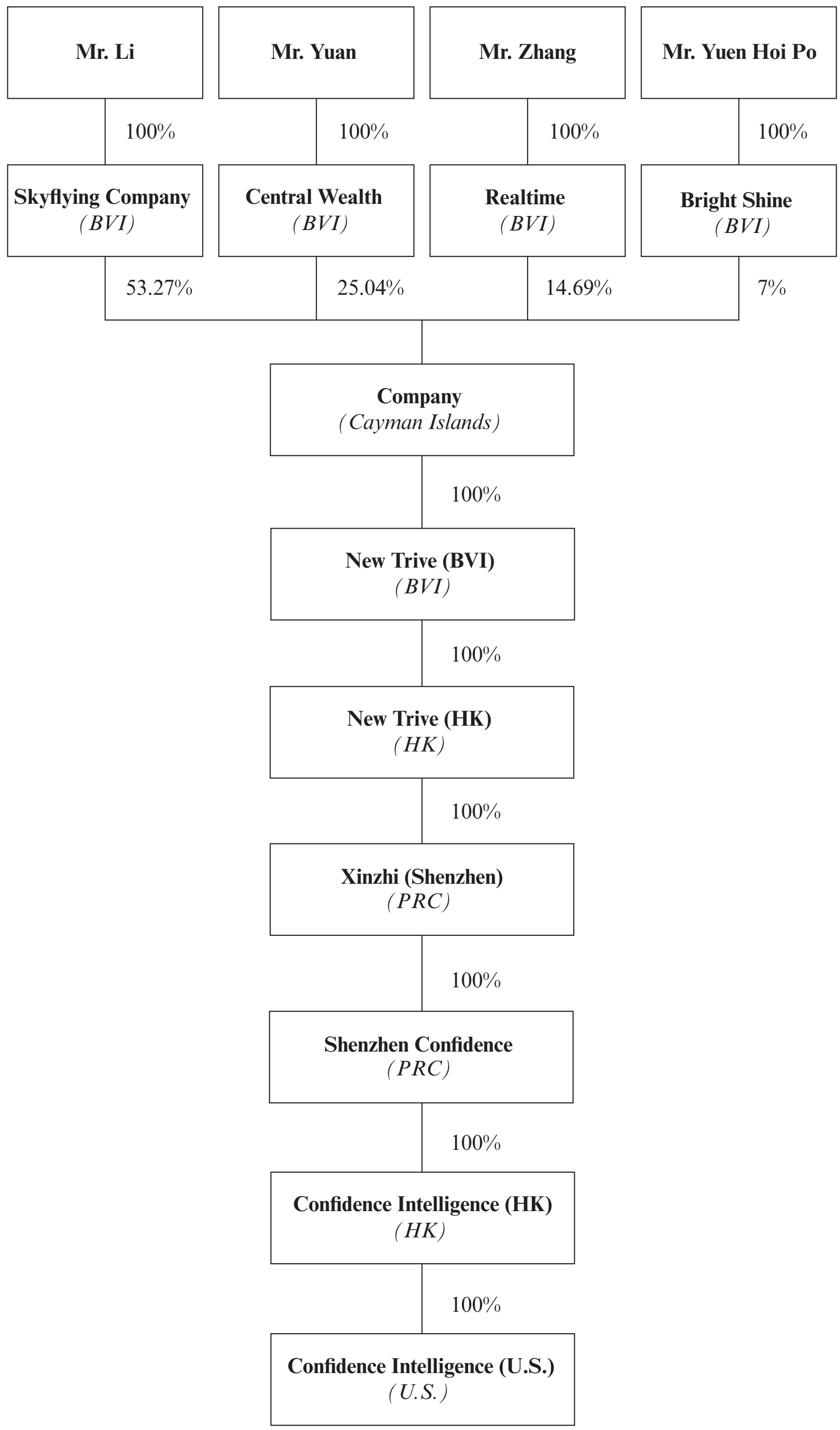
(10) On 8 March 2019, Xinzhi (Shenzhen) was established in the PRC with limited liability with a registered share capital of RMB100,000 and wholly-owned by New Trive (HK).

(11) On 9 March 2019, Xinzhi (Shenzhen) (as purchaser) entered into equity transfer agreements with Mr. Li, Mr. Yuan, Mr. Zhang and Million Way (as vendors) respectively to acquire the entire equity interest in Shenzhen Confidence at the consideration of RMB3,200,000, RMB1,500,000, RMB880,000 and RMB420,000.

As advised by our PRC Legal Advisers, Shenzhen Confidence was a Sino-foreign equity joint venture enterprise after the Pre-IPO Investment. The Reorganisation involved an acquisition of equity interest in a Sino-foreign equity joint venture, and as such, the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009)* (《關於外國投資者併購境內企業的規定》) is not applicable and approval from MOFCOM, CSRC or other PRC government authorities for the Listing is not required.

As confirmed by our PRC Legal Advisers, registration of Mr. Li, Mr. Yuan and Mr. Zhang, pursuant to the Notice of the SAFE on the Administration of Foreign Exchange Involved in Overseas Investment and Financing and Round-trip Investment conducted by PRC Residents 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) have been completed.

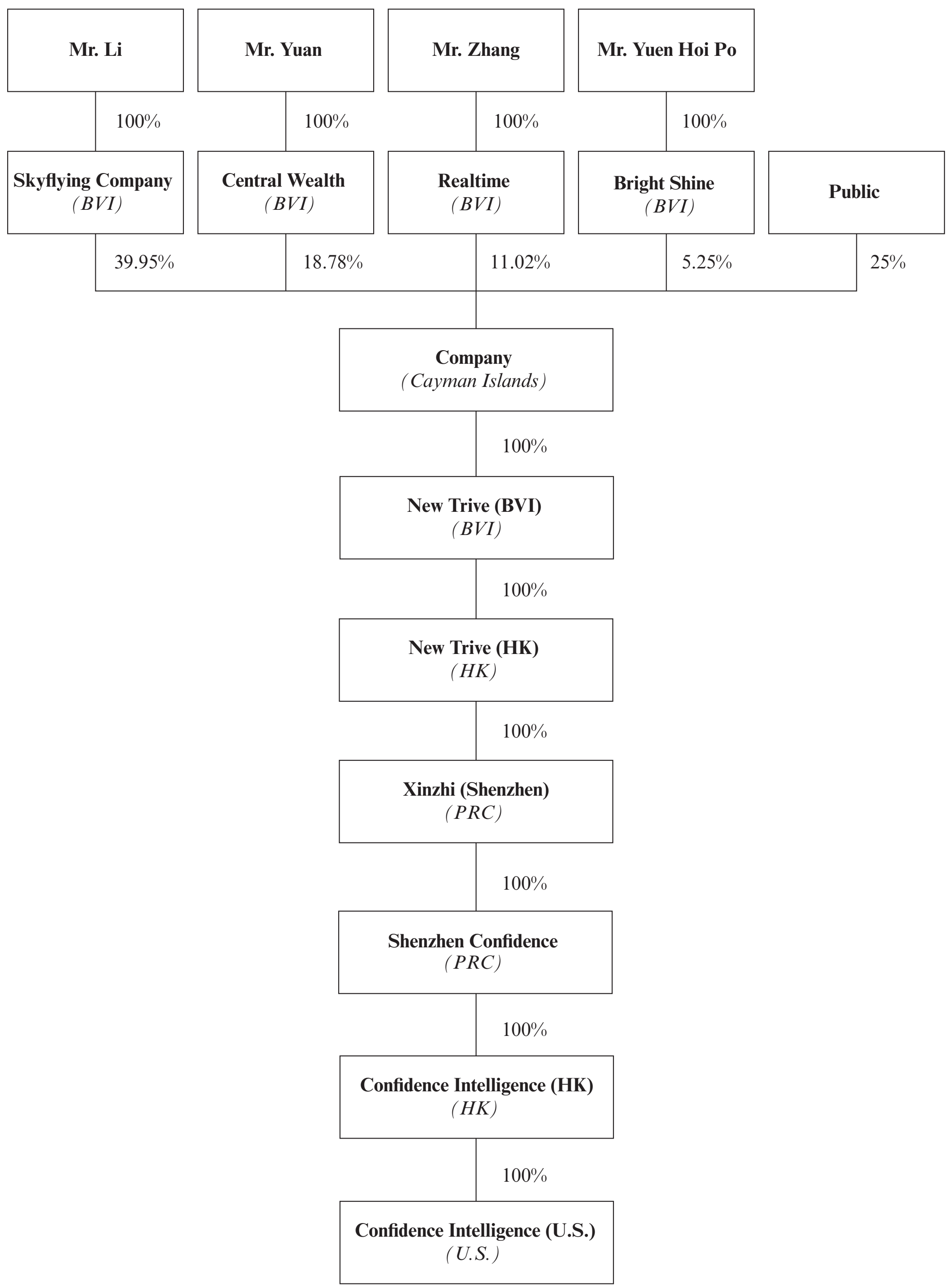
Upon completion of the Reorganisation set out above, our Company became the holding company of our Group. The following chart sets out the shareholding and corporate structure of our Group immediately after the Reorganisation but prior to the completion of the Share Offer and Capitalisation Issue:



Our PRC Legal Advisers confirmed that the relevant approvals and permits in relation to the transfer of equity interest of Shenzhen Confidence, as described above as part of the Reorganisation, had been obtained in accordance with PRC laws and regulations.

Conditional upon the share premium account of our Company being credited as a result of the issue of new Shares pursuant to the Share Offer, an amount standing to the credit of the share premium account of our Company will be capitalised and applied in paying up in full 187,489,247 Shares at par for allotment and issue to Skyflying Company, Central Wealth, Realtime and Bright Shine, to enable them to maintain their aggregate shareholding in our Company at approximately 75% of the enlarged issued share capital of our Company (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

The following chart sets out the approximate shareholding structure of our Group immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme):



OVERVIEW

Founded in 2000, we are an EMS provider offering comprehensive PCBA assembling and production services in the PRC integrating research and design, selection and procurement of raw materials, assembly of PCBAs, quality control, testing, logistics and aftersales services. PCBA is used as an electronic circuit interconnecting medium and a mechanical mounting substrate which is a vital part of an electronic product.

Our products. Our products are PCBAs that are generally incorporated in downstream electronic products such as telecommunication devices, industrial-use devices, IoT products and other devices under the brands of our customers or their ultimate customers. The table below sets forth a breakdown of our revenue by the kind of electronic products that incorporated with our PCBAs during the Track Record Period *(Note 1)*:

	FY2016		FY2017		FY2018		For the four months ended 30 April 2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000* (unaudited)	*% of total revenue*	*RMB'000*	*% of total revenue*
PCBAs for										
Telecommunication devices	135,396	77.8	143,007	68.6	127,203	53.9	35,677	60.5	38,052	44.5
Industrial-use devices	23,904	13.7	42,595	20.4	30,581	12.9	9,512	16.1	9,823	11.5
IoT products	14,622	8.4	22,775	10.9	75,183	31.8	13,639	23.1	36,838	43.1
Others *(Note 2)*	218	0.1	257	0.1	3,243	1.4	144	0.3	734	0.9
Total	174,140	100.0	208,634	100.0	236,210	100.0	58,972	100.0	85,447	100.0

Notes:

1. The breakdown is based on the communication between individual customers and us and our understanding on the applicability of our PCBAs.

2. Others mainly include (i) PCBAs for automotive related devices; and (ii) the revenue generated from the sale of auxiliary and other materials.

Our customers. Our customers mainly include manufacturers, OEMs and brand owners of electronic products in the PRC and the United States. For FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, our sales to our top five customers accounted for approximately 99.0%, 98.3%, 90.2% and 80.9% of our total revenue, respectively and our largest customer accounted for approximately 77.2%, 68.2%, 53.8% and 38.9% of our total revenue, respectively.

Our production facilities. We manufacture our products mainly in the Shenzhen Production Plant in Shenzhen with a gross floor area of approximately 9,375 sq.m., the PRC, with a small portion by our subcontractors when our Shenzhen Production Plant's production capacity has almost reached its optimal level. As at 31 December 2016, 2017, 2018 and 30 April 2019, we had 15, 13, 15 and 17 active SMT assembly lines, respectively, which consist mainly of SMT mounting machines and other ancillary machinery and equipment owned and leased by us. The production capacity of our SMT assembly lines for the production of PCBAs, which is calculated based on number of machine hours of our SMT assembly lines, amounted to approximately 95,718 hours for FY2018.

Our suppliers. Our suppliers are mainly located in the PRC. For FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our top five suppliers accounted for approximately 66.2%, 50.5%, 45.9% and 40.0% of our total cost of purchases and subcontracting fees, respectively while our purchases from our largest supplier accounted for approximately 34.0%, 29.1%, 14.6% and 18.6% of our total cost of purchases and subcontracting fees, respectively.

Our growth. During the Track Record Period, we recorded a revenue of approximately RMB174.1 million, RMB208.6 million, RMB236.2 million and RMB85.4 million, respectively.

Outlook of our Group. Going forward, we view our growth to be driven primarily by the corresponding growth in the downstream industries involving the use of our PCBAs for production of various kinds of electronic products, including telecommunication (particularly after the commercial launch of 5G in the PRC in 2020), industrial-use, IoT, and other devices such as automotive related devices and the trend that electronic product manufacturers and brand owners are becoming more accustomed to outsourcing their manufacturing activities to EMS providers, like our Group.

COMPETITIVE STRENGTHS

Our Directors believe that our Group's success to date and our potential for future growth are attributed to our competitive strengths set out below:

We offer a wide array of EMS across various stages of the supply chain of PCBAs to our customers with turnkey EMS capabilities and effective quality control system

With over 18 years of experience in providing EMS for PCBAs that are incorporated in electronic products, such as telecommunication devices, industrial-use devices, IoT products and other devices, we pride ourselves on our strong expertise and our ability to provide a wide array of EMS to our customers through our integrated EMS platform.

Our integrated business model allows us to provide EMS solutions to our customers in various respects. Our customers can therefore enjoy a smooth PCBA manufacturing experience with minimal overhead and infrastructure costs, which in turn save their production cost and time. For OPPO Group, which was one of the top five smartphone manufacturers in the PRC and our largest customer during the Track Record Period, we were involved in the NPI stage of its products. As such, when OPPO Group wishes to introduce a new product in the market, it may engage us to provide various kinds of value-added services in addition to assembling and production of PCBAs, such as review of the PCBA's design and drawing up the DFM Report, PCBA design enhancement, etc. As for some other customers, we provide integrated EMS solutions on a turnkey basis whereby we are involved in almost every stage of development process up to the delivery of functional PCBAs. Our turnkey EMS capabilities include design enhancement and verification, drawing up of schematic design based on customers' requirements and ideas, raw materials selection and procurement, production of the sample or prototype of the PCBAs, calibration, quality control, testing, logistics and delivery, and after-sale services. To this end, we would try to conduct customer demand analysis to cater to their specific EMS needs. Once the assembling process of the PCB has started, we generally oversee the entire process and conduct quality control checking, including visual checks, AOI and x-ray inspection, on the work-in-progress and the finished products. We believe our full-fledged EMS covering various successive stages of the supply chain of PCBAs, have enabled us to obtain recurring business from our customers. Our capabilities can be evidenced by the awards from our customers, such as the outstanding supplier award granted by OPPO Group to us since 2015, the quality supplier award granted by Allwins to us in 2015, the outstanding supplier award granted by Innovation Sound to us in 2015 and the outstanding supplier award granted by Sunway Group to us in 2016.

Our Group is also committed to implementing high standard quality control measures in raw materials procurement, production processes and the finished PCBAs. Our Group had been accredited with both the ISO 9001 certification on quality management system and ISO 14001 certification on environmental management system in 2011 and 2012, respectively. Furthermore, our Group had received IATF 16949 certification on quality management system in respect of the processing of automotive PCBAs since 2017 and ANSI/ESD S20.20–2014 certification on electrostatic discharge control program since 2018.

We are committed to strengthen our research and development capabilities and are able to work closely with our customers in their product development

We place a great emphasis on research and development to keep in pace with technology innovations and advances which, we believe, will enable us to stay competitive and provide high-quality EMS solutions to our customers. Leveraging our experience and knowledge in these areas, we have an in-house research and development team with 68 members as at 30 April 2019, out of which (i) 13 possessed a master or bachelor degree in engineering, information technologies and other relevant disciplines; and (ii) 25 possessed a post-secondary-school qualification in the field of engineering, technologies studies, electronic information and other related disciplines in the PRC, focusing on developing the production techniques that we believe will enable us to respond to technological advancement such as the commercial launch of 5G in 2020, and the techniques for improving the efficiency and effectiveness of our PCB assembling process, saving cost in production process, enhancing quality control etc. Apart from the above, we may also participate in the research and development of the PCBAs that are, based on the communication between our Group and individual customers and our understanding on the applicability of our PCBAs, to be incorporated into our customers' new electronic products. Based on the product requirements, desired functions, size and conceptual designs or ideas provided by individual customers, upon individual customers' requests, our research and development team will draw up the schematic design of the PCBAs that can be incorporated in their electronic products, design the interfaces of the main chips and other electronic components and the layout of the PCBAs with a view to translating these requirements and conceptual designs or ideas into functional PCBAs. It will work together with our production team to manufacture the prototype or sample of the PCBAs for our customers' assessment and approval and test the functionalities of the PCBAs.

As a result of our research and development capabilities, initiatives and achievements, our Group was granted the status of "High and New Technology Enterprise* (高新技術企業)" by the relevant PRC governmental authorities in October 2011. The status was renewed and extended in November 2016 and our Group has since been enjoying a preferential EIT of 15% during FY2016 to FY2018.

We fully optimise the functions of our automated machinery and equipment to enable us to achieve efficient and cost-effective production of PCBAs

Most of our machinery and equipment for our provision of PCB assembling services are automated and operated by adopting the SMT method, which can produce PCBAs with various specifications for incorporation into different kinds of electronic products.

Our production and engineering teams deploy their expertise to enhance our efficiency in production and optimise utilisation of our production capacity by planning our production schedule ahead and making adjustments on the parts and components of our machinery and equipment to cater for the assembling and production of PCBAs with different specifications. As a result, we can diversify our product types with high utilisation rate of our machinery and equipment, and short time lag.

Apart from the machinery and equipment for production of PCBAs, our automated machinery and equipment such as our robotic inspection and packaging machines and robotic testing machines, etc. enable us to perform quality control and testing on both the raw materials and the final PCBAs in the course of our provision of EMS to our customers.

We have an experienced management team

We have a dedicated management team that has substantial experience and is familiar with EMS industry in the PRC. Our Group's core management team is led by Mr. Li, who is our founder and has over 20 years' of experience in the EMS industry. He is responsible for formulating the overall corporate strategies and handling the day to day operation and production management of our Group. On the other hand, our two other executive Directors, namely, Mr. Zhang and Mr. Xu, have joined our Group since 2002 and 2000, respectively and they have extensive technological and management experience in the EMS industry. Our management team's long and stable working relationship with our Group demonstrate their continued commitment to our Group.

Our Directors believe that the extensive experience of our Group's management team and their industry knowledge and in-depth knowledge and experience in the market enhances our capability to meet the expectations and changing demands of our customers from time to time. They have also helped establish close business relationship with our network of major customers and suppliers. For further biographical details of our Company's management team, please refer to the section headed "Directors and Senior Management" of this prospectus.

We have established stable relationships with our major customers

Our Directors believe that cultivating and maintaining stable business relationship with our customers is crucial to our continued success. To this end, we strive to participate in the PCBA part of their product development process and thereafter providing them with EMS ranging from design to after-sales services in respect of our PCBAs. As at the Latest Practicable Date, our Group maintained business relationships ranging from approximately one year to over eight years with our top five major customers during the Track Record Period. Our customers mainly include manufacturers, OEMs and brand owners of various kinds of electronic products. We have maintained business relationship with OPPO Group, our largest customer during the Track Record Period, for over eight years. As OPPO Group is one of the largest smartphone manufacturers in the PRC, to become one of its approved suppliers of PCBAs, we have to pass OPPO Group's regular review procedures and performance assessment, and our PCBAs have to conform to its stringent product requirements. By doing so, we can improve our quality control standard, strengthen our corporate image and reputation and, thus, enhance potential customers' confidence on the PCBAs developed and manufactured by us.

Our Group's stable business relationship with our major customers enables us to (i) obtain a stable flow of orders from our major customers and maintain a stable production volume; (ii) openly interact and discuss with our major customers on their requirements of our PCBAs; (iii) keep abreast of the latest technology; and (iv) acquire the necessary industry knowledge in developing our products with market appeal.

Our Directors believe that our understanding on our customers' evolving needs, our ability to offer integrated EMS and consistently deliver quality PCBAs to our customers at competitive prices and produce customised PCBAs of varying types, sizes and specifications to cater for the different requirements of our customers have all together been key factors leading to our Group's success in maintaining long-term and stable customer relationships. As such, our Directors believe that we are also well positioned to develop new relationships with prospective customers.

BUSINESS STRATEGIES

Our goal is to achieve sustainable growth in our current business and strengthen our production capacity to secure more business opportunities by implementing the following business strategies:

Enhance our production capacity and efficiency by replacing our machinery of old models by the new ones

Industry outlook: According to the CIC Report, the market size of the PRC's total EMS industry grew from RMB1,085.6 billion in 2014 to RMB1,457.6 billion in 2018 with a CAGR of approximately 7.6%, and is estimated to maintain a relatively stable growth rate during the period from 2018 to 2023 with a CAGR of approximately 7.5%. This growth rate is mainly being driven by three downstream markets, i.e., telecommunication, IoT and industrial-use device. Moreover, the market size of the PCBA industry, which is a segment of the EMS industry, in the PRC increased from RMB282.3 billion in 2014 to RMB338.2 billion in 2018, representing a CAGR of approximately 4.6%, and it is anticipated to reach RMB406.1 billion in 2023, representing a CAGR of approximately 3.7%. The growth of the PRC's PCBA industry is therefore expected to remain stable and mainly driven by the continued growth of downstream markets including telecommunication devices, IoT products and industrial-use devices.

Technological advancement: Based on the communication between our Group and individual customers and our understanding on the applicability of our PCBAs, most of our PCBAs are embedded in downstream telecommunication devices and IoT products. In anticipation of the commercial launch of 5G smartphone in 2020, it is expected that there will be an upsurge of smartphone replacements and upgrade, which will lead to a high production volume of 5G smartphones in the PRC and in turn, boosting the expansion of the PRC's PCBA manufacturers focusing on smartphone. As stated in the CIC Report, compared with 4G, cell-towers equipped with 5G are expected to have larger capacities, which will enable a greater number of devices to be connected at any given point in time. Thus, the development of 5G is also expected to further promote the emerging IoT industry. Considering the technological advancements in the downstream telecommunication industry and IoT industry, as an EMS provider focusing on the assembling and production of PCBAs for telecommunication devices, IoT devices, etc, we have to get well prepared for the forthcoming changes in the downstream industries by expanding our production capacity and enhancing our efficiency, etc.

In anticipation of the 5G to be put into commercial operation in the PRC market commencing from 2020, which will bring a new round of demand for our PCBAs in coming years, our Directors confirm that most of our existing production facilities and machineries can support the production of PCBAs for 5G telecommunication devices and IoT products. According to the CIC Report, the key equipment for PCBA manufacturing, such as SMT placement equipment, is featured with high applicability and can be used in the production process of a diversified range of products. Most of our existing machinery and equipment used in the production process of 4G telecommunication devices are considered compatible with the production process of 5G telecommunication devices. Nevertheless, we may still have to introduce new testing machines with new testing and quality control capabilities, depending on the specific requirements of the production process.

During our preparation of quotation of PCBAs, the costs of raw materials and the costs of new testing machines, be they leased or acquired by us depending on their costs and the availability of our capital at the time, would generally be taken into account and passed to our customers to the extent feasible. Such cost-plus pricing practice which includes the costs of the production equipment is considered an industry norm. Therefore, our Directors are of the view that the additional capital investment in new machinery and equipment, if needed, will not have material adverse impact on our financial performance.

Furthermore, our Directors considered that the commercial launch of 5G in 2020 would not cause any material inventory obsolescence due to the following reasons:

(i) Some of the raw materials are provided by our customers, for instance, OPPO Group, for manufacturing products to satisfy the customers' specific requirements;

(ii) Some of the raw materials are also applicable to PCBAs for 5G telecommunication devices;

(iii) We typically procure raw materials upon receipt of purchase orders from our customers. For more information, please refer to the paragraph headed "Raw materials — Procurement planning" in this section; and

(iv) Our procurement and inventory team and our planning team will closely monitor the inventory level in the view of meeting the production requirements, and minimising any waste on inventory or obsolete inventory, with the assistance of our ERP system.

With our existing high-calibre team with expertise and invaluable experience gained through persistent efforts in our provision of EMS and research and development, we believe that the launch of 5G will not have any material adverse impact on our business operations and financial performance going forward.

Our current production capacity and its utilisation rate: A SMT assembly line includes mainly SMT mounting machines, reflow oven and AOI machine, etc., which may be subject to adjustment and modification from time to time to cater for the production of PCBAs with different specifications. For FY2014 and FY2015, the utilisation rate of our SMT assembly lines was approximately 74.3% and 88.3%, respectively. Our utilisation further increased onwards to the extent that during the Track Record Period, our machinery and equipment were almost fully utilised from time to time. For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the utilisation rate of our SMT assembly lines which consisted machinery owned and leased by us was approximately 90.8%, 91.1%, 92.0% and 93.5%, respectively. The utilisation rate of our SMT assembly lines which consisted machinery owned by us increased from approximately 90.7% in FY2016 to approximately 94.0% for the four months ended 30 April 2019 in terms of SMT machine hours. For more details, please refer to the paragraphs headed "Production facilities and utilisation — Production capacity and utilisation rate of our SMT assembly lines" in this section.

To avoid overload of our SMT assembly lines, we had subcontracted part of the production of PCBAs to third party subcontractors as an interim measure during the Track Record Period only on an as-needed basis.

The rental of machinery: In addition, in order to cope with the increasing demand for our EMS and our PCBA production demand during the Track Record Period, we entered into various short-term leases of machinery and equipments on an as-needed basis, and the rental expenses incurred in relation to the lease of machinery and equipment were approximately RMB8.9 million, RMB19.7 million, RMB19.1 million and RMB5.4 million for FY2016, FY2017, FY2018 and the four months ended 30 April 2019, respectively.

Acquiring new-model SMT mounting machines to replace the old ones in two existing SMT assembly lines, and to set up two additional SMT assembly lines: Taking into account the industry outlook of the EMS industry in the PRC, the age of some of our SMT mounting machines and the utilisation rate of our SMT mounting machines, our Directors take the view that it is imperative for us to enhance our production capacity. Our expansion plan includes acquiring 71 units of new-model SMT mounting machines (collectively, the "**New Machines**"), of which 40 units are to replace old-model machines in two existing SMT assembly lines as these old-model SMT mounting machines have been used for more than seven years and are either near or past their respective estimated useful life, and the remaining 31 units will be used for setting up two additional SMT assembly lines.

Based on the preliminary quotations obtained by us, we estimate that the capital expenditure for the acquisition of the New Machines will be approximately HK$54.7 million, which will be financed from the net proceeds of the Share Offer. Also, we expect to utilise approximately HK$0.9 million from the net proceeds of the Share Offer to hire three additional technicians to operate the additional SMT assembly lines.

Particulars of the New Machines we intend to acquire for production of PCBAs are as follows:

Additional machinery and equipment	**Number of units**	**Estimated costs**
		(HK$'000) *(approximately)*
SMT mounting machine	71	54,749

Assuming the New Machines are acquired in phases and will be available for production in accordance with the implementation plan set out in the paragraph headed "Future Plans and Use of Proceeds — Implementation plans" in this prospectus, our Directors estimate that the depreciation charge for these additional machinery will be approximately RMB1.5 million and RMB3.0 million for the year ending 31 December 2020 and 2021, respectively.

Estimated decrease in operating expenses. We expect that after replacing the old-model machines in two existing SMT assembly lines and setting up two additional SMT assembly lines with the New Machines, our monthly operating expenses could be reduced from the alternative arrangement of leasing similar machines or subcontracting the production to third parties. The table below sets forth our estimate of operating costs by acquiring the New Machines configured in four SMT assembly lines (two being the existing lines and two being the new lines) in comparison with the historical expenses for leasing similar SMT machines and subcontracting production of PCBAs to third parties, respectively.

Monthly expenses	**Acquiring the New Machines**	**Leasing 71 SMT machines**	**Subcontracting to third parties**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation expenses	377 *(Note 1)*	—	—
Production overheads	113 *(Note 2)*	113 *(Note 2)*	—
Labour expenses	320 *(Note 3)*	320 *(Note 3)*	35 *(Note 5)*
Leasing expenses	—	1,243 *(Note 4)*	—
Subcontract expenses	—	—	2,911 *(Note 6)*
Total monthly expenses	810	1,676	2,946

Notes:

1. Monthly depreciation expense of the New Machines is calculated using the straight-line method to allocate their costs, net of their residual value which is assumed to be 5% of the acquisition cost, over their estimated useful lives of 10 years.

2. Monthly production overhead is calculated based on the average factory rental, repair and maintenance expenses, utilities and other overheads for four SMT assembly lines in FY2018.

3. Monthly labour expense for four SMT assembly lines is calculated based on the need of eight workers per shift, two shifts per day for each SMT assembly line.

4. Monthly leasing expense of the 71 SMT mounting machines is calculated based on the average leasing expense for SMT machine rental incurred in FY2018. As per our SMT lease agreement dated 27 August 2018, we leased 8 SMT machines at a rental of RMB140,000 per month for a term of one year commencing from August 2018 to July 2019. The leasing expenses of a SMT machine would then be approximately RMB17,500 (i.e. RMB140,000/8 SMT machines). As such, leasing 71 SMT machines would cost approximately RMB1.2 million (i.e. RMB17,500 X 71 SMT machines).

5. Monthly labour expenses for subcontracting arrangement refer to our staff cost incurred in supervising production process and testing of the PCBAs produced by the subcontractors.

6. This is based on the average historical subcontracting fees per machine incurred in 2018. The monthly subcontracting fee is calculated based on the number of machines used by the subcontractors in this period.

Projected increase of our production capacity. We expect that after the set-up of two additional SMT assembly lines, one with 16 SMT machines and the other with 15 SMT machines from the New Machines, which are expected to commence production by two phases, in the beginning of 2020 and 2021, respectively, our production capacity for our SMT assembly lines (assuming the New Machines will operate 21 hours a day for 337 days per year) will therefore increase by approximately 7,077 machine hours (21 hours X 337 days X 1 SMT assembly line) for the year ending 31 December 2020 and 14,154 machine hours for the year ending 31 December 2021 (inclusive of the projected increase of approximately 7,077 machine hours in 2020, i.e. 21 hours X 337 days X 2 SMT assembly lines) i.e. CAGR of approximately 4.7%, as compared to 95,718 machine hours for FY2018.

In the event the New Machines are acquired to replace the old-model machines, our Directors are of the view that the advantages will include the following:

- *To cope with the demand of high-volume production:* the maximum production speed of the old-model machines was approximately 26,000 cph and that of the New Machines was approximately 35,000 cph. The New Machines are also scalable to cater for more feeder positions and throughput. While the old-model machines were only compatible with 12 feeder positions, the New Machines were compatible with 24 feeder positions meeting future demand of a higher-volume production, in view of the technological advancement, commercial launch of the 5G in 2020 and the growth of the industries, as illustrated in the paragraphs headed "Industry outlook" and "Technological advancement" in this sub-section of "Business strategies" in this section;

- *To produce PCBAs with higher precision:* the old-model machines can produce PCBAs with placement accuracy of ±0.030 mm to ±0.050 mm whereas the New Machines can produce PCBAs with placement accuracy of ±0.025 mm to ±0.050 mm. Therefore, products of higher precision and thus higher quality can be produced to meet the increasing demands for PCBAs with sophisticated compositions of our customers, especially in the highly competitive industries we are situated at, according to CIC Report; and

- *To cater for demands for certain products and diversify our product mix:* the more feeder positions and throughput the New Machines could allow, the more diversified products we could produce. Furthermore, some small PCBAs could only be produced by New Machines. The minimum size of the PCBAs produced by the old machines is 7.5 mm X 7.5 mm, while the New Machines are capable of producing smaller PCBAs of 5.0 mm X 5.0 mm. To the best knowledge of our Directors, some of our PCBAs for telecommunication devices and IoT products could only be produced by the New Machines but not the old-model machines.

We further expect that after the completion of the acquisition of the New Machines to replace the old-model ones, the efficiency in producing our typical PCBAs, such as mainboard PCBAs for smartphones, IoT modules and connectors, will be increased in terms of rate of production. The table below sets out, by way of illustration only, a comparison of the production rate of SMT assembly lines with New Machines and with old-model ones in producing the said PCBAs:

Type of PCBA	Estimated production rate of SMT assembly line *(Note 1)* using old-model SMT mounting machines	New Machines	Percentage increase
	Pieces of PCBAs per machine hour		*%*
Smartphone mainboard *(Note 2)*	383	515	34.5%
IoT module *(Note 2) (Note 3)*	1,627	2,116	30.1%
Connector *(Note 2) (Note 3)*	1,195	1,555	30.1%

Notes:

1. Production rate is estimated on the basis that New Machines are to replace the corresponding old-model SMT mounting machines and based on the assumptions that other machinery and parts of the SMT assembly line remain the same and for the purpose of calculation of production rate, wear and tear of machines used, machine down time or product failure are not taken into account as their respective implications are relatively minimal. Our Directors confirm that we did not record any material machine down time for SMT machines, decrease in production rate due to wear and tear or product failure during the Track Record Period.

2. A typical PCBA product of the type shown has been chosen for illustration purpose only.

3. Assembling and production of these PCBAs requires a SMT assembly line of a smaller scale (i.e. the SMT assembly lines with fewer SMT mounting machines) than that for producing smartphone mainboards, due to the relatively smaller size of the PCBAs for IoT modules and connectors as compared with the PCBAs for smartphone mainboard.

In anticipation of the 5G to be put into commercial operation in the PRC market commencing from 2020, which will bring a new round of demand for our PCBAs in coming years, our Directors confirm that New Machines can support the production of PCBAs for 5G telecommunication devices and IoT products.

Our Directors believe that the projected increase in the production capacity and production efficiency for our PCBAs can satisfy our production needs in the foreseeable future. As such, despite the additional production overheads, the direct labour costs to be incurred and the depreciation charge for these New Machines, it will not cause any material adverse impact on our financial performance as these additional and replacement machines would increase our production capacity and increase our production efficiency, enabling us to take up more purchase orders from our customers, especially during the anticipated steady growth of the market of the EMS industry in the PRC from 2018 to 2023 with a CAGR of approximately 7.5% and the growth in downstream industries, particularly, the sale of 5G smartphones, which is expected to boost the expansion of the PRC's PCBA manufacturers focusing on smartphone and, thus, offsetting the additional costs incurred or arisen from the purchase of additional machinery.

In light of the above, our Directors are of the view that we have the business need to replace the old-model machines by the New Machines due to the following reasons:

(i) to capture the potential growth of the industry;

(ii) to cope with technological advancement, in particular the commercial launch of 5G in 2020;

(iii) to ease the pressure of the existing high production capacity and utilisation rates which were over 90% during the Track Record Period;

(iv) to replace the old model machines with either near or past their respective estimated useful life;

(v) to provide long-term operational and financial advantages due to the estimated decrease in operating expenses, as compared with other methods of boosting the production volume of the Group, such as leasing of New Machines or subcontracting to third parties;

(vi) to produce PCBAs of certain specifications which could only be produced by New Machines but not old-model machines; and

(vii) to cope with the demand of high-volume production at a higher precision and diversify our product mix for sustainable business development in the future.

Enhance the level of automation in our quality control and packaging system

As at the Latest Practicable Date, we have four automated testing lines that are equipped with robotic testing machines for testing PCBAs for telecommunication devices and two automated testing and packaging lines equipped with robotic inspection and packaging machines to carry out the inspection of PCBAs for IoT products and packaging of the PCBAs.

The said two robotic inspection and packaging machines were acquired in June 2018. Since the acquisition and up to the end of December 2018, the utilisation rate of the said two machines had already reached approximately 99.35%, on the basis that they had been operating 21 hours a day and for 193 days during the said period. As a result, part of inspection on the PCBAs for IoT products and a part of the packaging of our finished PCBAs for IoT products are still carried out by our workers manually. Taking into account the increasing demand for PCBAs for IoT products due to the development of 5G and the forthcoming changes in the IoT products, as well as to enhance the quality control of our PCBAs for IoT products and to save labour cost, we intend to increase the level of automation in our quality control process, by setting up five additional automated testing and packaging lines and each of which will be equipped with robotic inspection and packaging machine to automate the handling and inspection routines of our PCBAs for IoT products, notwithstanding that our existing two robotic inspection and packaging machines have a remaining useful life of approximately 104 months. We expect a total cost saving of approximately HK$5.4 million per year, which is mainly attributable to the savings in labour costs from the replacement of our quality inspection staff with the five additional automated testing and packaging lines.

Our Directors further believe that a higher level of automation in carrying out the testing and packaging of our PCBAs for IoT products will strengthen our capacity in producing highly standardised quality PCBAs. Based on the preliminary quotations obtained from a seller from whom we purchased other machinery for our production previously, our total investment for the setting up of the five automated testing and packaging lines is estimated to be approximately HK$8.5 million, which will be paid with the proceeds from the Share Offer.

Strengthen our product design and enhancement capabilities in respect of our PCBAs applicable to telecommunication devices and IoT devices

According to the CIC Report, connectivity performance tests of RF modules can be affected by RF noise and electromagnetic pollution. Therefore, some PCBA manufacturers would use anechoic chambers, which is a specially designed room that absorbs RF, to reduce reflection internally and isolate the devices under testing from environmental and external RF in order to perform high sensitivity tests on their products with minimal distortion. As a result, PCBA manufacturers who are able to produce RF modules with better quality and connectivity are preferred by customers to those who do not involve anechoic chambers for testing during the manufacturing process.

Furthermore, owing to the emergence of next generation RF technology standards such as 5G and new Wi-Fi standards, the design of the RF functionality of smartphones and IoT products is expected to become more complex. As a significant portion of our PCBAs are used for onward production of smartphones and various kinds of IoT products, our Directors believe that we need to widen the scope of our EMS including the design and testing of PCBAs that can respond to new RF technologies which will make us more appealing to the manufacturers, OEMs and brand owners due to our product design capabilities to assess the performance of the PCBAs of their new product designs in conformance with their design requirements and specifications under the RF technology standards. In order to respond to this foreseeable change in the EMS market in view of the next generation telecommunication devices and IoT products using 5G and new Wi-Fi standards, our Directors believe that it is essential for us to strengthen our product design capabilities in this respect.

To this end, we plan to set up an RF shielding room so that we may perform highly sensitive RF connectivity tests, verify and measure more accurately the implementation of our wireless module PCBAs (such as Wi-Fi, Bluetooth, 4G and 5G modules) in our customers' end products as a whole in an anechoic chamber instead of only minimising error in measurement due to distortion caused by interference of environmental and external RF and reflection within the testing room. Such testing will allow us to fine-tune our PCBAs accurately, make adjustment and/or enhance the design of our PCBAs, as well as give suggestion to our customers regarding the design of the PCBAs, antennas (which may be provided by us or our customers) and overall product design. With such capabilities, we can become more involved in early stage of the product design and development of our customers.

Based on the preliminary quotations obtained by us, we estimate that the capital expenditure for the setting up of the RF shielding room, which include converting part of our Shenzhen Production Plant into an anechoic chamber by demarcating a space of approximately 98 cubic metre for this purpose with the installation of radiation absorbent insulation and materials and various testing and measurements equipment is approximately HK$6.5 million, which will be funded by the net proceeds of the Share Offer.

Further strengthen our research and development capabilities

As an EMS provider focusing on assembling and production of PCBAs for those electronic products used in telecommunication devices, industrial-use devices, IoT products and other devices, our research and development capabilities play a pivotal role in the success of our business. To stay competitive, we intend to further strengthen our research and development capabilities in the following ways:

(i) *Seeking to keep pace with the latest technological advancement and develop new product that can address prevailing and expected changes in electronic product market*. Our research and development team will continue to keep pace with the latest technologies to manufacture and deliver PCBAs that can be generally applied to our customers' innovative electronic products, which is based on the communication between our Group and individual customers and our understanding on the applicability of our PCBAs. In particular, with the emergence of next generation RF technologies such as 5G and new Wi-Fi standards, whereby our PCBAs for the smartphones and IoT products shall have to be able to respond to these technological advancements.

(ii) *Recruiting more talent*. We plan to strengthen our research and development capability by recruiting an addition of five engineers with at least three years of experience in automated equipment production management, enterprise network management and server management and have tertiary education qualification;

(iii) *Continuing to improve our research and development capability on the dual fronts*. We continue to endeavour to improve our, (i) PCBA design, quality and diversity, for instance, by tapping into the latest trends and technological advances that can enable us to provide a wider range of PCBAs tailored for different types of electronic products; and, (ii) production efficiency for improving the SMT production process and costs saving.

We expect to utilise approximately HK$3.4 million from the net proceeds of the Share Offer for recruitment of five engineers for the above-mentioned purposes.

Strengthen our product testing capabilities for IoT products by setting up a cloud-based simulation platform

Our revenue generated from the assembling and production of PCBAs for IoT products increased from approximately RMB14.6 million for FY2016 to approximately RMB22.8 million for FY2017 and to approximately RMB75.2 million for FY2018, representing a CAGR of 72.6%. For the four months ended 30 April 2019, such revenue was RMB36.8 million, which was almost equal to half of the revenue for FY2018. Our Directors believe that the development of 5G will further promote the emerging IoT industry. Our provision of EMS for assembling and production of PCBAs for IoT products is becoming more important to our business growth.

While we design and manufacture mainboard PCBAs of IoT products for our customers, we currently test our PCBAs for their basic functionality, including connection with other intended parts of the final IoT product, as well as basic network connectivity, but not the actual usage of such IoT products in our customers' cloud-based IoT hubs. However, from our Directors' observation, many customers do not perform such usage test as they do not prefer testing it on their own cloud-based IoT hubs as such tests may interfere with the normal operation of their cloud-based IoT hubs, and it would be costly for them to set up their own test platforms. As a result, performance or compatibility issues are sometimes discovered only in a late stage of product development.

In order to provide further value to our customers, our Directors believe that it is advantageous to our business development to set up a cloud-based simulation platform that can be customised to simulate the different IoT hubs of different customers, so that any performance or compatibility issues of the IoT products with the customer's IoT hub can be discovered in an early stage, and it will also allow us to perform more comprehensive tests on our PCBAs in a simulated IoT hub environment.

Based on the preliminary quotations obtained by us, we estimate that the capital expenditure for setting up the cloud-based simulation platform, which include acquiring hardware such as cloud servers and software for purposes such as the simulation of customers' IoT hubs, management of such simulation for multiple customers, performing tests and recording test data, and integration with our MES system, is approximately HK$2.4 million, which will be funded by the net proceeds of the Share Offer.

Furthermore, we expect to use our internal resources to hire operators, technicians and engineers to implement, operate and maintain the cloud-based simulation platform.

Upgrade our MES system and enhance our capabilities in information technology

Our Directors believe that upgrading our existing MES (i.e. manufacturing execution system) which is integrated to our ERP (i.e. enterprise resource system) is essential for us to enhance the efficiency of our operation. With an advanced MES system, we can collect, store, manage and interpret data collected from our manufacturing activities as it continuously records and updates various aspects of our manufacturing processes. An upgraded MES system can control and monitor the entire production process, track our business resources including the inventory level of our raw materials, utilisation of our production capacity and the status of business commitments, for instance, our sales and purchase orders in a timely manner. The data collected in the assembling and production process in the MES system can be integrated with our ERP system for further consolidation, analysis and information reporting. As such, an advanced MES system not only ensures accurate monitoring of the entire SMT assembling process and improves our production efficiency but is also useful for us to plan and iron out our business expansion plan ahead.

In light of the above, we intend to upgrade our existing MES system which runs on a variety of computer hardware and network configurations using database, which will commence in or around October 2019. We will upgrade the MES in four phases, which are (i) expansion of MES to our assembly and packaging process and building the foundation for analysing large volume of data ("**Big Data**"), (ii) upgrading our database system and optimisation of MES performance, (iii) implementation of disaster recovery system, and (iv) integration with our daily financial reporting system, which is expected to commence in October 2019, June 2020, December 2020 and August 2021, respectively. Details of these four phases are set out below:

Phase	**Expected implementation date**	**Description**
1	By 30 October 2019	Expansion of our existing MES system to our Group's assembly and packaging process and building the foundation for Big Data analysis: • Implementation of MES system in assembly lines and packaging lines • Digital dashboard, WeChat and mobile app integration • Implementation of the Big Data analysis platform
2	By 30 June 2020	Upgrading our database system and optimisation of MES performance: • Upgrading our database system • Migrating data from the old database system to the new database system • Optimisation of MES performance
3	By 31 December 2020	Implementation of disaster recovery system: • Upgrading our Group's network infrastructure • Upgrading file server and storage devices • Commencing 24/7 non-stop operation of the disaster recovery system

Phase	Expected implementation date	Description
4	By 31 August 2021	Integration with daily financial reporting system and distributed operating system: • Consolidating Big Data from MES system to produce daily financial reports

We expect to utilise a sum of approximately HK$3.4 million from the net proceeds of the Share Offer for the said purpose.

Upgrade our existing intelligent warehouse

Our intelligent warehouse inside the Shenzhen Production Plant is divided into different zones for the storage of different kinds of raw materials and the finished PCBAs before they are delivered to our customers. Furthermore, the raw materials supplied to us by our customers for the provision of EMS are also stored separately. We wish to upgrade our existing intelligent warehouse by installing 50 additional intelligent shelving units that can accommodate up to 70,000 trays that can effectively divide and separate the raw materials by their nature and sources. Our intelligent warehouse can also keep track on the amount of inflows and outflows of different kinds of raw materials and finished PCBAs.

We expect to utilise approximately HK$2.8 million from the net proceeds of the Share Offer for upgrading our existing intelligent warehouse.

OUR BUSINESS MODEL

Our integrated EMS business model offers comprehensive and full-fledged PCB assembling and production services with the capabilities to design or to verify and enhance our customers' original PCBA design, select and procure raw materials, assemble and manufacture PCBAs and provide quality control, testing, logistics and after-sales services to our customers.

To enhance our capabilities in the provision of the above services, we place strong emphasis on our research and development in two respects, namely (i) developing PCBAs that can respond to everchanging technological advancement such as the expected commercial launch of 5G in the PRC in 2020, the RF technologies and development of IoT devices and the technologies; and (ii) assisting our customers in the development of their new electronic products that used our PCBAs, and if necessary, provision of DFM Reports regarding the manufacturability of the PCBAs for their new products when our customers are to launch new electronic products.

For the provision of integrated EMS solution, we provide the following services:

- Design enhancement and verification — Our research and development team or production team may engage in discussion with our customers on their requirements of our PCBAs. If necessary, our research and development team or production team will offer technical advice and engineering solutions to our customers in order to help them transform their concept or initial design into functional PCBAs. Depending on the specifications provided by our customers, we may provide suggestions on the modifications of a given design and specifications in respect of their PCBAs for the purpose of, among others, generally efficiency enhancement or design enhancement. Our research and development team would also assess the manufacturability of the PCBAs and draw up the relevant DFM Report for the PCBAs. For details, please refer to the paragraph headed "Research and product development" in this section.

- Raw materials selection and procurement — Based on the design approved by our customers, we will either select and procure the necessary raw materials from our own choice of supplier or use the raw materials provided by the customers or procure the raw materials from customers' designated suppliers. We may also make recommendations to our customers as to the raw materials that should be used for the customers' order. We also assist our customers to source and procure raw materials, control and negotiate with the suppliers for better prices and seek alternative suppliers to achieve better cost savings for our customers.

- Assembling and production — We offer extensive and customised PCB assembling services to our customers. The design and quality of the PCBAs would directly affect the quality and functioning of the ultimate electronic products. We may engage subcontractors to carry out the assembling and production of PCBAs on an as-needed basis, depending on our capability and resources level from time to time, particularly when the production capacity of our Shenzhen Production Plant has been largely utilised.

  During the Track Record Period, subcontracted works were generally undertaken by subcontractors under our supervision in accordance with the product quality standard specified by us, ensuring that our PCBAs can meet our customers' requirements. For details, please refer to the paragraph headed "Our suppliers and subcontractors" in this section.

- Quality control — We have implemented a series of quality control procedures on incoming raw materials, assembling process, and finished products to ensure the quality of our products. For details, please refer to the paragraphs headed "Quality control" in this section.

- Logistics and delivery — Most of our customers, which are located in the PRC, will either arrange for collection of our products from our Shenzhen Production Plant or request us to deliver the products to their warehouse or other designated addresses, which are usually in the vicinity of our Shenzhen Production Plant. For details, please refer to the paragraph headed "Our customers — Sales — Delivery and logistics" in this section.

- Products return policy and after-sale services — When we receive any complaints about the quality of our PCBAs from our customers, we will investigate the matter and, if necessary, assign our staff to our customer's office or warehouse to conduct an on-site inspection on the PCBAs and collect information. If our customers' complaints are justified, we may arrange for the return of the defective PCBAs or have them repaired or replaced. For details, please refer to the paragraph headed "Our customers — Sales — Products return policy and after-sale services" in this section.

The following diagram illustrates our current EMS operation flow:

Receipt of specification and prototype of the PCBAs from our customers and offer of value-added services	Our customers may provide the initial design, specifications and/or in some circumstances, the prototype of the PCBAs to us. Our research and development team together with our production team may engage in discussion with our customers the initial product design and specifications, intended functions and if necessary, offer technical advice and engineering solutions to our customers.	Approximately 7 to 16 days
Negotiation and ordering process	Upon receipt of the enquiry, our sales team will negotiate with our customers on the material terms of the order. We usually adopt our standard terms on the purchase order. We will then notify the customer of our order acceptance conditional upon receipt of deposit.	Approximately 1 to 34 days
Procurement of raw materials (if necessary), provision of assembling services and conducting quality checking	Planning of manufacturing resources and receiving raw materials from our customers or procurement of raw materials and components from various suppliers to ensure cost competitiveness, stability and timeliness of suppliers.	Approximately 2 to 38 days
	Assembling and production of PCBAs are mainly carried out in our Shenzhen Production Plant by our own workforce or subcontractors (on as-needed basis) and we also conduct quality checking on work-in-progress and finished PCBAs.	Approximately 1 week to 2 months *(Note 1)*
Inspection of our PCBAs, delivery and settlement of outstanding payment	Our customers may inspect products before delivery. We are usually responsible for delivery on FOB basis for overseas customers. For customers in the PRC, our customers will either arrange for collection of our products from our Shenzhen Production Plant or request us to deliver the products to their warehouse or other designated addresses.	Approximately 1 to 5 months *(Note 2)*
After-sale services	We may provide after-sale services such as repairing, returning or replacing defective PCBAs for our customers during the warranty period. During the warranty period, our Group normally allow the return and replacement of PCBAs mainly due to quality reasons.	Approximately Nil to 5 years

Notes:

1. The time required for completing the process of assembling and production of PCBAs and quality check on work-in-progress and finished PCBAs for a whole batch of PCBAs in a purchase order would generally take approximately one week to two months in aggregate. However, we usually separate the production of PCBAs for a single purchase order into several smaller batches, and complete the production of each batch of PCBAs one by one. The time required for completing the process of assembling and production of PCBAs and quality check on work-in-progress and finished PCBAs for a small batch of PCBAs in a purchase order would generally take approximately one to eight days, depending on the batch size and specification complexity of the PCBAs to be manufactured.

   According to CIC Report, the time required for completing the process of assembling and production of PCBAs and quality check on work-in-progress and finished PCBAs was approximately over 1 week to more than two months depending on individual customers' requirements, manufacturers' capacity and the complexity of production process, etc. In this regard, the Directors believe that the lead time of our Group to complete the said processes was in line with that of our Group's industry peers.

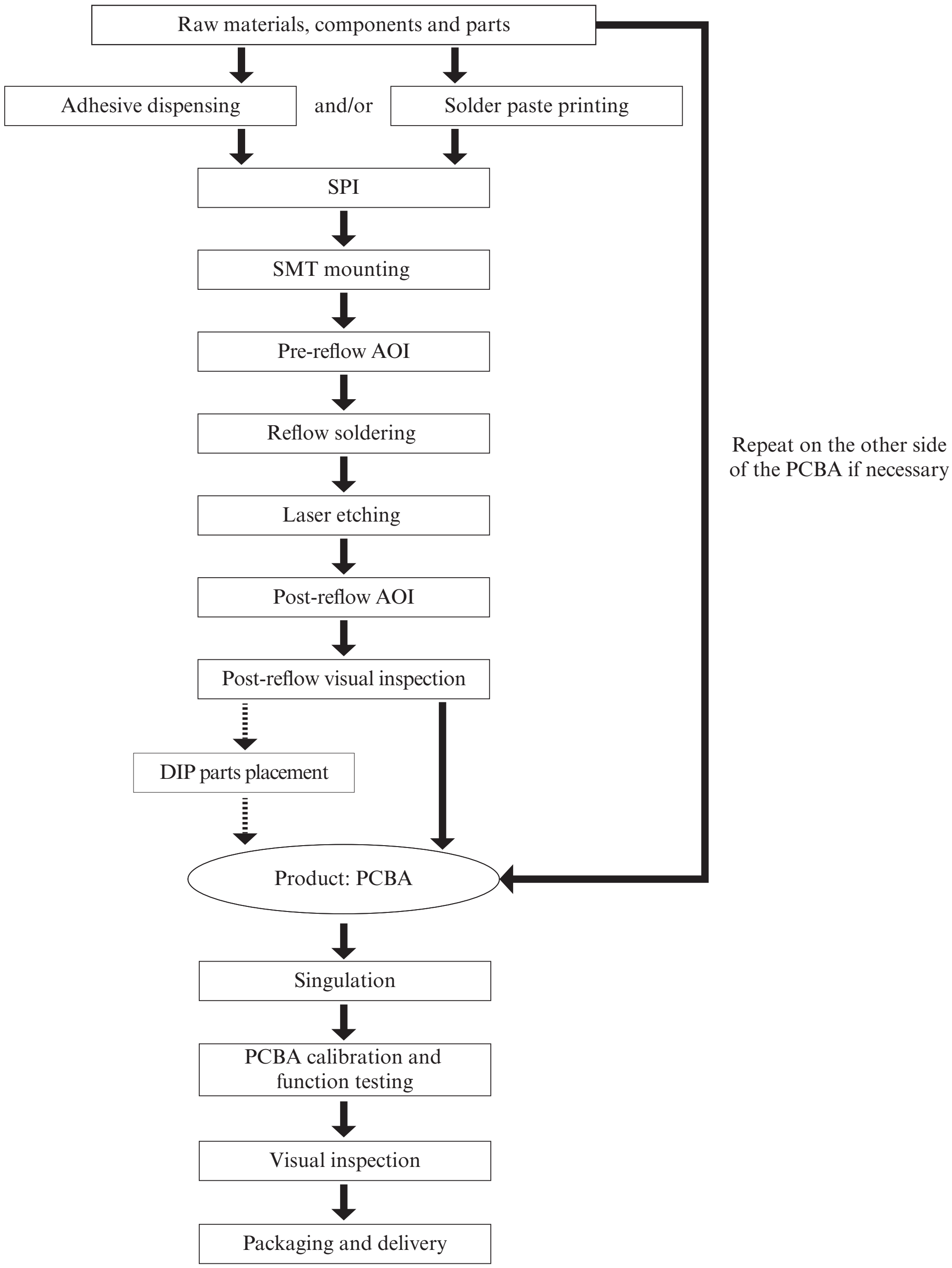
2. The "one to five months" period include the time taken for (i) the inspection of the PCBAs by our Group's customers; (ii) delivery; and (iii) the settlement of outstanding payment by our Group's customers (which could be a prolonged period of time) in addition to the time for assembling and production of PCBAs. Without taking into account the time generally required by our Group's customers to settle their outstanding payment, it would generally take in aggregate approximately one to four days for the completion of the aforementioned inspection of the PCBAs and the delivery.

   According to CIC Report, the time required for completing the whole process of inspection of the PCBAs by customers and delivery was approximately four to 12 days and that required for the settlement of payment by the customers was approximately three to six months. In this regard, our Directors believe that the lead time of the Group to complete such processes was in line with that of our Group's industry peers.

OUR PRODUCTION

Our Production Process

The following chart shows the major steps generally involved in our PCB assembly process:



Note:

only if necessary

PCB Assembly

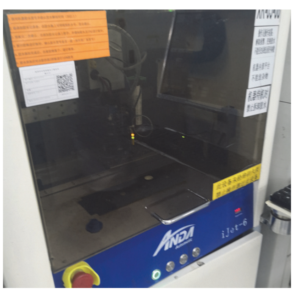
Our PCBAs are incorporated into electronic products generally used in the telecommunication, industrial-use, IoT and other industries.

Set forth below is a brief description of each major step involved in the PCB assembling:

Raw materials, components and parts

Some of the raw materials, parts such as (i) PCBs, electronic components and ancillary materials (including crystal oscillators, semiconductors, ICs, capacitors, resistors, fuses and magnetic beads); and (ii) covers, barcode labels, solder paste, and consumables are provided by our customers, and some are sourced from our own source or the suppliers designated by our customers.

Adhesive dispensing



Prior to assembling, adhesive is applied onto the PCBs by automated printer in a position appropriate for holding the later placed components.

Solder paste printing

Solder paste, which is essentially powdered metal solder suspended in a thick medium flux, is applied onto the PCBs. Solder paste is printed on the PCBs by automated printer prior to assembling. SPI will be performed to ensure solder paste has been properly applied. This step is important to ensure that we apply solder paste only to the right parts of the PCB and mounting components have sufficient solder paste for good soldering after the PCBs are assembled.

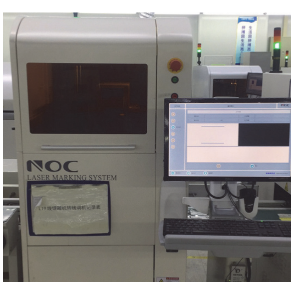
SMT mounting

The automated mounters pick up electronic components including chips, ICs, connectors by vacuum placement heads and place them on the PCBs. After placement, we will conduct AOI to check if components are properly placed according to our customer's requirements or specifications.

Reflow soldering

After mounting, PCBs are transferred by conveyor belt to pass through a re-flow oven for soldering the components. In the reflow oven, adhesive and/or solder paste applied on the board is heated and melted to keep the electronic components in place, and then the molten adhesive and/or solder paste is cooled to keep the electronic components attached to the PCB.

Laser etching



Laser etching refers to the process of etching and marking of codes or other information onto PCBs and/or electronic components for tracking and general inventory control.

AOI

AOI refers to the process where a camera autonomously scans the device under test for both catastrophic failure (e.g. missing component) and quality defects (e.g. fillet size or shape or component skew). It is commonly used in the manufacturing process because it is a non-contact test method. Machine vision systems optically scan the surface of the PCBAs to spot defects. Apart from AOI, we also conduct visual checking on our work-in-progress and finished products. X-ray inspection, which allows us to see through layers and visualise lower layers of the PCBAs to identify any hidden flaw of our PCBAs, is carried out for more complex or layered PCBAs.

DIP parts placement

Depending on the customer's design of the PCBA, there may occasionally be DIP components that are not designed to be placed on the PCB by SMT but by through-hole insertion.

Singulation

Singulation is the process of removing or depaneling numerous smaller, individual PCBAs from a larger multi-PCBA panel produced during manufacturing. It can generally be conducted manually or through automated machine.

PCBA calibration and function testing

The RF signal components of the PCBAs will be calibrated and the overall quality of the PCBAs will be checked by our staff or by the automated testing machines by way of visual checking and simulation to ensure that it conforms to the required standards of both our Group and our customers.

OUR PRODUCTS

Our products are PCBAs which can be generally applied to electronic end-products of three principal types, namely, (i) telecommunication devices, (ii) industrial-use devices, and (iii) IoT products.

The following table shows the revenue breakdown by the kind of electronic products that incorporated our PCBAs *(Note 1)*:

	FY2016		FY2017		FY2018		For the four months ended 30 April 2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000* (unaudited)	*% of total revenue*	*RMB'000*	*% of total revenue*
PCBAs for										
Telecommunication devices	135,396	77.8	143,007	68.6	127,203	53.9	35,677	60.5	38,052	44.5
Industrial-use devices	23,904	13.7	42,595	20.4	30,581	12.9	9,512	16.1	9,823	11.5
IoT products	14,622	8.4	22,775	10.9	75,183	31.8	13,639	23.1	36,838	43.1
Others *(Note 2):*	218	0.1	257	0.1	3,243	1.4	144	0.3	734	0.9
Total	174,140	100.0	208,634	100.0	236,210	100.0	58,972	100.0	85,447	100.0

Notes:

1. The breakdown is based on the communications between individual customers and us and our understanding of the applicability of our PCBAs.

2. Others mainly include (i) PCBAs for automotive related devices; and (ii) the revenue generated from the sale of auxiliary and other materials.

The following table sets forth the breakdown of revenue attributable to the sales of our PCBAs by the ultimate electronic products in which our PCBAs were incorporated during the Track Record Period *(Note)*:

	FY2016	FY2017	FY2018	For the four months ended 30 April 2018	For the four months ended 30 April 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
PCBAs for telecommunication devices					
— Smartphones	135,027	142,207	127,051	35,667	37,953
— Routers	254	207	24	2	2
— Others	115	593	128	8	97
PCBAs for industrial-use devices					
— Testing devices	23,037	41,479	26,832	8,571	5,569
— Solar panels	—	—	485	—	3,890
— Others	867	1,116	3,264	941	364
PCBAs for IoT products					
— Headsets	13,924	968	1	1	—
— IoT modules	245	18,283	59,704	12,323	30,732
— Fingerprint locks	—*	2,878	9,659	1,056	4,485
— Smart watches	—	119	5,173	254	1,414
— Others	453	527	646	5	207
Total	173,922	208,377	232,967	58,828	84,713

* It represents a figure of less than RMB100.

Note: The breakdown is based on the communication between individual customers and us and our understanding on the applicability of our PCBAs.

The following table sets out the breakdown of our PCBAs by sales volume during the Track Record Period *(Note)*:

	FY2016	**FY2017**	**FY2018**	**For the four months ended 30 April 2018**	**For the four months ended 30 April 2019**
	Number of approximate units ('000)	*Number of approximate units ('000)*	*Number of approximate units ('000)*	*Number of approximate units ('000)*	*Number of approximate units ('000)*
PCBAs for					
Telecommunication devices	27,053	32,849	34,379	10,125	10,174
Industrial-use devices	554	1,298	1,351	289	248
IoT products	11,588	14,850	37,477	8,814	20,239
Others devices	36	104	83	37	49
Total	39,231	49,101	73,290	19,265	30,710

Note: The breakdown is based on the communication between individual customers and us and our understanding on the applicability of our PCBAs.

The paragraphs below set out the reasons for the fluctuations of the sales volume of various product categories during the Track Record Period:

(i) *PCBAs for telecommunication devices:* The increase in sales volume from approximately 27.1 million units in FY2016 to approximately 34.4 million units in FY2018 was mainly attributable to the corresponding increase in purchase orders from OPPO Group in the PCBAs for embedment in smartphones, which represented the largest order size in the corresponding years. Such increased order placed on us from OPPO Group was in line with OPPO Group's increasing market share in the global smartphone market during the corresponding period, according to the CIC Report. The sales volume for the four months ended 30 April 2018 and 2019 were more or less the same given the similar demand for the PCBAs for telecommunication devices from our customers in the corresponding period.

(ii) *PCBAs for industrial-use devices:* The increase in sales volume from approximately 0.6 million units in FY2016 to approximately 1.4 million units in FY2018 was mainly attributable to the corresponding increase in purchase orders from Sunway Group for the PCBAs for industrial-use testing devices as, to the best knowledge of our Directors, Sunway Group has gradually become major suppliers of its customers and recorded growth in revenue, which represented the largest order size in respect of our PCBAs for industrial-use devices in the corresponding years. The sales volume of PCBAs for industrial-use devices for the four months ended 30 April 2018 and 2019 were more or less the same given the similar demand for the PCBAs for industrial-use devices from our customers in the corresponding period.

(iii) *PCBAs for IoT products:* The increase in sales volume from approximately 11.6 million units in FY2016 to approximately 37.5 million units in FY2018 was mainly attributable to the corresponding increase in purchase orders from Guangdong Fingerchip in PCBAs for fingerprint locks and from Espressif Group in PCBAs for IoT products. Such increase was mainly attributable to the increasing demand of IoT products. According to the CIC report, the number of global IoT connected devices has increased rapidly, expanding from about 3.0 billion units in 2014 to about 9.3 billion units in 2018, representing a CAGR at 33.0%. Further, starting from 2016, we have put more of our resources in the manufacture of PCBAs for fingerprint locks and IoT products, which our Directors believe, have a higher growth potential. In line with the expanding global IoT connected devices in the period between 2014 and 2018 and our strategy to put more resources therein, the sales volume of the PCBAs for IoT products increased from approximately 8.8 million units for the four months ended 30 April 2018 to 20.2 million units for the four months ended 30 April 2019.

(iv) *PCBAs for other devices:* The increase in sales volume from approximately 36,000 units in FY2016 to approximately 83,000 units in FY2018 was mainly attributable to the corresponding expansion in our customer portfolio which require PCBAs for automotive related devices. The number of customers ordering PCBAs for automotive related devices increased from two and seven from FY2016 to FY2018.

We generally assemble and manufacture PCBAs after receiving a purchase order from our customers. Depending on the requirements of individual customers, we procure all or part of the raw materials, components and parts required for assembling from the suppliers designated by our customers or our own source; or obtaining the same from our customers.

PCBAs

All our PCBAs are used by our customers for onward embedment, together with other parts and materials, in electronic products under the brands of our customers or their ultimate customers. Our PCBAs will go through a thorough testing and inspection process that may include SPI, AOI, functional testing, and manual inspection. During the Track Record Period and up to the Latest Practicable Date, based on the communication between our Group and individual customers and our understanding on the applicability of our PCBAs, we had developed and manufactured different types of PCBAs with different specifications, designs and layouts applicable to electronic products of three principal types, namely, telecommunication devices, industrial-use devices, IoT products.

PCBA for telecommunication devices

We assemble PCBAs for onward production of telecommunication devices such as smartphones and routers. While the PCBAs in this area are generally designed by our customers, we may also offer simple technical advice and engineering solutions upon our customers' requests.

PCBA for industrial-use devices

We produce PCBAs for industrial-use devices such as industrial-use routers, solar panels and testing devices, which are electronic devices that generally connect to other electronic products or their individual components to test the functions and trace any faults in the process of manufacturing the electronic products in a factory.

PCBA for IoT products

Our PCBAs are embedded in IoT products, i.e. devices embedded with electronics, software, sensors and network connectivity, generally connected to other devices or networks via different wireless protocols such as Wi-Fi, 4G, etc. These IoT products are generally connected with a wide range of things such as laptops, smart home devices and smart wearable devices. We mainly assemble PCBAs for IoT modules, smart watches and fingerprint locks.

PCBA for other devices

During the Track Record Period, we also developed and manufactured PCBAs for other devices such as automotive related devices, which are used in automotive components that are powered by electricity.

OUR CUSTOMERS

During the Track Record Period, our Group provided integrated EMS solutions by offering customised PCBAs to our customers, which mainly include manufacturers, OEMs and brand owners of electronic products in the PRC and United States.

The following table sets forth the information about our revenue by geographical location of our customers during the Track Record Period:

	FY2016		FY2017		FY2018		For the four months ended 30 April 2018		For the four months ended 30 April 2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
The PRC	174,093	100.0	205,961	98.7	234,888	99.4	57,650	97.8	85,447	100.0
United States	47	—*	2,673	1.3	1,322	0.6	1,322	2.2	—	—
Total	174,140	100.0	208,634	100.0	236,210	100.0	58,972	100.0	85,447	100.0

* It represents a percentage of less than 0.1%.

For FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our PRC sales accounted for approximately 99.97%, 98.7%, 99.4% and 100.0%, respectively, of the total revenue of our Group and our overseas sales accounted for approximately 0.03%, 1.3%, 0.6% and nil of the total revenue of our Group, respectively.

The revenue generated from the sales of our products to customers located in the United States amounted to approximately RMB47,000, RMB2.7 million, RMB1.3 million and nil, respectively for FY2016, FY2017, FY2018 and the four months ended 30 April 2019. It is noted that the U.S. government has imposed tariffs on certain products exported from the PRC and has announced that additional products would be subject to tariffs. None of our Group's products sold to customers located in the United States during the Track Record Period and up to the Latest Practicable Date were named on the then effective tariffs lists. However, as advised by our U.S. Legal Advisers and based on the communication between individual customers and us and our understanding on the applicability of our PCBAs, certain ultimate electronic products sold by our Group's customers that incorporate our products were named on the tariffs lists (including the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List) as at the Latest Practicable Date.

While none of our Group's products sold to customers located in the United States during the Track Record Period and up to the Latest Practicable Date were named on the then effective tariffs lists, our Directors are of the view that if we sell to customers located in the United States in the future (since 1 January 2019 and up to the Latest Practicable Date, we have not sold our products to customers located in the United States), this will not have material impact on our Group's operations for the following reasons:

(i) as advised by our U.S. Legal Advisers, given our Group's products are exported to the customers in the U.S. through shipment on FOB basis, our Group does not directly import any products into the U.S.; instead, it is the importer of record who would be responsible for paying the duties under the U.S. tariff regulations;

(ii) our Group's revenue generated from the U.S. accounted for an insignificant portion of our Group's total revenue during the Track Record Period, representing approximately 0.03%, 1.3%, 0.6% and nil of our Group's total revenue for FY2016, FY2017, FY2018 and the four months ended 30 April 2019, respectively; and our Group does not expect to record revenue from the U.S. in the near future.

Based on the above, our Directors are of the view that the imposition of tariffs by the U.S. government on our Group's products will not have material impact on our Group's operations.

For details of the impact of the imposition of tariffs by the U.S. government on the ultimate electronic products sold by our Group's customers, please refer to the paragraph headed "Business — Trade disputes between the United States and the PRC" in this prospectus.

Top five customers

For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our Group's sales to our top five customers accounted for approximately 99.0%, 98.3%, 90.2% and 80.9% of our total revenue in each of the respective periods. In the corresponding periods, sales to our largest customer accounted for approximately 77.2%, 68.2%, 53.8% and 38.9% of our total revenue, respectively. None of our Directors, their respective associates, and existing Shareholders who hold more than 5% of the issued share capital, had any interest in our five largest customers during the Track Record Period.

Relationship with our five largest customers during the Track Record Period

None of our Directors, their respective close associates, or any Shareholders who or which own more than 5% of the issued share capital of our Company as at the Latest Practicable Date, had any interest in any of the five largest customers of our Group during the Track Record Period. Our Group had not experienced any major disruption in business due to material delays or defaulting payments by our customers by reason of their financial difficulties. Our Directors further confirm that they are not aware of any of our major customers having experienced material financial difficulties that may materially affect our Group's business. During the Track Record Period and up to the Latest Practicable Date, our Group did not have any material disputes with our major customers.

The tables below set forth the basic information of our Group's top five customers during the Track Record Period:

FY2016

Customer	Products sold to the customers	Business activities	Revenue generated from the sale *(RMB'000)*	Approximate % of our total revenue %	Credit Period	The calendar year in which our customer first started to have business relationship with us
OPPO Group *(Note 1)*	PCBAs for telecommunication devices	Production and sale of smartphone, cordless phone, all kinds of communication terminal equipment, smartphone peripheral products and spare parts, smartphone accessories, tablet PC, and their peripheral products and spare parts, etc.	134,390	77.2	30 days after monthly statement	2011
Sunway Group *(Note 2)*	PCBAs for industrial-use devices	Design, production and operation of connecting lines, connectors, communication cables, audio and video products, automation equipment mobile terminal antenna.	22,669	13.0	30% down payment and the remaining 70% payable within 45 days after monthly statement	2014
Innovation Sound Technology Co. Ltd.* (易力聲科技(深圳)有限公司) *(Note 3)*	PCBAs for IoT products	Production and sale of headphones, speakers, PCB plug-ins, etc.	13,924	8.0	90 days after monthly statement	2012
Shenzhen Allwins Technology Co., Ltd.* (深圳市雙贏偉業科技股份有限公司) *(Note 4)*	PCBAs for industrial-use devices	Purchase and sale of electronic products, etc.	849	0.5	30 days after monthly statement	2015
Xi'an ZTE Terminal Technology Co., Ltd* (西安中興通訊終端科技有限公司) *(Note 5)*	PCBAs for telecommunication devices	Production of mobile terminals; testing; R&D, sales and service outsourcing of mobile terminals; staff training within the system, etc.	534	0.3	60 days after delivery	2012
Total			172,366	99.0		

Notes:

1. OPPO Group includes a group of two companies, namely Guangdong OPPO Mobile Telecommunications Co., Ltd.* (OPPO廣東移動通信有限公司) and Dongguan OPPO Precision Electronic Co., Ltd.* (東莞市歐珀精密電子有限公司), one of which is the direct holding company of another company. They are limited liability companies established in the PRC in 2003 and 2013, respectively and they are Independent Third Parties. Our business relationship with each of them started in 2011 and 2014, respectively. Their respective registered capital was approximately RMB460 million and RMB50 million.

2. Sunway Group includes a group of two companies, namely Shenzhen Alex Connector Co., Ltd.* (深圳亞力盛連接器有限公司) and Shenzhen Sunway Telecommunication Co., Ltd.* (深圳市信維通信股份有限公司), which are limited liability company and joint stock company with limited liability established in the PRC in 1997 and 2006, respectively. The group is listed on the Shenzhen Stock Exchange. Their respective registered capital was approximately RMB10 million and RMB976 million. Sunway Group had a combined revenue of approximately RMB2,413 million and combined net profit of approximately RMB531.6 million in FY2016. Its combined total asset value was approximately RMB3,163.2 million and combined net asset value which was attributable to the shareholders of the listed company was approximately RMB1,923.1 million in FY2016. They are Independent Third Parties.

3. Innovation Sound Technology Co., Ltd.* (易力聲科技(深圳)有限公司) ("**Innovation Sound**") is a wholly-foreign owned enterprise established in the PRC in 2004. Its registered capital was HK$38 million. It is an Independent Third Party.

4. Shenzhen Allwins Technology Co., Ltd.* (深圳市雙贏偉業科技股份有限公司) ("**Allwins**") is a joint stock company with limited liability established in the PRC in 2004. Its registered capital was approximately RMB74 million. Allwins had a combined revenue of approximately RMB980.1 million and combined net profit of approximately RMB41.1 million in FY2016. Its combined total asset value was approximately RMB847.5 million and combined net asset value was approximately RMB212.1 million in FY2016. It is an Independent Third Party.

5. Xi'an ZTE Terminal Technology Co., Ltd* (西安中興通訊終端科技有限公司) ("**ZTE**") is a limited liability company established in the PRC in 2014. It is a wholly-owned subsidiary of a joint stock company with limited liability established in the PRC, the shares of which are listed on the Shenzhen Stock Exchange and the Stock Exchange, respectively. Its registered capital was RMB300 million. The holding company of ZTE had a consolidated revenue of approximately RMB101,233.2 million and consolidated net loss of approximately RMB1,407.9 million in FY2016. Its consolidated total asset value was approximately RMB141,408.2 million and consolidated net asset value was approximately RMB40,885.1 million in FY2016. It is an Independent Third Party.

FY2017

Customer	Products sold to the customers	Business activities	Revenue generated from the sale *(RMB'000)*	Approximate % of our total revenue *%*	Credit Period	The calendar year in which our customer first started to have business relationship with us
OPPO Group *(Note 1)*	PCBAs for telecommunication devices	Production and sale of smartphone, cordless phone, all kinds of communication terminal equipment, smartphone peripheral products and spare parts, smartphone accessories, tablet PC, and their peripheral products and spare parts, etc.	142,192	68.2	30 days after monthly statement	2011
Sunway Group *(Note 2)*	PCBAs for industrial-use devices	Design, production and operation of connecting lines, connectors, communication cables, audio and video products, automation equipment mobile terminal antenna.	41,692	20.0	30% down payment and the remaining 70% payable within 45 days after monthly statement	2014
Espressif Group *(Note 3)*	PCBAs for IoT products	Research and development of computer hardware, research, development, design, production and sales of computer software; production and development of integrated circuits and communication products, etc.	15,614	7.5	30 days after invoice date	2016
Guangdong Fingerchip Electronics Technology Co Ltd.* (廣東紫文星電子科技有限公司) *(Note 4)*	PCBAs for IoT products	Research and development, design, technical consultation, technology transfer, production and sales of biometric electronic products, etc.	2,878	1.4	30 days after delivery	2016
Rigado INC. *(Note 5)*	PCBAs for IoT products	Computers business	2,548	1.2	30 days after delivery	2016
Total			204,924	98.3		

Notes:

1. OPPO Group includes a group of two companies, namely Guangdong OPPO Mobile Telecommunications Co., Ltd.* (OPPO廣東移動通信有限公司) and Dongguan OPPO Precision Electronic Co., Ltd.* (東莞市歐珀精密電子有限公司), one of which is the direct holding company of another company. They are limited liability companies established in the PRC in 2003 and 2013, respectively and they are Independent Third Parties. Our business relationship with each of them started in 2011 and 2014, respectively. Their respective registered capital was approximately RMB460 million and RMB50 million.

2. Sunway Group includes a group of two companies, namely Shenzhen Alex Connector Co., Ltd.* (深圳亞力盛連接器有限公司) and Shenzhen Sunway Telecommunication Co., Ltd.* (深圳市信維通信股份有限公司), which are limited liability company and joint stock company with limited liability established in the PRC in 1997 and 2006, respectively. The group is listed on the Shenzhen Stock Exchange. Their respective registered capital was approximately RMB10 million and RMB976 million. Sunway Group had a combined revenue of approximately RMB3,434.8 million and combined net profit of approximately RMB889.0 million in FY2017. Its combined total asset value was approximately RMB5,333.2 million and combined net asset value which was attributable to the shareholders of the listed company was approximately RMB2,759.5 million in FY2017. They are Independent Third Parties.

3. Espressif Group includes a group of two companies, namely Espressif Systems (Shanghai) Co., Ltd.* (樂鑫信息科技(上海)股份有限公司) and Espressif Star Systems (Shanghai) Co., Ltd.* (樂鑫星信息科技(上海)有限公司), which are joint stock company with limited liability and limited liability company established in the PRC in 2008 and 2016, respectively. Their registered capital was RMB60 million and RMB10 million. Espressif Group is a listed company on the SSE STAR Market of the Shanghai Stock Exchange. It had a combined revenue of approximately RMB272.0 million and combined net profit of approximately RMB29.4 million in FY2017. Its combined total asset value was approximately RMB246.1 million and combined net asset value was approximately RMB209.8 million in FY2017. They are Independent Third Parties.

4. Guangdong Fingerchip Electronics Technology Co., Ltd.* (廣東紫文星電子科技有限公司) ("**Guangdong Fingerchip**") is a limited liability company established in the PRC in 2016. Its registered capital was RMB50 million and it is an Independent Third Party.

5. Rigado INC. ("**Rigado**") is an U.S. corporation registered as a limited liability company in 2010 and converted into a corporation in 2016. It is an Independent Third Party.

FY2018

Customer	Products sold to the customers	Business activities	Revenue generated from the sale *(RMB'000)*	Approximate % of our total revenue %	Credit Period	The calendar year in which our customer first started to have business relationship with us
OPPO Group *(Note 1)*	PCBAs for telecommunication devices	Production and sale of smartphone, cordless phone, all kinds of communication terminal equipment, smartphone peripheral products and spare parts, smartphone accessories, tablet PC, and their peripheral products and spare parts, etc.	126,969	53.8	30 days after monthly statement	2011
Espressif Group *(Note 2)*	PCBAs for IoT products	Research and development of computer hardware, research, development, design, production and sales of computer software; production and development of integrated circuits and communication products, etc.	39,895	16.9	30 days after invoice date	2016
Sunway Group *(Note 3)*	PCBAs for industrial-use devices	Design, production and operation of connecting lines, connectors, communication cables, audio and video products, automation equipment, mobile terminal antenna.	25,945	11.0	45 days after monthly statement *(Note 4)*	2014
China Info Safe (Shenzhen) Technology Co., Ltd.* (中雲信安(深圳)科技有限公司) *(Note 5)*	PCBAs for IoT products	Electronic products, electromechanical products, semiconductor technology development and sale and related technical consulting, technical services, computer software technology development, etc.	13,573	5.7	50% down payment and the remaining 50% payable before delivery	2018
Guangdong Fingerchip Electronics Technology Co Ltd.* (廣東紫文星電子科技有限公司) *(Note 6)*	PCBAs for IoT products	Research and development, design, technical consultation, technology transfer, production and sales of biometric electronic products, etc.	6,658	2.8	30 days after delivery	2016
Total			213,040	90.2		

Notes:

1. OPPO Group includes a group of two companies, namely Guangdong OPPO Mobile Telecommunications Co., Ltd.* (OPPO廣東移動通信有限公司) and Dongguan OPPO Precision Electronic Co., Ltd.* (東莞市歐珀精密電子有限公司), one of which is the direct holding company of another company. They are limited liability companies established in the PRC in 2003 and 2013, respectively and they are Independent Third Parties. Our business relationship with each of them started in 2011 and 2014, respectively. Their respective registered capital was approximately RMB460 million and RMB50 million.

2. Espressif Group includes a group of two companies, namely Espressif Systems (Shanghai) Co., Ltd.* (樂鑫信息科技(上海)股份有限公司) and Espressif Star Systems (Shanghai) Co., Ltd.* (樂鑫星信息科技(上海)有限公司), which are joint stock company with limited liability and limited liability company established in the PRC in 2008 and 2016, respectively. Their registered capital was RMB60 million and RMB10 million. Espressif Group is a listed company on the SSE STAR Market of the Shanghai Stock Exchange. It had a combined revenue of approximately RMB474.9 million and combined net profit of approximately RMB93.9 million in FY2018. Its combined total asset value was approximately RMB377.5 million and combined net asset value was approximately RMB311.2 million in FY2018. They are Independent Third Parties.

3. Sunway Group includes a group of two companies, namely Shenzhen Alex Connector Co., Ltd.* (深圳亞力盛連接器有限公司) and Shenzhen Sunway Telecommunication Co., Ltd.* (深圳市信維通信股份有限公司), which are limited liability company and joint stock company with limited liability established in the PRC in 1997 and 2006, respectively. The group is listed on the Shenzhen Stock Exchange. Their respective registered capital was approximately RMB10 million and RMB976 million, respectively. Sunway Group had a combined revenue of approximately RMB4,706.9 million and net profit of approximately RMB987.8 million in FY2018. Its combined total asset value was approximately RMB7,216.9 million and combined net asset value which was attributable to the shareholders of the listed company was approximately RMB3,682.1 million in FY2018. They are Independent Third Parties.

4. During FY2018, we had entered into a supplemental agreement with Sunway Group to vary the credit terms from 30% down payment and the remaining 70% payable within 45 days after the date of monthly statement, to the full amount payable within 45 days after the date of monthly statement. The change of the credit terms granted to Sunway Group by relaxing the requirement of the 30% down payment is because of (a) our well-established relationship with Sunway Group since 2014; (b) Sunway Group's punctual settlement of the outstanding payments; and (c) our intention to further strengthen the mutual relationship with Sunway Group, in particular it was our top five customers in each of FY2016, FY2017 and FY2018. The new credit term in fact aligned with the credit terms with other top five customers, which requires no deposits.

5. China Info Safe (Shenzhen) Technology Co., Ltd.* (中雲信安(深圳)科技有限公司) ("**Info Safe**") is a limited liability company established in the PRC in 2012. Its registered capital was RMB2 million and it is an Independent Third Party.

6. Guangdong Fingerchip Electronics Technology Co., Ltd.* (廣東紫文星電子科技有限公司) ("**Guangdong Fingerchip**") is a limited liability company established in the PRC in 2016. Its registered capital was RMB50 million and it is an Independent Third Party.

For the four months ended 30 April 2019

Customer	Products sold to the customers	Business activities	Revenue generated from the sale *(RMB'000)*	Approximate % of our total revenue *%*	Credit Period	The calendar year in which our customer first started to have business relationship with us
OPPO Group *(Note 1)*	PCBAs for telecommunication devices	Production and sale of smartphone, cordless phone, all kinds of communication terminal equipment, smartphone peripheral products and spare parts, smartphone accessories, tablet PC, and their peripheral products and spare parts, etc.	33,244	38.9	30 days after monthly statement	2011
Espressif Group *(Note 2)*	PCBAs for IoT products	Research and development of computer hardware, research, development, design, production and sales of computer software; production and development of integrated circuits and communication products, etc.	17,488	20.5	30 days after invoice date	2016
China Info Safe (Shenzhen) Technology Co., Ltd.* (中雲信安(深圳)科技有限公司) *(Note 3)*	PCBAs for IoT products	Electronic products, electromechanical products, semiconductor technology development and sale and related technical consulting, technical services, computer software technology development, etc.	8,464	9.9	50% down payment and the remaining 50% payable before delivery	2018
Sunway Group *(Note 4)*	PCBAs for industrial-use devices	Design, production and operation of connecting lines, connectors, communication cables, audio and video products, automation equipment, mobile terminal antenna.	5,305	6.2	45 days after monthly statement	2014
Customer A *(Note 5)*	PCBAs for telecommunication devices	Research and development, production and sales of hybrid integrated circuits, mobile phone circuit board components, digital multi-function phones, third-generation and subsequent mobile communication systems, mobile phones and accessories, etc.	4,645	5.4	45 days after monthly statement	2019
Total			69,146	80.9		

Notes:

1. OPPO Group includes a group of two companies, namely Guangdong OPPO Mobile Telecommunications Co., Ltd.* (OPPO廣東移動通信有限公司) and Dongguan OPPO Precision Electronic Co., Ltd.* (東莞市歐珀精密電子有限公司), one of which is the direct holding company of another company. They are limited liability companies established in the PRC in 2003 and 2013, respectively and they are Independent Third Parties. Our business relationship with each of them started in 2011 and 2014, respectively. Their respective registered capital was approximately RMB460 million and RMB50 million.

2. Espressif Group includes a group of two companies, namely Espressif Systems (Shanghai) Co., Ltd.* (樂鑫信息科技(上海)股份有限公司) and Espressif Star Systems (Shanghai) Co., Ltd.* (樂鑫星信息科技(上海)有限公司), which are joint stock company with limited liability and limited liability company established in the PRC in 2008 and 2016, respectively. Their registered capital was RMB60 million and RMB10 million. Espressif Group is a listed company on the SSE STAR Market of the Shanghai Stock Exchange. It had a combined revenue of approximately RMB474.9 million and combined net profit of approximately RMB93.9 million in FY2018. Its combined total asset value was approximately RMB377.5 million and combined net asset value was approximately RMB311.2 million in FY2018. They are Independent Third Parties.

3. China Info Safe (Shenzhen) Technology Co., Ltd.* (中雲信安(深圳)科技有限公司) ("**Info Safe**") is a limited liability company established in the PRC in 2012. Its registered capital was RMB2 million and it is an Independent Third Party.

4. Sunway Group includes a group of two companies, namely Shenzhen Alex Connector Co., Ltd.* (深圳亞力盛連接器有限公司) and Shenzhen Sunway Telecommunication Co., Ltd.* (深圳市信維通信股份有限公司), which are limited liability company and joint stock company with limited liability established in the PRC in 1997 and 2006, respectively. The group is listed on the Shenzhen Stock Exchange. Their respective registered capital was approximately RMB10 million and RMB976 million, respectively. Sunway Group had a combined revenue of approximately RMB1,954.4 million and net profit of approximately RMB368.6 million for the six months ended 30 June 2019. Its combined total asset value was approximately RMB7,680.9 million and combined net asset value which was attributable to the shareholders of the listed company was approximately RMB4,041.9 million as at 30 June 2019. They are Independent Third Parties.

5. Customer A is a limited liability company established in the PRC in 2010. Its registered capital was RMB900 million and it is an Independent Third Party.

Principal contractual terms with our customers

We entered into legally binding framework agreements with a majority of our top five customers during the Track Record Period. The customers then purchase our PCBAs by placing separate purchase orders with us which state, among others, the quantity, price, specifications and date of delivery of the subject PCBAs. We set out below a summary of the terms contained in the framework agreements and purchase orders:

Duration	While some framework agreements may not specify the durations, the framework agreements generally have a term of one to five years. Upon expiry of the duration, some contracts with our top five customers, for example Sunway Group, ZTE, Guangdong Fingerchip allow for an automatic renewal while some contracts with other top five customers, for example Espressif Group and Info Safe stipulate an option for our Group to renew the contract.
Quantity	The framework agreement generally do not specify the minimum quantity per purchase order. While some customers, for example, OPPO Group, might be required to provide a forecast of the PCBAs they would purchase from us to facilitate us to formulate our production plan ahead.
Credit terms	Our credit terms will generally range from full and partial prepayment to 30 to 90 days, depending on the creditworthiness of individual customers, which is determined on a case-by-case basis with reference to the customers' scale of operation, track record and length of business relationship with us.
Unit price and payment method	While the framework agreement will generally specify the payment methods that have been mutually agreed by both parties, the purchase orders from our customers will set out the unit price of the PCBAs. Some agreements will stipulate the automatic price adjustment mechanism which allow us to adjust our selling prices in view of fluctuations in our costs from time to time.
Quality and acceptance	Different framework agreements would have different quality and acceptance standards, including (i) sampling checks before delivery against individual customers' requisite passing rate of sampling checks; (ii) compliance with the international certification standard, for instance, ISO 9001 and ISO 14001 certifications; (iii) compliance with the product specifications as mutually agreed between the customers and us in advance before production commences; or (iv) compliance with individual customers' internal quality control standards.

Delivery	For PRC customers, our customers will usually (i) arrange for collection of our products from our Shenzhen Production Plant; or (ii) request us to deliver the products to their warehouses or other designated addresses. For U.S. customers, the purchase orders will usually specify the destinations which will be in U.S. and the customs declaration will usually specify the basis under which the delivery shall be made (usually FOB basis). In case of delay in delivery, under some framework agreements, we shall (i) notify our customer of the delay; (ii) be responsible for any reasonable costs arisen therefrom; and/or (iii) pay compensation at an agreed percentage of the entire value of the relevant purchase order to the customers.
Warranty and product return	We normally offer a warranty ranging from nil to five years from the date of delivery of our PCBAs in respect of the quality standards specified in the framework agreement or purchase orders. In the event that the products are found substandard within the warranty period due to our own fault, we will provide repair or re-test the products accordingly at our sole costs. We may also accept the return of defective PCBAs and replace the defective PCBAs with new ones which comply with the specifications and quality as set out in the purchase orders. For details, please refer to the paragraphs headed "Our customers — Sales — Products return policy and after-sale services" in this section.
Termination	Generally, there are early termination clauses in the framework agreements, which entitle our customers to forthwith terminate the framework agreements, including any breach of the framework agreements by our Group.
Subcontracting	In most framework agreements, subcontracting of our EMS to any third party is not expressly prohibited.
Exclusivity	None of our framework agreements with our customers are entered into on an exclusive basis. In other words, our customers can also engage other EMS provider(s) for the provision of EMS in addition to or in lieu of us.

During the Track Record Period, we had not experienced any dispute with our major customers which would have a material impact on our business, financial condition or results of operations. Our Directors confirm that there was no early termination of framework agreements by our customers during the Track Record Period and up to the Latest Practicable Date.

Sales

Payment methods

Our customers usually settle payment by way of telegraph transfer, bank transfer or bank acceptance bills.

Our finance team would review and monitor our overdue balances and receivable balance on an ongoing basis and generates periodic trade receivables aging report for our senior managements' review. To mitigate instances of overdue balance, our sales and marketing team will communicate with our customers and remind them of the outstanding payment amount on a regularly basis. Our finance team will bring the attention of our senior management on any trade receivables that have been outstanding for 30 days. In this connection, the amount of the trade receivables, the relevant customers' payment history, creditworthiness and the length of its business relationship with us will be taken into account.

Our Directors confirm that during the Track Record Period, save as disclosed in the paragraph headed "Financial Information — Analysis on major components of the combined balance sheets — Inventories" of this prospectus in relation to the disputes concerning the sales and purchase agreements with an overseas customer, we did not experience any material bad or doubtful debts or disputes with our customers that would have had caused any material impact on our business, financial condition and results of operations.

Delivery and logistics

Our customers will either arrange for collection of our PCBAs from our Shenzhen Production Plant or request us to deliver the PCBAs to their warehouse or designated addresses, which may be mainly in the vicinity of our Shenzhen Production Plant. Delivery of our products to customers is made mainly via road. For products delivered within the PRC, our Group generally delivers the products by our own vehicles or engages Independent Third Party logistic service providers to deliver the products from our Shenzhen Production Plant to the destinations specified by our customers. We will be responsible for the transportation costs in most cases. The risks of the products remain with our Group until the products are duly delivered to our customers' designated destinations. For customers outside the PRC, we are usually responsible for delivery of the products on FOB basis under which the title and risk of goods are transferred to our customers when our products are loaded on board.

Products return policy and after-sale services

Product return policy: We offer a warranty ranging from nil to five years from the date of delivery of our PCBAs. During the warranty period, our Group normally allows the repair, return and replacement of the PCBAs mainly due to quality reasons. By looking at the passing rate and the quantity of defective PCBAs, we will investigate the cause of the defects. We will assign our technicians or engineers to repair at our customers' warehouses after we discover such defects and confirm whether the defects arise due to our own faults. To avoid further defects in other PCBAs, by our MES system we will trace back the batch of PCBAs that may likely be defective. Our engineers will then examine the root cause, rectify it, and update our standard operating procedures accordingly. During the Track Record Period, our Group had not experienced any significant product return and replacement owing to any quality issue, which would have caused any material and adverse impact on the financial condition and operating results of our Group.

After-sale services: Our sales and marketing team regularly pay visits to and communicate with our customers to collect their feedback on the quality, delivery, packaging, timeliness of our PCBAs and services. Our sales and marketing team will share this information with our production team, research and development team in order to improve the existing EMS.

Complaint handling: Our quality control team and/or planning team is responsible for handling customers' complaints. If a customer has lodged a complaint on the quality of our PCBAs and/or made a written request of product return or replacement, our quality control team and/or planning team will promptly gather relevant information and investigate if the complaint or request is genuine. We will endeavour to propose a preliminary response to our customer within a business day and arrange for the replacement accordingly. We also endeavour to prepare report(s) on corrective actions within two business days to ensure that we are able to address our customers' needs effectively. During the Track Record Period, we had not received any material complaints from our customers.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there were no material claims for delay in delivery, defective products or sales returns from our customers.

CUSTOMER CONCENTRATION

For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our Group's sales to our top five customers accounted for approximately 99.0%, 98.3%, 90.2% and 80.9% of our total revenue, respectively. In the corresponding periods, sales to OPPO Group, our largest customer, accounted for approximately 77.2%, 68.2%, 53.8% and 38.9% of our total revenue, respectively. Please refer to the paragraph headed "Risk Factors — Our Group had a concentration of customers during the Track Record Period and any decrease or loss of business from our major customers could adversely and substantially affect our operations and financial conditions" in this prospectus for the customer concentration risk.

Reasons for our customer concentration

Our Directors consider that our customer concentration during the Track Record Period was contributed by a combination of the following key factors:

(i) *Valued business partner*: Our Group is able to maintain a stable relationship with our major customers. As at the Latest Practicable Date, our Group maintained business relationship ranging from approximately one year to over eight years with our top five major customers during the Track Record Period. We started business with OPPO Group since 2011. Our Directors believe that our major customers tend to engage EMS providers with proven high-quality work and on-time delivery track record, like our Group. To the best knowledge of our Directors, OPPO Group recognised our Group as one of the EMS providers which have the capability, in terms of quality, technical support and delivery, of providing EMS solutions to it. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material product returns from our top five customers nor did we have any material dispute with any of them. In addition, our Group has also received a number of awards from our top five customers in recognition of our service quality. Our Directors believe that we are a valued business partner of our top five customers including OPPO Group. For details, please refer to the paragraph headed "History, Development and Reorganisation — Business milestone" in this prospectus and "Recognitions and certifications" in this section.

(ii) *Our integrated EMS*: During the Track Record Period, we obtained various utility model patents which had been applied on production of our PCBAs sold to our major customers. Our Directors believe that our possession of a range of utility model patents and software copyrights complied with our automated machinery and equipment has made our EMS solutions more appealing to our major customers, and hence, they would prefer continuing their business relationship with us.

(iii) *Limited production capacity of our Group*: According to the CIC Report, EMS providers' downstream customers mainly include large-scale brand owners who have a larger demand for EMS providers when compared with small-scale brand owners. In many markets for electronic products, including the market for smartphones, the prevailing market structure is likely to be highly consolidated, resulting in a high level of concentration in terms of customers for EMS providers. As some of our major customers are large-scale brand owners who have larger demands for EMS from EMS providers, our Directors believe that it is normal for their orders to take up a significant portion of our production capacity, resulting in a concentration of revenue generated from them. Our Directors believe that our ability to maintain a stable relationship with our major customers, some of whom are large-scale brand owners, is of critical importance for our Group.

(iv) *Our strategy to serve large-scale brand owners*: Based on our experience in the EMS industry, our Directors believe that we are well-positioned to forecast the production capacity of our SMT assembly lines for processing the orders of our major customers based on our own industry experience, market research, historical orders placed by them. Thus, it is beneficial for us to cater for a few major customers as we are able to plan ahead and better utilise the capacity of our SMT assembly lines while minimising the need for outsourcing our production of PCBAs due to exceeded production capacity.

Our customer concentration would not affect our business prospects and sustainability

Our Directors believe that our Group's business model is sustainable despite such customer concentration due to the following factors:

(i) Our integrated and value-added services help strengthening our business relationship with our existing customers and bringing in new customers

We maintain a stable and long-term business relationship with our customers by, among others, working together with them in their development of PCBAs for their new electronic products by offering value-added integrated EMS to them at various stages of their product development. Our quality PCBAs, capability and research and development ability enable us to meet the requirements of different customers, which are not restricted to our top five customers. Attributed to the experience and expertise of our research and development team and our engineering team, we are able to provide design enhancement and verification services to them at the early stage of the PCBAs in their development of a particular product. We provide our customers with integrated EMS on a turnkey basis (including design or verification of design of their PCBAs, drawing up of schematic design, raw material selection and procurement, production of sample or prototype PCBAs, assembling and procurement, quality control, logistic and delivery and provision of after-sale services) whereby we are involved in almost every stage of the development process of the PCBAs they need. We welcome these customers to send their representatives to our Shenzhen Production Plant to oversee the production process of the PCBAs they need if they find it necessary, which would facilitate a timely communication; exchange of ideas and feedbacks. Therefore, the utilisation rate of our machinery had been in a high level during the Track Record Period. Our Directors believe that if any of our top five customers ceases to place orders with us, our Group could have extra capacity to serve other existing customers and new customers by re-allocating our production capacity in view of the growth in demand for EMS and the competitive strengths as detailed in the paragraph headed "Competitive strengths" in this section. Therefore, our Directors are of the view that if there is diminishing volume of orders from the top five customers, we are still able to secure alternative orders from existing customers and solicit new customers to replenish our order book.

We will continue to endeavour to secure new business from our existing customers, which will enhance our profit-earning ability and industry recognition and thus would increase our competitive edge in securing new customers in the future and benefit our Group's profitability in the long run.

On the other hand, apart from OPPO Group and Sunway Group, during the Track Record Period, the composition of our top five customers for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 was different. Further, the percentage of revenue generated from the largest customer and the percentage as to our revenue generated from the top five customers were decreasing during the Track Record Period. This suggests the success of our efforts to diversify our customer base and to reduce the reliance on our largest customers throughout the Track Record Period for revenue generation. Since 2016, our Group had started business relationships with new customers such as Espressif Group, Guangdong Fingerchip and Rigado, which were our top five customers for FY2017. Since 2018, our Group had started business relationships with new customers such as Info Safe and Customer A, which was one of our top five customers in 2018 and the four months ended 30 April 2019, respectively.

We source new customers primarily through the network of Mr. Li, our executive Director and referrals from our existing customers and suppliers. For example, to the best knowledge of our Directors, Espressif Group was the supplier of one of our customers to which Espressif Group supplied ICs. Subsequent collaborations with Espressif Group was lined up based on the referral from this customer in 2016. Our relationship with Guangdong Fingerchip started off due to the acquaintance of Mr. Li, our executive Director, with the director of Guangdong Fingerchip for over 10 years and we started business relationship since the incorporation of Guangdong Fingerchip in 2016. To the best knowledge of our Directors, since Guangdong Fingerchip learnt that we had some sizable customers like OPPO Group, Guangdong Fingerchip considered that our products would achieve certain level of quality standard. Therefore they started to have business with us. Rigado was the customer of one of our suppliers. We were introduced by that supplier in 2016 to Rigado and our business relationship started therefrom. Info Safe was referred to us by a personal friend of Mr. Li who was the general manager of Info Safe after Info Safe expressed its demands on stable EMS with a certain level of quality standards. As confirmed by our Directors, Customer A was introduced by our existing customer in 2019. As such, our Directors believe that our Group has reduced and will continue to reduce our reliance on our major customers.

(ii) We expand to emerging industry(ies) where our PCBAs can apply

We are actively expanding the application of our PCBAs to a wider range of electronic products through developing PCBAs that are applied in electronic end products for other industries. Over our operating history, given our established relationship with our customers, we believe we have built up good reputation of reliability and high-quality services. We are striving to strategically increase our level of participation in the product development of customers in the smart devices, automotive and other industry(ies) to enhance our industry reputation and recognition, diversify our source of revenue and bring more earnings to our Group. By doing so, our reliance on a particular customer or any particular electronic end products in a particular industry would be reduced. As such, our Directors are of the view that there are plenty of market opportunities available for our Group to further develop our customer base in the long run and reduce the reliance on our top customers.

(iii) We have established a reputation for offering quality EMS solutions

By providing EMS to our top five customers who are mainly owners or manufacturers of renowned brand electronic products in the PRC, our Directors believe that we have successfully built up a reputation for offering quality EMS to our customers in the PRC. Hence, if we lose any business opportunities to provide our EMS to any of our top five customers, our Group, with our expertise and reputation in the EMS industry, can avail our resources to provide EMS solutions to other customers.

RELATIONSHIP WITH OPPO GROUP

Background of OPPO Group

OPPO Group was our largest customer for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019. Our relationship with OPPO Group started in 2011 when we sold PCBAs to it as our customer.

OPPO Group is one of the top six global smartphone brand owners and one of the top four smartphone brand owners in the PRC. OPPO Group is a group that includes two limited liability companies established in the PRC with a registered capital of approximately RMB460 million and RMB50 million, respectively and both of which engaged in the production and sale of smartphone, cordless phone, all kinds of communication terminal equipment, smartphone peripheral products and spare parts, smartphone accessories, tablet PC, and their peripheral products and spare parts. In 2017, OPPO Group had a revenue of over RMB13 billion.

Sales and gross profit margin during the Track Record Period

During the Track Record Period, we were engaged by OPPO Group to manufacture PCBAs from the raw materials which were provided by OPPO Group at their own expense. Accordingly, the contract sum payable by OPPO Group to us for the EMS rendered did not price in the costs of these raw materials. According to the CIC Report, based on their researches on some large smartphone manufacturers in the PRC including OPPO Group, it is not uncommon for these sizeable smartphone manufacturers like OPPO Group to provide raw materials directly to their upstream PCBA EMS providers like our Group because (i) their purchase will be at a relatively lower price when they purchase in bulk collectively for various products to be manufactured; (ii) they are one of the very few suppliers or sources of certain raw materials; and (iii) the raw materials applied to their products will have been undergone their quality control tests and the quality can thus be assured. Therefore, such practice of provision of raw materials to upstream EMS providers is common and crucial for sizeable companies like OPPO Group.

During the Track Record Period, the revenue generated from our sales to OPPO Group amounted to approximately RMB134.4 million, RMB142.2 million, RMB127.0 million and RMB33.2 million, representing approximately 77.2%, 68.2%, 53.8% and 38.9% of our total revenue, respectively. The decrease in the percentage of our total revenue was primarily attributable to (i) the increased in revenue generated from some of our other major customers; and (ii) our efforts to diversify our customer base by obtaining purchase orders from our new customers.

During the Track Record Period, the average gross profit margin of our sales to OPPO Group who provided raw materials to us at their own expenses, was approximately 37.6%, 31.35%, 33.1% and 36.0% for each of the three years ended 31 December 2018 and the four months ended 30 April 2019, respectively, which was higher than that of customers who did not provide raw materials to us, which was approximately 27.1%, 29.0%, 28.9% and 32.9% in the respective years or period. While we adopt cost-plus approach when we price our PCBAs, the relevant costs of sales are usually higher when the costs of raw materials and consumables are taken into account, thereby dragging down the relevant gross profit margins.

According to CIC Report, since we focus on the production of PCBAs without providing assembly services for fully-assembled electronic products, the average gross profit margin of our sales to customers who did not provide raw materials to us could be higher than that of the PCBA manufacturers who also provide assembly services for fully-assembled electronic products, as these PCBA manufacturers generally have to incur additional raw materials costs (such as metal parts, plastic parts and additional electronic components) and additional labour costs for providing such assembly services which are generally more labour intensive, thereby resulting in lower gross profit margin when compared with ours. For instance, a PCBA manufacturer (whose shares are listed on the Shenzhen Stock Exchange) who is a supplier to OPPO Group (which provided raw materials to it at their own expenses) and provides assembly services for fully-assembled electronic products to some of its customers to the best knowledge of our Directors, recorded an overall gross profit margin of approximately 31.9% in FY2018, falling within the range of the gross profit margin of our sales to OPPO Group of approximately 33.1% and the gross profit margin of our sales to customers who did not provide raw materials to us of approximately 28.9% in FY2018. Its gross profit margin was a combined effect of the lower gross profit margin arising from assembly services for fully-assembled electronic products and the higher gross profit margin arising from the services provided to customers who provided raw materials at their own expenses. Another PCBA manufacturer (whose shares are also listed on the Shenzhen Stock Exchange) who manufactures PCB and provides PCBA manufacturing services to some of its customers (where its customers did not provide raw materials for its manufacturing of PCB to the best knowledge of our Directors), recorded a gross profit margin for its PCB business segment of approximately 30.1% in FY2018, which was lower than the gross profit margin of our sales to OPPO Group of approximately 33.1% because it incurred the costs of raw materials and consumables, and comparable to the gross profit margin of our sales to customers who did not provide raw materials to us of approximately 28.9% in FY2018.

During the Track Record Period, our Group has imposed a similar credit terms on OPPO Group as some of our other customers.

Salient terms of the framework agreements with OPPO Group

We entered into framework sale agreement and framework quality assurance agreement with OPPO Group . Based on the terms of these agreements, OPPO Group placed separate purchase orders which stipulated the type and quantity of products to be purchased for each transaction. Such framework purchase agreement and framework quality assurance agreement are legally binding. These agreements and purchase orders normally include the following principal terms and conditions:

Duration and renewal clause	The duration is not expressly specified in the agreements. The agreements are valid in the course of business until receipt of written notice of termination. As such, there is generally no renewal clause.
Quantity	The framework agreements generally do not specify the minimum quantity per purchase order. OPPO Group shall provide a forecast of the PCBAs they would purchase from us to facilitate us to formulate our production plan ahead.
Credit terms	30 days after monthly statement.
Minimum purchase commitment	The framework agreements generally do not specify the minimum quantity per purchase order.
Unit price and payment method	The purchase orders will set out the unit price of the PCBAs subsequent to our quotations. The payment will be made by bank transfer.
Quality and acceptance	AQLs are imposed on the raw materials used and the work-in-progress in the framework quality assurance agreement. During the Track Record Period, we had not breach any AQLs set by OPPO Group causing any material product returns.
Delivery	The goods will be delivered to the destination specified by OPPO Group. We will arrange the delivery and will be responsible for the transportation fee and insurance fee incurred therein.
Warranty and product return	The warranty period is not specified in the framework agreements. However, in the event that the products are found substandard due to our faults, we will provide repair or re-test the products accordingly at our sole costs. We may also accept the return of defective PCBAs and replace the defective PCBAs with new ones which comply with the specifications and quality as set out in the purchase orders.

Termination	OPPO Group and we could respectively terminate the agreement upon one-month and six-month written notice. The agreement could also be terminated upon written notice from the non-defaulting party to the defaulting party upon the reasons of (1) the contractual breach which cannot be explained or rectified by the defaulting party upon written notification; (2) the commencement of the bankruptcy proceedings; (3) the deterioration of the operation conditions causing one party unable to perform the contract; and (4) illegal activities engaged by one party including liability evasion. During the Track Record Period, our framework agreements had not been terminated before expiration and caused material adverse effect to our operation.
Subcontracting	Subcontracting of our EMS to any third party is not expressly prohibited.
Exclusivity	There is no exclusivity clause in the agreements. In other words, we can have business relationships with other customer(s) for provision of PCBAs.

Stable and sustainable business relationship between OPPO Group and our Group

With over more than eight years of cooperation, our management team has accumulated extensive knowledge in the products, operation standard, requirements and procedures of OPPO Group. Since then, we have maintained a close business relationship with OPPO Group. Given our capability in providing integrated EMS to OPPO Group, we worked closely with OPPO Group and may provide valued-added services in terms of the manufacturability of their newly designed PCBAs and drawing up the relevant DFM Report for it, the production efficiency of its products and our engineering solutions provided to it in its development of new products. Hence, as evidenced by the outstanding supplier award granted by OPPO Group to us since FY2015, we believe that OPPO Group considers us as its valued business partner and we have developed a stable and sustainable business relationship with OPPO Group. Further, OPPO Group continued to place purchase orders to us during the Track Record Period and up to the Latest Practicable Date. During the four months ended 30 April 2019, we had derived revenue of approximately RMB33.2 million from OPPO Group. In light of the above, our Directors take the view that our relationship with OPPO Group is unlikely to materially and adversely change or terminate.

It may be time-consuming for OPPO Group to find other suppliers to substitute our Group

Notwithstanding the leading position of OPPO Group (being one of the top six global smartphone brand owners and one of the top four smartphone brand owners in the PRC) and it had a relatively high bargaining power to source PCBAs from other suppliers apart from our Group, our Directors take the view that it may be time consuming for OPPO Group to find other suppliers to substitute our Group and thus, there is a certain degree of mutual and complementary benefits gained by OPPO Group and our Group. Though there are over three thousand players in the PCBA industry in the PRC, we are only one of the approved suppliers of PCBAs of OPPO Group due to the following observations:

1. *Stable and sustainable business relationship between OPPO Group and our Group*: We have maintained stable and sustainable business relationship with OPPO Group since 2011. OPPO Group continued to place purchase orders to us during the Track Record Period and up to the Latest Practical Date. During the four months ended 30 April 2019, our Group had derived revenue of approximately RMB33.2 million from OPPO Group.

2. *It is time-consuming for OPPO Group to choose EMS providers in the PRC in place of our Group*: To the best knowledge of our Directors after making all reasonable enquiries with OPPO Group, the process of identifying and approving a new EMS provider may be time consuming and might result in unforeseen operational problems to OPPO Group, as OPPO Group has its own criteria and protocol in its selection of EMS providers. Such selection protocol is comprehensive and have around 400 criteria covering (a) inventory management, (b) production process monitoring, (c) machinery capacity, (d) production efficiency, (e) product quality, (f) system functionality, and (g) safety requirements throughout various production processes including NPI, inventory management, solder paste printing, SMT mounting, reflow soldering, singulation, PCBA calibration and function testing and repair and maintenance (if any). Thus, it may be time consuming to find a EMS provider which can fulfill the requirements of the selection protocol of OPPO Group to replace us.

   Given that OPPO Group will continue to focus on its research and development of its new electronic products, particularly, smartphones, OPPO Group is expected to continue to engage our EMS. Our Directors believe that it would be rather time-consuming for OPPO Group to look for some other EMS providers with a scale of operation and level of understanding on its products comparable to us in lieu of us as (i) we have acquired knowledge of OPPO Group's corporate culture, quality standard and approval protocol of its products; (ii) we provide value-added and customised EMS for the manufacture of its products whereas other electronic product manufacturers may manufacture the products only on OEM basis without providing any valuable input to the manufacturability of its products' design; (iii) we have had over eight years of close cooperation with OPPO Group; (iv) the OPPO Group would increase its administrative work and expenses if it has to arrange the manufacture and assembling of its PCBAs to a number of EMS providers and monitor or review the performance of these EMS providers at the same time; and (v) the automation level of the production facilities of these new EMS providers may not be able to meet OPPO Group's standard and requirements from time to time.

3. *Our strong and quality EMS provided to OPPO Group*: We were awarded the outstanding supplier by OPPO Group for four consecutive years since 2015. For more details, please refer to the paragraphs headed "Recognitions and certifications" in this section. Furthermore, it is notable that there was no early termination of the framework agreements we entered into with OPPO Group during the Track Record Period and up to the Latest Practicable Date. To provide strong and quality EMS to OPPO Group, we have assigned a designated team of over 40 personnel ranging from production, quality control, planning, procurement and inventory and engineering departments working for the orders of OPPO Group. We could assign a team of technicians to station at OPPO Group's production plant to provide immediate defect analysis and timely repair services. Benefit from our familiarity with OPPO Group's requirements and products, our team can respond to OPPO Group's enquiries on a timely basis. Our Directors believed that given our ability to provide quality EMS to OPPO Group, OPPO Group will continue to rely on our EMS in production of PCBAs for their smartphones.

4. *Low defective rate of our products for OPPO Group*. We achieved an average product defective rate of approximately 0.004% for our products supplied to OPPO Group during the Track Record Period, which was not only lower than the product defective rate prescribed by OPPO Group in the framework quality assurance agreement, but also considered low as compared to the industry norm of about 0.1% according to the CIC Report. Our Directors believed that the quality of our products is higher than the industry norm, which is the core element to maintain a long-term and good relationship with OPPO Group. Our Directors confirmed that during the Track Record Period, there was no material defect or recall of our products supplied to OPPO Group. We did not have any material disputes with OPPO Group during the Track Record Period and as at the Latest Practicable Date on the quality of our products and services rendered to it.

Taking into account the above factors and observations, our Directors are of the view that it is both time-consuming and unlikely for OPPO Group to replace our Group with other suppliers.

Our reliance on OPPO Group would not affect our business prospects and sustainability

Our Directors confirmed that our Group has no intention to limit ourselves to focus on providing EMS to OPPO Group in the future, and having taken into account the following factors and measures taken by our Group, our Directors consider that our reliance on OPPO Group or the loss of OPPO Group would not have a significant adverse effect on our business prospects. Though our relationship with OPPO Group, from our Directors' point of view based on their experience and their regular communications with OPPO Group, is unlikely to materially adversely change or terminate, even if it happens, we are still able to effectively mitigate our exposure to any material adverse changes to or termination of our relationship with OPPO Group due to the reasons set out below.

Our experience in serving sizeable customers like OPPO Group and the likelihood that our relationship with OPPO Group will materially adversely change or terminate is low: Our business relationship with OPPO Group and our track record in providing PCBAs to it can be regarded as a credit to our ability to provide quality PCB assembling services in the EMS industry in the PRC, which is highly competitive. This will in turn attract more electronic product manufacturers and customers with a sizeable scale of operation, which adopt a stringent approach in their selection and sourcing of suppliers, to engage us in their product development and production. In addition, we believe that the development of our business relationship with OPPO Group would enable us to better understand (i) the criteria, requirements and quality standard of sizeable and renowned customers; and (ii) the key elements and strategies for effective customer management and provision of services to these renowned customers, which can be replicated to other customers. We consider our relationship with OPPO Group to be in line with our Group's plan to focus on establishing long-term relationships with reputable customers. On the other hand, our Directors confirm that there is no restrictive covenant in our contract with OPPO Group or any other documents which forbid or restrict our Group to provide EMS or sell our products to other customers. Therefore, we are not restricted to look for other customers in the PRC.

Owing to our experience in providing quality EMS to sizeable customers in the PRC, including OPPO Group, our Directors do not foresee any difficulty for us to look for other customers.

Transferability of our skills: Our Group's business model and facilities are not specifically designed to cater solely for any particular customer. In contrast, they are flexible and adaptable in serving different customers' needs. In the unlikely event that our current business relationship with OPPO Group deteriorates or ceases, we shall still be able to avail our capabilities and resources to serve other existing customers and new customers in a timely manner. Our skills can be readily transferred to serve other potential customers to satisfy their needs. Based on our past experience, we foresee that it would not incur significant costs if our Group re-allocates our resources to serve other customers. The preparation works required to serve new brand owners and fulfilling individual customers' requirements are not expected to incur any significant cost, which usually will include having our production machinery and equipment fulfilled their requirements during inspection, understanding the needs of new customers, fine-tuning production procedures to suit individual customer requirements, coordinating with new customers, redesigning the testing and production process, and arranging suitable delivery schedules and means to facilitate the process. Hence, our Directors are of the view that our Group is able to meet the demands of other customers and thus, the changing market.

Versatility of our Group's skills can also be evidenced by the increasing revenue of our Group attributable to the sales of the PCBAs that could be incorporated to some electronic end products other than telecommunication devices during the Track Record Period. For instance, our revenue generated from the PCBAs for IoT products increased from approximately RMB14.6 million in FY2016 to approximately RMB75.2 million in FY2018. For the four months ended 30 April 2019, such revenue was RMB36.9 million which was almost equal to half of the relevant revenue for FY2018. According to the CIC Report, the number of IoT connected devices is expected to grow at CAGR of approximately 30.4% from 2018 to 2023. In this connection, our Directors consider that the diversification of the revenue base to other product segments will on one hand allow our Group to open up a new pathway to the business growth potential in these markets while on the other hand, effectively reduce the reliance over OPPO Group by our Group in the future.

There is an increasing number of new customers: Along with maintaining a stable business relationship with OPPO Group, we have from time to time identified and taken on new customers that require our PCBAs for onward production of their electronic products which can meet their requirements in terms of design, quality and functions.

Further, new customers which had not placed any orders to us in the previous year contributed revenue of approximately RMB2.2 million in FY2017. Some of these customers continued to engage us and further contributed revenue of approximately RMB10.6 million in FY2018. In FY2018, new customers which had not placed any orders to us in the previous year contributed revenue of approximately RMB24.2 million. Some of them were our top five customers during the Track Record Period and these customers were referred to us by our existing customers or suppliers, or through the network of our Directors. For more details, please refer to the paragraph headed "Customer concentration — Our customer concentration would not affect our business prospects and sustainability — (i) Our integrated and value-added services help strengthening our business relationship with our existing customers and bringing in new customers" in this section. As confirmed by our Directors, for the five months ended 31 May 2019, our Group generated revenue from new customers which had not placed any orders to us in the previous year of over RMB10 million. Therefore our Directors consider that we have the ability to source new and sizable customers going forward.

Our experience, reputation, connection and proven track record in the EMS industry enable us to mitigate our exposure to any material adverse changes or termination of relationship with OPPO Group: Our Group has been providing EMS to different customers, which manufacture and distribute electronic products across different industries. Our success was attributable to our efforts in working closely with our customers in developing their products, the automation level of our Shenzhen Production Plant and our reputation for offering quality EMS to customers. Hence, if we lose OPPO Group as our major customer, our Group, with our reputation in the industry, production facilities and expertise, can avail our resources to provide EMS to meet the requirements of other customers. In the unlikely event that our current business relationship with OPPO Group deteriorates or ceases, we believe that with our Directors' experience, reputation and connection to the EMS industry in the PRC would enable us to respond to market challenges and adjust our business direction swiftly to face any new challenge. We plan to diversify our pool of customers and broaden our revenue stream in the long run, and will continue to (i) maintain a close business relationship with OPPO Group; and (ii) identify potential sizeable customers which look for EMS providers who can offer quality EMS.

Our Directors believe that, with our experience and proven track record in the EMS industry, we will be able to replicate our success in the unlikely event that our relationship with OPPO Group deteriorates or ceases.

Further, our management team has an extensive and in-depth knowledge of the EMS industry in the PRC. Our founder, chairman, executive Director, Mr. Li and our executive Director, Mr. Zhang both have more than 20 years of experience in the EMS industry market in the PRC. We consider that they are important in driving our future business development.

We achieved an average product defective rate of approximately 0.004% for the products supplied to OPPO Group during the Track Record Period, which was not only lower than the product defective rate prescribed by OPPO Group in the framework quality assurance agreement, but also considered low compared to the industry norm of about 0.1% according to the CIC Report. Our Directors believed that our product quality is much higher than the industry norm, which is the core element to maintain a long-term and good relationship with OPPO Group.

View on the sustainability of our business

Our Directors are of the view, and the Sole Sponsor concurs, that the likelihood that the relationship between us and OPPO Group will materially adversely change or terminate is low based on the following factors:

- We had stable and sustainable business relationship with OPPO Group since 2011. As confirmed by our Directors, OPPO Group continued to place orders to us, and generated revenue of approximately RMB33.2 million for the four months ended 30 April 2019;

- It was time-consuming for OPPO Group to replace our Group with other EMS providers in the PRC, which might result in unforeseen operational problems to OPPO Group, as OPPO Group has its own comprehensive protocol with around 400 criteria in its selection of EMS providers; and

- We provided quality EMS to OPPO Group, which is evidenced by (i) the outstanding supplier award given to us by OPPO Group for four consecutive years since 2015; (ii) there being no early termination of framework agreements by OPPO Group during the Track Record Period and up to the Latest Practicable Date; (iii) our ability to keep the average defective rate of our PCBAs provided to OPPO Group of approximately 0.004% over the Track Record Period, which is lower than the defective rate prescribed by OPPO Group as compared to the industry norm of 0.1%; and (iv) there being no material dispute between OPPO Group and us during the Track Record Period and up to the Latest Practicable Date.

Further, in the unlikely event that OPPO Group were to terminate our relationship, our Directors are of the view, and the Sole Sponsor concurs, that we are/will be able to effectively mitigate its exposure to any material adverse changes to or termination of the relationship with OPPO Group based on the following factors:

- Our revenue generated by OPPO Group decreased from approximately 77.2% to approximately 38.9% during the Track Record Period due to our success in diversification of our customer base;

- We gained experience in serving sizable corporations like OPPO Group, which is a credit to our ability to provide quality PCB assembling services to sizable corporations with stringent requirements on their suppliers. Leveraging such experience in the EMS industry in the PRC given the prominent market position of OPPO Group, it is not difficult for us to provide EMS to other customers with similar scale of operation; and

- Our Group's skills are readily transferrable to serve other potential customers to satisfy their needs, as evidenced by (i) the increasing revenue attributable to the sales of the PCBAs for incorporation into other types of electronic products besides telecommunication devices during the Track Record Period. For instance, our revenue generated from the PCBAs for IoT products increased from approximately RMB14.6 million in FY2016 to approximately RMB75.2 million in FY2018. For the four months ended 30 April 2019, such revenue was RMB36.8 million which was almost equal to half of the relevant revenue for FY2018, which indicated that our product mix is able to cope with changes in the industry. According to the CIC Report, the number of IoT connected devices is expected to grow at CAGR of approximately 30.4% from 2018 to 2023; (ii) our ability to source new customers and some of which became our top five customers during the Track Record Period; (iii) the diversification of our revenue base to provide EMS for other electronic products as mentioned above allows us to open up a new pathway to the business growth potential in these markets while on the other hand, effectively reduces our reliance on OPPO Group in the future; and (iv) the increase in revenue generated by new customers who had placed purchase orders on us only since FY2017 and these customers continued to place orders for our products in FY2018 and onwards. These customers contributed a revenue of approximately RMB10.6 million in FY2018. In FY2018, new customers which had not placed any orders to the Group in the preceding year and some of which were referred to us by our existing customers or suppliers, or through the network of our Directors, contributed revenue of approximately RMB24.2 million. As confirmed by our Directors, during the five months ended 31 May 2019, we generated revenue from new customers which had not placed any orders to us in the previous year of over RMB10 million.

PRICING POLICY

We determine the prices of our PCBAs on a cost-plus basis. Since each PCBA has its own specifications or requirements, the pricing of each batch of PCBAs is negotiated and determined on a case by case basis with individual customers in order to maximise the profitability of our Group.

The price of our PCBAs is therefore determined by reference to a number of factors including, but not limited to, production costs, costs of raw materials, complexity of the manufacturing process, lead time, quality requirements and the size of the order. Further, some contracts with our customers will stipulate the automatic price adjustment mechanism which allow us to adjust our selling prices in view of fluctuations in our costs from time to time.

As a result of the "cost-plus" pricing strategy, our Directors believe that our Group generally passed the risks arising from any fluctuation in the purchase costs of raw materials to customers during the Track Record Period. In this connection, we continuously keep ourselves abreast of changes to the market prices, conduct regular reviews on the pricing policy and pay close attention to responses from customers during the negotiations/quotations stage. Our Group may adjust the pricing policy to ensure our Group is responsive to changes in the market price in a timely manner to avoid any material adverse impact on our market position, competitiveness, performance and financial conditions.

For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the minimum, maximum and average unit price of our PCBAs are as follows *(Note)*:

	FY2016			FY2017			FY2018			For the four months ended 30 April 2019		
	Min	Max	Average	Min	Max	Average	Min	Max	Average	Min	Max	Average
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
PCBAs for telecommunication devices	0.4	13.7	5.0	—*	312.5	4.4	—*	333.3	3.7	0.3	1,149.4	3.7
PCBAs for industrial-use devices	0.9	633.6	43.1	—*	577.1	32.8	—*	3,706.9	22.6	5.0	4,224.1	39.6
PCBAs for IoT products	0.3	102.9	1.3	—*	1,074.2	1.5	—*	541.9	2.0	—*	98.7	1.8
PCBAs for other devices	1.3	5.2	4.9	0.3	25.0	2.1	1.4	49.5	14.1	1.62	439.7	14.9

* *It represents the price below RMB0.1.*

Note: The pricing of our PCBAs is determined on a cost-plus basis, which is subject to the specifications of the PCBAs and requirements of individual order quantity, raw materials required and other elements which may be factored in the pricing of PCBAs by order. As a result, there could be significant difference between the minimum and maximum unit prices of certain products during the Track Record Period.

Our Directors confirm that the following are the reasons for the fluctuations of the average unit prices of our products under various product categories during the Track Record Period:

(i) *PCBAs for telecommunication devices*: The decrease in the average unit price of our PCBAs from RMB5.0 for FY2016 to RMB3.7 for FY2018 was mainly due to the decrease in the average unit price of our PCBAs for smartphones as OPPO Group, who was our largest customer for our PCBAs for telecommunication devices, engaged us to produces PCBAs with less specifications and thus are charged at a lower unit price. The average unit price maintained at RMB3.7 for the four months ended 30 April 2019.

(ii) *PCBAs for industrial-use devices*: The decrease in the average unit price of our PCBAs from RMB43.1 for FY2016 to RMB22.6 for FY2018 was mainly due to the decrease in the average unit price of our PCBAs for industrial-use testing devices because Sunway Group, who was our largest customer for our PCBAs for industrial-use devices engaged us to produce PCBAs with less specifications and thus are charged at a lower price. The average unit price increased to RMB39.6 for the four months ended 30 April 2019 as the average unit price of our PCBAs for industrial-use devices sold to one of our top five customers, Sunway Group, increased due to the fact that Sunway Group engaged us to produce PCBAs with more complex specifications which were charged at a higher average unit price, as confirmed by our Directors.

(iii) *PCBAs for IoT products*: The increase in the average unit price of our PCBAs from RMB1.3 for FY2016 to RMB2.0 for FY2018 was mainly due to the change of product mix, namely the increase in order for our PCBAs for IoT modules. The revenue contributed by the sales of PCBAs for IoT modules (which have a higher unit price than PCBAs for other IoT products) increased from RMB0.2 million for FY2016 to RMB59.7 million for FY2018. Overall, the average unit price of PCBAs for IoT products maintained at similar level during the Track Record Period.

(iv) *PCBAs for other devices*: The increase in the average unit price of our PCBAs from RMB4.9 for FY2016 to RMB14.1 for FY2018 was mainly due to the change of the product mix. There was not much fluctuation on the average unit price for the four months ended 30 April 2019 compared with that of FY2018 as the average unit price was RMB14.9. Comparing FY2017 and FY2018, our customer portfolio for our PCBAs for other devices expanded. There were two, four, seven and four customers for our PCBAs for other devices in FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively and these customers had different product mix and demands for the PCBAs to be incorporated into their various kinds of electronic products. Due to various complexity and specifications in respect of the PCBAs as required from these customers, the unit price charged for the PCBAs sold to each of them differed.

PRODUCTION FACILITIES AND UTILISATION

Our Shenzhen Production Plant is located in Bao'an District, Shenzhen, Guangdong Province, the PRC. For details, please refer to the paragraph headed "Properties" in this section. All our SMT assembly lines for production of PCBAs are installed in our Shenzhen Production Plant. Other than the subcontracting of certain PCBAs production to offsite third party subcontractors, the SMT assembly lines in our Shenzhen Production Plant produced all of our PCBAs during the Track Record Period.

Owing to the diversity of the composition, design and layout of our PCBAs in terms of the number of electronic components contained, their size, shape and design and the varying requirements of our customers, and SMT lines are being operated in a highly automated manner, our Directors believe that the most meaningful way to measure the annualised utilisation rate of our Shenzhen Production Plant is to calculate the expected and actual annual aggregate production capacities of our SMT production lines in term of machine hour they have been operated. We only occasionally used DIP method to place the electronic components that cannot be placed on the PCB by SMT.

Production capacity and utilisation rate of our SMT assembly lines

(1) Production capacity and utilisation rate of our SMT assembly lines which consisted machinery owned and leased by us

The following table sets out our annual production capacity, actual annual production time and utilisation rate of our SMT assembly lines which consisted machinery owned and leased by us for each of FY2014, FY2015 and during the Track Record Period:

	FY2014	FY2015	FY2016	FY2017	FY2018	For the four months ended 30 April 2019
Number of SMT assembly lines as at the end of the year/period *(Note 1)*	13	13	15	13	15	17 *(Note 5)*
Number of maximum SMT machine hours (hours) *(Note 2)*	95,424	86,310	102,550	95,330	95,718	33,369
Number of SMT machine hours for production (hours) *(Note 3)*	70,892	76,247	93,074	86,821	88,106	31,190
Utilisation rate (%) *(Note 4)*	74.3	88.3	90.8	91.1	92.0	93.5

Notes:

1. The SMT assembly lines contain machinery owned and leased by us but exclude standby machine in idle state (i.e. generally refers to the mounting machine of a SMT assembly line which cannot be used to do production work and is set in idle state for standby or disposal purpose). The number of SMT assembly lines will vary due to modifications/changes in composition of SMT mounting machines and other devices for the assembling and production of PCBAs with different specifications.

2. The number of SMT machine hours is calculated by multiplying the number of SMT lines by the number of hours in a day and the number of days in a year that our SMT machines are expected to operate (excluding the required maintenance days during the year). The above calculation is based on the assumptions that our SMT machines operate 21 hours a day, and 336 days, 336 days, 342 days, 324 days, 337 days and 104 days for each of FY2014, FY2015, FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively.

3. The number of SMT machine hours for production refers to the total number of the actual machine hours in operation.

4. The utilisation rate is calculated by dividing the number of productive SMT machine hours by the number of SMT machine hours.

5. In April 2019, we leased two SMT assembly lines from an Independent Third Party for a period between April 2019 and September 2019 so as to meet the anticipated needs for increasing orders in FY2019. We expect to extend the lease to December 2019.

(2) Production capacity and utilisation rate of our SMT assembly lines which consisted machinery owned by us only

The following table sets out our annual production capacity, actual annual production time and utilisation rate of our SMT assembly lines owned by us during the Track Record Period:

	FY2016	FY2017	FY2018	For the four months ended 30 April 2019
Number of SMT assembly lines as at the end of the year/period *(Note 1)*	12	9	10	10
Number of maximum SMT machine hours (hours) *(Note 2)*	81,169	69,731	64,995	21,462
Number of SMT machine hours for production (hours) *(Note 3)*	73,644	63,531	60,020	20,171
Utilisation rate (%) *(Note 4)*	90.7	91.1	92.4	94.0

Notes:

1. The SMT assembly lines consisted machinery owned by us only but exclude standby machine in idle state (i.e. generally refers to the mounting machine of a SMT assembly line which cannot be used to do production work and is set in idle state for standby or disposal purpose). The number of SMT assembly lines will vary due to modifications/changes in composition of SMT mounting machines and other devices for the assembling and production of PCBAs with different specifications.

2. The number of SMT machine hours is calculated by multiplying the number of SMT lines by the number of hours in a day and the number of days in a year that our SMT machines are expected to operate (excluding the required maintenance days during the year). The above calculation is based on the assumptions that our SMT machines operate 21 hours a day, and 342 days, 324 days, 337 days and 104 days for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively.

3. The number of SMT machine hours for production refers to the total number of the actual machine hours in operation.

4. The utilisation rate is calculated by dividing the number of productive SMT machine hours by the number of SMT machine hours.

Our Directors confirmed that we enhanced our production capacity (in terms of SMT machine hours) and efficiency (in terms of the level of precision of the PCBAs and the variety and complexity of PCBAs that the machines can produce) by acquiring new-model SMT mounting machines and ancillary equipment with higher speed and higher precision level in placing and soldering of various electronic components onto the PCBs, whereby both the output and precision of PCBAs can be enhanced. As such, given the fact that the number of SMT assembly lines did not change substantially as a result of replacement of old machines and equipment with new ones as we deemed necessary, our production capacity in terms of the number of maximum SMT machine hours would therefore not change significantly. In this connection, we recorded an addition of plant and machinery of approximately RMB3.1 million, RMB1.1 million, RMB33.5 million, RMB29.9 million, RMB29.8 million and RMB1.4 million for FY2014, FY2015, FY2016, FY2017, FY2018 and the four months ended 30 April 2019, respectively.

While we have been purchasing new machines and equipment all through from FY2016 to FY2018 to cater for the increasing orders from our customers, the effectiveness of these new machines and equipment can be reflected by the corresponding increase in our Group's sales turnover from approximately RMB174.1 million in FY2016 to RMB236.2 million in FY2018, with CAGR of approximately 16.5%.

Increase in utilisation rate of our SMT assembly lines

The utilisation rate of our SMT assembly lines which consisted machinery owned and leased by us increased from approximately 74.3% in FY2014 to approximately 88.3% in FY2015 and further to approximately 92.0% in FY2018 in terms of SMT machine hours. Such increase was attributable to the increase in the number of SMT machines for production which resulted from 70,892 SMT machine hours in FY2014 to 88,106 SMT machine hours in FY2018. The utilisation rate of our SMT assembly lines which consisted machinery owned by us increased from approximately 90.7% in FY2016 to approximately 94.0% for the four months ended 30 April 2019 in terms of SMT machine hours. Due to the increasing customer orders from FY2014 to FY2018 and the management's decision to reduce subcontracting production to third party subcontractors (as evidenced by a low proportion of subcontracting charges relative to the revenue, i.e. 2.6%, 0.3% and 0.8% in FY 2016, FY2017 and FY2018, respectively), more SMT machine hours were therefore utilised in production boosting an increase in utilisation rate from FY2014 to FY2018. The utilisation rate of our SMT assembly lines which consisted machinery owned and leased by us reached approximately 93.5% while that of our SMT assembly lines which consisted machinery owned by us reached approximately 94.0%, for the four months ended 30 April 2019.

MACHINERY AND EQUIPMENT

Our Shenzhen Production Plant is equipped with a variety of automated machinery and equipment for different stages PCB assembling and production services. We purchased various machinery and equipment from the PRC. We adopt a straight-line depreciation policy on our machinery over the estimated useful life thereof after taking into account the estimated residual values, which our Directors believe is in line with industry norm. The table below sets out a summary of the principal machinery and equipment owned by our Group for the provision of assembling services as at the Latest Practicable Date:

Name of the machinery and equipment	**Quantity**	**Principal functions**	**Average age (approximately)** *(Note 1)*	**Average remaining useful life (approximately)** *(Note 2)*
SMT mounting machine	91	A machine that is used for placing of various range of electronic components which includes		
		• old machines which will be replaced (for details, please refer to the section headed "Future Plans and Use of Proceed" in this prospectus)	107 months	13 months
		• remaining machines	27 months	90 months
Reflow oven	15	Reflow soldering of surface mount electronic components to PCB	22 months	98 months
AOI machine	42	An automated visual inspection of printed circuit board which scans the device under tests for catastrophic failure (e.g. missing component) and quality defects	37 months	53 months

Name of the machinery and equipment	Quantity	Principal functions	Average age (approximately) *(Note 1)*	Average remaining useful life (approximately) *(Note 2)*
Stencil printer	31	A machine that is used for depositing solder paste on the printed wiring boards (PWBs)	51 months	68 months
3D SPI machine	26	A machine that is used to inspect solder paste deposition in board assembly operations	39 months	50 months
X-Ray machine	Three	A test machine with high magnification and resolution imaging function using its X-ray capabilities for inspection of our PCBAs	27 months	73 months
Robotic inspection and packaging machine	Two	A automated conveyor using robotic arms to pick up and load the PCBA and transfer it to a station that perform functional test, automated vision inspection and packaging for PCBAs for IoT products	16 months	104 months
Robotic testing machine	Four	A machine that is used to automatically test the functions of the PCBAs for telecommunication devices	14 months	106 months
Wave soldering machine	Two	For soldering process used in the manufacture of PCBAs	49 months	71 months

Notes:

1. The average age of the machinery and equipment is calculated based on the aggregated age of the machinery divided by the number of units of the machinery and equipment.

2. The remaining useful life of the machinery and equipment is calculated based on the estimated useful life deducted the average age of the machinery and equipment.

Our Directors confirm that our SMT assembly lines are compatible for assembling (which forms part of the production process) different types of PCBAs with adjustments.

Repair and maintenance

We implement a series of internal repair and maintenance procedures for our machinery and equipment periodically according to the characteristics and requirements of the particular machine or equipment in order to ensure that they can function properly. Our in-house engineers conducts routine checks on our machinery and equipment on a daily basis, before the machine or equipment is to commence operation. We also conduct cleaning and detailed checks on the machinery on a weekly basis. We maintain detailed records of maintenance and repair of the machinery and equipment.

We compiled an internal handbook of the guidelines to ensure smooth and accurate operations of our production facilities which we believe can minimize the risks of wrongful operations preventing breakdowns.

RAW MATERIALS

The raw materials we use for the provision of PCB assembling and production can generally be divided into electronic components and ancillary materials (including PCBs, crystal oscillators, semiconductors, diodes, ICs, capacitors, resistors, fuses and magnetic beads), packaging materials, barcode labels, solder paste, and consumables. During the Track Record Period, we mainly used the raw materials supplied to us by our customers directly for their PCBAs; alternatively, we also purchase raw materials from suppliers designated by our customers or from suppliers on our list of approved suppliers. For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the cost of raw materials and consumable used accounted for approximately 24.4%, 34.4%, 44.8% and 49.4% of our total cost of sales, respectively. Such increase in the cost of raw materials used as a percentage of our total cost of sales during the Track Record Period was mainly due to the fact that more customers requested us to select and provide the raw materials in the course of provision of PCB assembling services to them.

PCB, which is one of our critical raw materials, is a non-conductive material surface on which electronic components and conductive lines can be printed or etched. PCBs are electronic circuits used in devices to provide mechanical supports and pathways for other electronic components.

Our Directors confirm that there had not been any significant fluctuation in the market price of these major types of raw materials during the Track Record Period. We source our raw materials from PRC suppliers who are Independent Third Parties.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not encountered any material quality issue on or shortage of the raw materials used for production, which would otherwise have adversely affected our operation and provision of assembling services unless there are special kinds of materials specifically requested by individual customers occasionally for the PCBAs that are used for production of their products, which are not available from our then approved suppliers. In such circumstances, we have to source these materials from the customers' designated suppliers or the customers themselves due to the time constraint to catch up the customers' schedule and the time we need to assess and select new suppliers if we are to source the materials from them. During the Track Record Period, we purchased special kind of raw materials, which was one-off in nature, from both Sunway Group and Rigado with an aggregate purchase price of approximately RMB14,000 for FY2016 and RMB137,000 for FY2017, respectively as the relevant raw materials were not available from our approved suppliers at the time. It is notable that sourcing the relevant raw materials from new suppliers which were not in our approved list was not feasible at the time due to time constraint, as new suppliers would generally be subject to a lengthy internal supplier assessment by us before we would make a purchase from such new supplier. As a result, we resorted to source the raw materials from Sunway Group and Rigado on that occasion. Apart from the raw materials purchased from Sunway Group and Rigado, the raw materials we need for provision of PCBA assembling and production are generic and are readily available from our suppliers. For instance, our Group could source ICs of the same type from Supplier A and another supplier in FY2018. Therefore, we could in general source the same kind of raw materials from various alternative suppliers.

We generally have alternative sources to supply the same kind of raw materials and hence, the loss of any single supplier would not have a material impact on our operations.

The table below shows a breakdown of our Group's purchases by types of materials or products for FY2016, FY2017 and FY2018:

	FY2016		FY2017		FY2018		For the four months ended 30 April 2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
ICs	12,816	65.8	25,267	54.1	33,887	35.8	5,973	24.3
Capacitors, resistors, etc.	635	3.3	3,212	6.9	25,281	26.7	1,368	5.6
PCBs	733	3.8	5,780	12.4	14,364	15.2	7,813	31.7
Crystal oscillators	699	3.6	3,730	8.0	6,541	6.9	1,454	5.9
Diodes, triodes, etc.	547	2.8	2,047	4.4	1,679	1.8	786	3.2
Nitrogen	1,876	9.6	1,490	3.2	945	1.0	208	0.8
Others *(Note)*	2,158	11.1	5,159	11.0	11,854	12.6	7,020	28.5
Total	19,464	100.0	46,685	100.0	94,551	100.0	24,622	100.0

Note: Others include fuses and magnetic beads, packaging materials, barcode labels, solder paste, and consumables.

Procurement planning

As at 30 April 2019, our procurement and inventory team comprised six staff members. To maintain our inventory of raw materials at a minimum level, we typically procure raw materials upon receipt of purchase orders from our customers. During the Track Record Period, our procurement and inventory team would first place an internal purchase request with our general manager of the procurement and inventory team, based on their production needs according to customers' purchase orders. Save for those raw materials that are supplied to us by our customers directly and the raw materials supplied by the suppliers designated by our customers, our procurement staff would request for price quotations in advance from generally three suppliers on our list of approved suppliers. Our Group's inventory level as at 31 December 2016, 2017, 2018 and 30 April 2019 amounted to approximately RMB2.4 million, RMB6.9 million, RMB30.6 million and RMB28.0 million, respectively. For further details in relation to the increase of our inventory level during the Track Record Period, please refer to the paragraph headed "Financial Information — Analysis on major components of the consolidated balance sheets — Inventories" in this prospectus.

Since our Group did not engage in any hedging activity nor enter into any futures contract or price-lock arrangement to manage any price fluctuation of the raw materials, parts and components during the Track Record Period, and does not plan to engage in any hedging activity in the foreseeable future, our procurement and inventory team will closely monitor the price of the raw materials. When our Group anticipates any increase in the price of raw materials or shortage of supply thereof, our Group will adjust its procurement plans accordingly in order to minimise our exposure to fluctuations in prices and supply.

OUR SUPPLIERS AND SUBCONTRACTORS

Selection of suppliers

We select our suppliers based on a number of criteria including, their scale of operation, the pricing, product quality, supply capability and business track record with our Group. Save for those raw materials that are supplied to us by our customers directly and the raw materials supplied by the suppliers designated by our customers, with our extensive experience in the EMS industry and for the purpose of complying with our customers' stringent quality standards, we understand the importance of material safety and quality, and we are capable of identifying and picking quality materials and suitable suppliers.

Shenzhen and other cities in the Guangdong Province are blessed with a vast number of raw material suppliers and our geographical proximity to the market allows us to source quality raw materials from a wide range of suppliers at stable and competitive prices with high logistic efficiency. Hence, we do not have to rely solely on a small number of suppliers. For each sourcing exercise for a new type of raw material, we would typically pick from a pool of no less than three potential suppliers for the same kind of raw materials and seek quotations from them. We would demand our chosen suppliers to comply with relevant international quality control standards, quality, transportation and packaging requirements. We would also perform quality tests on the supplied materials.

We maintain a list of approved suppliers, and any of whom would be removed from the list should they fail to satisfy our quality, service and other requirements upon periodic review by our procurement and inventory team. We are able to exercise considerable control over our sourcing exercises as there are plenty of suppliers operating mainly in Guangdong Province, which allows us to conduct on-site visit and review their scale of operation, their business licences, their machinery and equipment and other relevant licence and easily replace existing suppliers who fail to live up to our expectations from time to time.

Salient terms of a typical purchase transaction

Although we generally do not enter into long-term procurement agreements with our suppliers, we may enter into framework purchase agreements and framework quality assurance agreements with them and place purchase orders with them upon receipt of purchase orders from our customers. Such framework purchase agreements and framework quality assurance agreements are legally binding. These agreements and purchase orders normally include the following principal terms and conditions:

Duration	The durations are not expressly specified in the agreements. The agreements are valid in the course of business until the signing of new agreement or receipt of written notice of termination. As such, there are generally no renewal clauses.
Purchase order	We will usually specify the kind of raw materials we need, the specifications, unit price, quantity, currency and date of delivery of the raw materials required in the purchase order.
Delivery	We will specify the date of delivery in the purchase orders. The suppliers are responsible for the delivery of the raw materials to the place as designated by us at their own costs.
Quality assurance	The raw materials delivered by the supplier must comply with our specifications and international quality standards. We are entitled to conduct inspection of the raw materials based on the said quality control standard and guidelines.
Credit period	Generally 30–60 days after monthly statement.
Minimum purchase commitment	The framework agreements generally do not specify the minimum quantity per purchase order.
Purchase price	Our purchase orders usually set out the unit purchase price of the products. The purchase price is generally agreed between individual suppliers and us with reference to the then market price of the raw materials. There is no price adjustment mechanism in our agreements as (i) we will obtain quotations from three suppliers to obtain the best offer; and (ii) our agreements are not long term and exclusive so we are not committed to purchase at a certain price.
Return of defective raw materials	If any defective or sub-standard raw materials are found, we are entitled to request for replacement and the supplier is liable for all the costs and expenses arising therefrom.

Termination	Generally, there are early termination clauses in the framework agreements, which entitle us to forthwith terminate the framework agreements upon the signing of new contract or receipt of written notice of termination. During the Track Record Period, none of our framework agreements had been terminated before expiration and caused material adverse effect to our operation.
Exclusivity	Our service agreements with our suppliers are generally entered into on a non-exclusive basis. In other words, we can engage other supplier(s) for the provision of any raw materials in addition to or in lieu of the existing supplier.

Payment methods

Our Group is generally required to pay for the raw materials upon their delivery to our warehouse between 30 to 60 days after monthly statements. Save for the raw materials supplied to us by our customers directly, sometimes, at the request of the suppliers and subject to the demand and supply conditions of the relevant raw materials, we may need to prepay certain amount of the purchase price in order to secure our purchase of the raw materials. Payment is generally made by bank transfer and settled in RMB, U.S. dollars and Hong Kong dollars. For more details, please refer to the paragraph headed "Financial Information — Analysis on major components of the consolidated balance sheets — Trade and bills payables" in this prospectus.

Selection of subcontractors

We have to subcontract some of the assembling and production of PCBAs to our subcontractors when the machinery and equipment in our Shenzhen Production Plant have almost reached their optimal utilisation rate. Our Directors confirmed that the subcontracting engagement to the Independent Third Party subcontractors was an interim measure taken by us on an as-needed basis in light of the high utilisation rate of our SMT assembly lines during the relevant period. We therefore do not enter into long-term contracts with any of our subcontractors. We generally place purchase orders with our subcontractors, which contain terms with respect to the subcontracting product types and quantity, the delivery time and the subcontracting costs. Attributed to our executive Directors' industry experience and their familiarity with the assembling cost, we are therefore able to negotiate with our subcontractors and seek to control the subcontracting cost at a reasonable level. During the Track Record Period, we engaged ten third party subcontractors for undertaking generally the assembling and production of our PCBAs under our supervision. For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the total subcontracting charges amounted to approximately RMB4.6 million, RMB0.6 million, RMB1.9 million and RMB0.3 million, representing approximately 4.1%, 0.4%, 1.2% and 0.5% of our total cost of sales, respectively.

Pursuant to the contracts with our customers, we generally have to bear the responsibilities in respect of defective products and/or late delivery. As such, our Directors consider that a stringent selection of our subcontractors is of paramount importance. We will regularly review our selection of subcontractors based on a number of factors, including: (i) their adherence to instructions, if any; (ii) timely delivery of products; (iii) quality of work performed; (iv) safety and environmental compliance; (v) credit-worthiness; and (vi) their locations preferably in the vicinity to our Shenzhen Production Plant, to enable us to supervise both the assembling process and implementation of our quality control measures.

Quality control on the subcontracted works

Our staff will attend the production plant of our subcontractors when the subcontracted works are taking place. They will supervise production processes, and conduct testing to ensure the PCBAs are in compliance with the specifications of our customers. We also require subcontractors to rectify all defects in their works after inspection or replace within two days. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any delayed performance by our subcontractors and we had not received any material claims or complaints from our customers for substandard work of our subcontractors.

Our Directors confirm that we had no material dispute with any of our subcontractors during the Track Record Period.

Our top five suppliers and subcontractors

For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the total purchases and subcontracting fees, from our top five suppliers and subcontractors amounted to approximately RMB15.9 million, RMB23.8 million, RMB44.4 million and RMB10.0 million, representing approximately 66.2%, 50.5%, 45.9% and 40.0% of our total cost of purchases and subcontracting fees for the corresponding periods. For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our purchases from our largest supplier accounted for approximately 34.0%, 29.1%, 14.6% and 18.6% of our total cost of purchases and subcontracting fees, respectively. Most of our suppliers and subcontractors are based in the PRC.

None of our Directors, their respective associates and existing Shareholders, who own more than 5% of our issued share capital, had any interest in any of our top five suppliers during the Track Record Period.

The following tables set forth certain information of our top five suppliers and subcontractors during the Track Record Period:

FY2016

Supplier	Raw materials procured from the suppliers or services provided by the subcontractors	Principal business	Cost of purchases or subcontracting fees *(RMB'000)*	% of total cost of purchases and subcontracting fees	Credit Period	The calendar year in which the supplier/ subcontractor first started to have business relationship with our Group
Supplier A *(Note 1)*	Integrated circuits	Technology development of electronic products, technical services, computer network technology consulting services, etc.	8,182	34.0	60 days after monthly statement	2014
Supplier B *(Note 2)*	SMT mounting	Research and development and sales of SMT PCBAs, communication products, automotive products and electronic products, etc.	3,665	15.2	30 days after monthly statement	2016
Supplier C *(Note 3)*	Nitrogen gas	Wholesale of dangerous chemicals, etc.	1,868	7.8	30 days after monthly statement	2013
Supplier D *(Note 4)*	Integrated circuits	Electronic components, data processing equipment, network equipment, computer software, etc.	1,409	5.9	60 days after monthly statement	2016
Honeng Electronics Co Ltd* (深圳市宏能微電子有限公司) *(Note 5)*	Integrated circuits, crystal oscillators and electronic components	Research and development and sales of electronic products and related information consultation, etc.	797	3.3	45 days after monthly statement	2016
Total			15,921	66.2		

Notes:

1. Supplier A includes a group of two companies which are limited liability companies incorporated in Hong Kong and the PRC in 2002 and 2010, respectively. Their respective registered capital was approximately HK$23 million and HK$1 million. They are Independent Third Parties.

2. Supplier B is a limited liability company established in the PRC in 2011. Its registered capital was RMB10 million and it is an Independent Third Party.

3. Supplier C is a limited liability company established in the PRC in 2011. Its registered capital was RMB2 million and it is an Independent Third Party.

4. Supplier D is a limited liability company established in the PRC in 2002. It is a subsidiary of a limited liability company, which is listed on Taiwan Stock Exchange. Its registered capital was USD25 million and it is an Independent Third Party.

5. Honeng Electronics Co Ltd* (深圳市宏能微電子有限公司) is a limited liability company established in the PRC in 2012. Its registered capital was RMB10 million and it is an Independent Third Party.

FY2017

Supplier	Raw materials procured from the suppliers or services provided by the subcontractors	Principal business	Cost of purchases or subcontracting fees (*RMB'000*)	% of total cost of purchases and subcontracting fees	Credit Period	The calendar year in which the supplier/ subcontractor first started to have business relationship with our Group
Supplier A *(Note 1)*	Integrated circuits	Technology development of electronic products, technical services, computer network technology consulting services, etc.	13,775	29.1	60 days after months statement	2014
Supplier E *(Note 2)*	PCBs	Technology development and sales of circuit boards and electronic components, etc.	3,155	6.7	60 days after monthly statement	2015
Supplier D *(Note 3)*	Integrated circuits	Electronic components, data processing equipment, network equipment, computer software, etc.	3,149	6.7	60 days after monthly statement	2016
Shenzhen Xinfuchang Technology Co Ltd* (深圳市信福昌科技有限公司) *(Note 4)*	Capacitors, inductors, resistors, fuses, diodes and other electronic components	Electronic products, telecommunication products, electronic components, etc.	1,888	4.0	60 days after monthly statement	2014
Shenzhen Chuangdajia Technology Co Ltd* (深圳市創達佳科技有限公司) *(Note 5)*	Integrated circuits, crystal oscillators, diodes and other electronic components	Technology development of electronic products and electronic components, etc.	1,868	4.0	30 days after monthly statement	2016
Total			23,835	50.5		

Notes:

1. Supplier A includes a group of two companies, which are limited liability companies incorporated in Hong Kong and the PRC in 2002 and 2010, respectively. Their respective registered capital was approximately HK$23 million and HK$1 million. They are Independent Third Parties.

2. Supplier E is a limited liability company established in the PRC in 2012. Its registered capital was RMB3 million and it is an Independent Third Party.

3. Supplier D is a limited liability company established in the PRC in 2002. It is a subsidiary of a limited liability company, which is listed on Taiwan Stock Exchange. Its registered capital was USD25 million and it is an Independent Third Party.

4. Shenzhen Xinfuchang Technology Co Ltd* (深圳市信福昌科技有限公司) is a limited liability company established in the PRC in 2013. Its registered capital was RMB1 million and it is an Independent Third Party.

5. Shenzhen Chuangdajia Technology Co Ltd* (深圳市創達佳科技有限公司) is a limited liability company established in the PRC in 2010. Its registered capital was RMB0.5 million and it is an Independent Third Party.

FY2018

Supplier	Raw materials procured from the suppliers or services provided by the subcontractors	Principal business	Cost of purchases or subcontracting fees (*RMB'000*)	% of total cost of purchases and subcontracting fees	Credit Period	The calendar year in which the supplier/subcontractor first started to have business relationship with our Group
Xiamen Holder Electronics Co Ltd* (廈門信和達電子有限公司) *(Note 1)*	Capacitors and resistors	Wholesale of other mechanical equipment and electronic products, retail of other electronic products, software development, integrated circuit design, etc.	14,111	14.6	60 days after monthly statement	2018
Supplier F *(Note 2)*	Integrated circuits	Design, development, manufacture and sale of computer software, hardware, communication equipment, mobile communication terminal equipment, instrumentation (only for legally established branches), etc.	8,236	8.5	Prepayment	2018
Supplier G *(Note 3)*	PCBs	High-end PCBs (including high-layer PCBs, any-order HDI, rigid-flex FPC), new electronic components, sensors, IoT RFID antennas, etc.	7,992	8.3	60 days after monthly statement	2015
Shenzhen Eli Electronics Co., Ltd.* (深圳市英萊合創電子有限公司) *(Note 4)*	Integrated circuits	Technology development and sales of electronic products, computer hardware and software, etc.	7,531	7.8	Prepayment	2018
Supplier A *(Note 5)*	Integrated circuits	Technology development of electronic products, technical services, computer network technology consulting services, etc.	6,484	6.7	60 days after monthly statement	2014
Total			44,354	45.9		

Notes:

1. Xiamen Holder Electronics Co Ltd* (廈門信和達電子有限公司) is a limited liability company established in the PRC in 2000. Its registered capital was RMB100 million and it is an Independent Third Party.

2. Supplier F is a joint stock company with limited liability established in the PRC in 2012. It is listed on NEEQ. Its registered capital was RMB60 million and it is an Independent Third Party.

3. Supplier G is a limited liability company established in the PRC in 2011. It is a subsidiary of a joint stock company with limited liability, which is listed on Shanghai Stock Exchange. Its registered capital was RMB120 million and it is an Independent Third Party.

4. Shenzhen Eli Electronics Co., Ltd.* (深圳市英萊合創電子有限公司) is a limited liability company established in the PRC in 2013. Its registered capital was approximately RMB9 million and it is an Independent Third Party.

5. Supplier A includes a group of two companies, which are limited liability companies incorporated in Hong Kong and the PRC in 2002 and 2010, respectively. Their respective registered capital was approximately HK$23 million and HK$1 million. They are Independent Third Parties.

For the four months ended 30 April 2019

Supplier	Raw materials procured from the suppliers or services provided by the subcontractors	Principal business	Cost of purchases or subcontracting fees *(RMB'000)*	% of total cost of purchases and subcontracting fees	Credit Period	The calendar year in which the supplier/ subcontractor first started to have business relationship with our Group
Supplier F *(Note 1)*	Integrated circuits	Design, development, manufacture and sale of computer software, hardware, communication equipment, mobile communication terminal equipment, instrumentation (only for legally established branches), etc.	4,642	18.6	Prepayment	2018
Supplier A *(Note 2)*	Integrated circuits	Technology development of electronic products, technical services, computer network technology consulting services, etc.	2,355	9.5	60 days after monthly statement	2014
Supplier G *(Note 3)*	PCBs	High-end PCBs (including high-layer PCBs, any-order HDI, rigid-flex FPC), new electronic components, sensors, IoT RFID antennas, etc.	1,101	4.4	60 days after monthly statement	2015
KAHA PTE. LTD. *(Note 4)*	Integrated circuits and crystal oscillators	Electronics-related industrial design services	1,034	4.1	60 days after monthly statement	2019
Dongguan Yuyong Electronic Technology Co., Ltd.* (東莞市鍩永電子科技有限公司) *(Note 5)*	Nozzles	Research and development, production and sales of audio equipment, digital electronic products, computer peripheral products and system equipment, etc.	848	3.4	30 days after monthly statement	2016
Total			9,980	40.0		

Notes:

1. Supplier F is a joint stock company with limited liability established in the PRC in 2012. It is listed on NEEQ. Its registered capital was RMB60 million and it is an Independent Third Party.

2. Supplier A includes a group of two companies, which are limited liability companies incorporated in Hong Kong and the PRC in 2002 and 2010, respectively. Their respective registered capital was approximately HK$23 million and HK$1 million. They are Independent Third Parties.

3. Supplier G is a limited liability company established in the PRC in 2011. It is a subsidiary of a joint stock company with limited liability, which is listed on Shanghai Stock Exchange. Its registered capital was RMB120 million and it is an Independent Third Party.

4. KAHA PTE. LTD. is a private company limited by shares established in Singapore in 2015. Its share capital was approximately SGD6 million as at 31 December 2017. It is an Independent Third Party.

5. Dongguan Yuyong Electronic Technology Co., Ltd.* (東莞市鋙永電子科技有限公司) is a limited liability company established in the PRC in 2009. Its registered capital was RMB3 million and it is an Independent Third Party.

The combination of our top five suppliers and subcontractors would change following the corresponding changes of our product mix. For purchase of raw materials, our procurement and inventory team would request for price quotations in advance generally from three suppliers on our approved list, save for those raw materials that are supplied to us by our customers directly and the raw materials supplied by the suppliers designated by our customers. We will take into account the terms and offers from individual suppliers each time before placing any purchase order to avoid over-reliance on a single supplier, in particular electronic components are common raw materials that are readily available in the market under normal circumstances. Furthermore, factors such as the raw materials we need for production of different kinds of products from time to time, the profitability of the products within our product portfolio, our production capacity and our manpower planning and allocation arrangement had also contributed to the changes in combination of our top five suppliers during the Track Record Period.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, there were five, four, six and four overlapping customers and suppliers, respectively. To the best knowledge and belief of our Directors, these entities and their ultimate beneficial owners are Independent Third Parties.

Our sales to these customers amounted to approximately RMB23.1 million, RMB18.2 million, RMB52.8 million and RMB22.0 million, which accounted for approximately 13.2%, 8.7%, 22.3% and 25.7% respectively, of our total revenue for FY2016, FY2017, FY2018 and the four months ended 30 April 2019, respectively. During the same corresponding period, our costs of sales of these customers amounted to approximately RMB16.9 million, RMB13.0 million, RMB35.6 million and RMB14.2 million, respectively, which accounted for approximately 15.1%, 9.0%, 22.0% and 25.1%, respectively, of our total cost of sales. Since some overlapping suppliers are our subcontractors to whom we only paid subcontracting fees, we did not incur any purchases costs paid to them and our purchases from other overlapping customers/suppliers amounted to approximately RMB0.3 million, RMB0.4 million, RMB7.8 million and RMB0.6 million, representing approximately 1.5%, 0.8%, 8.2% and 2.6% of our total purchases during the Track Record Period. Gross profit for the sales to these customers for FY2016, FY2017, FY2018 and the four months ended 30 April 2019 was approximately RMB6.2 million, RMB5.2 million, RMB17.2 million and RMB7.8 million, respectively. The gross profit margin for FY2016, FY2017, FY2018 and the four months ended 30 April 2019 was approximately 26.8%, 28.5%, 32.6% and 35.5%, respectively, whereas our overall gross profit margin for the corresponding periods was 36.0%, 30.6%, 31.4% and 33.8%, respectively.

Based on our experience in the EMS market in the PRC and also according to the CIC Report, our Directors note that the practice of purchasing raw materials from customers is sometimes adopted in the EMS market in the PRC where there are circumstances that customers are the suppliers of certain kinds of raw materials, such as specific models of electronic parts and components. It is not our common practice to purchase or sell from/to our customers or suppliers, respectively. Without causing any material detrimental effect to our Group's profitability, our Directors confirm that we had sourced the required raw materials from these customers or suppliers during the Track Record Period for the following reasons:

1. In view of the tight business production schedule, we had occasionally purchased special kind of raw materials from Sunway Group specifically requested by one of our customers and from Rigado specifically applied to the PCBAs supplied to Rigado respectively as we could not, at that point, identify any other available source of the required raw materials from any of our approved suppliers but these raw materials were available from Sunway Group and Rigado. Such arrangements were only an ad hoc measure to deal with individual customers' requests. The aggregate purchase price of the raw materials purchased from Sunway Group and Rigado amounted to approximately RMB14,000 for FY2016 and RMB137,000 for FY2017, respectively. Save for the aforesaid one-off purchases, we did not purchase raw materials from Sunway Group and Rigado during the Track Record Period.

2. Some of our customers required us to incorporate designated ICs, fingerprint sensors and fingerprint modules in their products, which were supplied by Espressif Group, Guangdong Fingerchip, Shenzhen Fingerchip and Customer B. We decided to make purchases of such raw materials from Espressif Group, Guangdong Fingerchip, Shenzhen Fingerchip and Customer B, respectively. For example, we purchased fingerprint sensors, ICs and fingerprint modules from Guangdong Fingerchip to produce PCBAs for our other customers including Shenzhen Fingerchip. For more details of the purchases with Guangdong Fingerchip, please refer to the below paragraph headed "Partial back-to-back arrangement with Guangdong Fingerchip" of this section.

3. We were requested by Yinrun to purchase some raw materials, including ICs, PCBs and crystal oscillators, from them. Our Directors confirm that all raw materials purchased from Yinrun were applied to the PCBAs sold to it. Our purchase amount from Yinrun amounted to approximately RMB3.7 million for FY2018, which were not fully utilised to generate the revenue of approximately RMB4.3 million from our sales to Yinrun for FY2018.

   All the purchases of raw materials were made upon and subsequent to the receipt of purchase orders from Yinrun in 2018, and all the raw materials purchased from Yinrun were fully utilised and applied to PCBAs supplied to Yinrun in FY2018 and the four months ended 30 April 2019.

4. Supplier B who was our subcontractor, did not have ability to produce some PCBAs applied to their products and thus required us to manufacture accordingly.

5. We may sell some auxiliary and other materials to Supplier B, Supplier H and Supplier I who were our subcontractors during the Track Record Period.

Partial back-to-back arrangement with Guangdong Fingerchip

Background

Shenzhen Fingerchip is a limited liability company established in the PRC in 2014. Its registered capital was approximately RMB33.5 million. It engages in biometric technology software and hardware development, sales, services and development of computer software and hardware, technology development and sales of circuits, semiconductors, and communication products, etc. It has various subsidiaries with an aggregate registered capital of approximately RMB64 million which engage in technology related industries. We started business relationship with Shenzhen Fingerchip in 2017 through Mr. Li's personal network when the general manager of Shenzhen Fingerchip was introduced to our Group. Shenzhen Fingerchip informed us of its procurement plan for our PCBAs in late 2017, which would be PCBAs mounted with a specific type of fingerprint sensors. This sales of PCBAs to Shenzhen Fingerchip was forecasted to be approximately RMB21.3 million for FY2018.

On the other hand, Guangdong Fingerchip was our customer with whom we started our business relationship since 2016. It is a limited liability company established in the PRC in 2016 and has registered capital of RMB50 million. It engages in research and development, design, technical consultation, technology transfer, production and sales of biometric electronic products, etc. To the best knowledge, information and belief of our Directors, such fingerprint sensors could be sourced from Guangdong Fingerchip at a more competitive price.

Prepayment arrangement

Since the fingerprint sensors required by Shenzhen Fingerchip were in tight supply with unique specifications at that time, Guangdong Fingerchip, as a supplier thereof, demanded a prepayment, which amounted to approximately RMB12.8 million (the "**Prepayment**") to back up the purchase order of the fingerprint sensors to fulfill the forecasted sales orders to be placed by Shenzhen Fingerchip of approximately RMB21.3 million. Though we understood that such Prepayment or the unutilised part thereof would be refunded to us if we did not purchase sufficient amount of the fingerprint sensors to utilise the entire Prepayment amount from Guangdong Fingerchip in the end, we bargained with Shenzhen Fingerchip for an advance payment and Shenzhen Fingerchip agreed to pay an aggregate amount of approximately RMB6.4 million, representing approximately 30% of the forecasted sales amount, to us (the "**Advance Payment**"). The Advance Payment was made in the period of 29 December 2017 to 16 January 2018 by Shenzhen Fingerchip whereas the Prepayment was made in roughly the same period of 29 December 2017 to 17 January 2018.

Upon receipt of the purchase orders from Shenzhen Fingerchip to manufacture PCBAs mounted with the requested fingerprint senors, we would place corresponding orders for such fingerprint sensors to Guangdong Fingerchip and manufactured the PCBAs according to the requirements of Shenzhen Fingerchip. In FY2018, the total amount of revenue generated from the sale of our PCBAs mounted with such fingerprint sensors to Shenzhen Fingerchip was approximately RMB1.1 million.

Commercial rationales of the partial back-to-back arrangement

Our Directors believed that the partial back-to-back arrangement would be beneficial to our business at the time due to the following reasons:

- The forecasted orders from Shenzhen Fingerchip which amounted to approximately RMB21.3 million was a relatively large purchase order;

- Our working capital being tied up would be approximately RMB6.4 million, compared with the forecasted sales orders of approximately RMB21.3 million after taking into account the Advance Payment from Shenzhen Fingerchip. Our Directors were of the view that the amount of working capital being tied up was reasonable as compared with the potential sales orders from a new customer. However, for FY2018, the actual sales to Shenzhen Fingerchip was approximately RMB1.1 million and the actual corresponding purchase cost from Guangdong Fingerchip in respect of the fingerprint sensors used was approximately RMB0.6 million only. The gross profit and gross profit margin of the transactions were approximately RMB0.2 million and 20.2%, respectively;

- The Prepayment was made upon a mutual understanding that in the event that if the amount of actual purchase orders we placed to Guangdong Fingerchip was less than the amount of the Prepayment of approximately RMB12.8 million, the unutilised part of the Prepayment would be refunded to us. Such refund arrangement was honoured by Guangdong Fingerchip in March 2019;

- Guangdong Fingerchip was one of our top five customers and was considered a sizable company with registered capital of RMB50 million in the PRC. Our relationship with Guangdong Fingerchip started off due to the acquaintance of Mr. Li, our executive Director, with a director of Guangdong Fingerchip for over 10 years and we started business relationship with Guangdong Fingerchip since its incorporation in 2016; and

- Shenzhen Fingerchip was considered one of our potential customers with whom we intended to cultivate our relationship given its registered capital of approximately RMB33.5 million and its scale of operation when it had various subsidiaries engaging in the technology related industries in the PRC. The aggregate registered capital of these subsidiaries of Shenzhen Fingerchip amounted to approximately RMB64 million.

Shortfall between the forecasted purchase orders and the actual purchase orders

Subsequently, Shenzhen Fingerchip only placed purchase orders with us with an aggregate amount of approximately RMB1.1 million in FY2018, which was far less than the forecasted amount of approximately RMB21.3 million. The PCBAs supplied to Shenzhen Fingerchip under the transaction were manufactured according to the design and specifications provided by Shenzhen Fingerchip. To the best knowledge of our Directors, they are mainly intended for use in a project between Shenzhen Fingerchip and its customer (a listed company on NASDAQ engaging in IoT industries). As the said customer of Shenzhen Fingerchip eventually reduced the size of its order placed with Shenzhen Fingerchip, Shenzhen Fingerchip in turn reduced the size of the purchase order to be placed with us, which led to the shortfall between the actual and forecasted orders by Shenzhen Fingerchip. Our Directors, confirmed that we had not received any complaint from Shenzhen Fingerchip regarding the quality of the PCBAs manufactured by us as of the Latest Practicable Date.

When deciding whether or not to accept the arrangements, our Directors were at that time of the view that it was probable to materialize the forecasted orders as (i) the forecasted orders were partially secured by the down payment of approximately 30%; (ii) our purchases orders placed to Guangdong Fingerchip were based on the purchase lists provided by Shenzhen Fingerchip from time to time before the orders were placed so as to ensure the purchases could meet the requirements of Shenzhen Fingerchip; (iii) Shenzhen Fingerchip was considered a sizable company with registered capital of approximately RMB33.5 million; and (iv) Shenzhen Fingerchip's customer, which cooperated with Shenzhen Fingerchip and originally intended to use our PCBAs in the said project, is a listed company on NASDAQ engaging in IoT industries.

Settlement

Since Shenzhen Fingerchip placed less purchase orders for our PCBAs as it had originally expected, we did not place sufficient corresponding orders to Guangdong Fingerchip that would utilise the entire Prepayment amount for purchase of the fingerprint sensors. After deducting the then accounts payable by our Group for our purchase of fingerprint sensor, ICs and fingerprint modules from Guangdong Fingerchip, including the fingerprint sensors used to produce PCBAs for Shenzhen Fingerchip since the Prepayment was made, which amounted to approximately RMB1.1

million (corresponding to the sales order placed by Shenzhen Fingerchip amounting to approximately RMB2.0 million), a refund of the remaining balance of the Prepayment in the sum of approximately RMB10.5 million was made by Guangdong Fingerchip to us by mid March 2019 while we made a corresponding refund of RMB6.4 million to Shenzhen Fingerchip by mid March 2019 having considered that the partial back-to-back arrangement was intended to be terminated afterward.

The partial back-to-back arrangement was terminated in March 2019 after the Prepayment and Advanced Payment were refunded. In spite of the above, Shenzhen Fingerchip continues to place purchase order to our Group after the partial back-to-back arrangement was terminated. Our Directors confirm that the partial back-to-back arrangement will be ceased after Listing.

Independence

Our Directors confirm that each of Shenzhen Fingerchip and Guangdong Fingerchip does not have other past or present relationship with our Company and our subsidiaries, Directors, Shareholders, senior management or any of their respective associates, save for our business relationship between Shenzhen Fingerchip and Guangdong Fingerchip as disclosed in this prospectus. Shenzhen Fingerchip and Guangdong Fingerchip are Independent Third Parties.

Furthermore, apart from this partial back-to-back arrangement we entered into with Shenzhen Fingerchips and Guangdong Fingerchip respectively, we had not entered into similar tripartite back-to-back arrangement with any customer or supplier during the Track Record Period.

The following tables set out certain information regarding entities who were both our customers and our suppliers during the Track Record Period:

FY2016

	Major products sold	Revenue *RMB'000 (approximately)*	Percentage of total revenue *%*	Gross Profit *RMB'000 (approximately)*	Gross profit margin *%*	Major products/ services provided to our Group	Cost of purchases *RMB'000 (approximately)*	Subcontracting fees *RMB'000 (approximately)*
Sunway Group *(Note 1)*	PCBAs for industrial-use devices	22,669	13.0	6,092	26.9	Headphone socket	14	— *(Remark 3)*
Espressif Group *(Note 2)*	PCBAs for IoT products	239	0.2	61	25.6	ICs	286	— *(Remark 3)*
Supplier B *(Note 3)*	PCBAs for automotive related devices, auxiliary and other materials	117	— *(Remark 1)*	24	20.6	SMT mounting	— *(Remark 2)*	3,665
Supplier H *(Note 4)*	Auxiliary and other materials	32	— *(Remark 1)*	5	15.3	SMT mounting	— *(Remark 2)*	127
Supplier I *(Note 5)*	Auxiliary and other materials	8	— *(Remark 1)*	2	23.3	SMT mounting	— *(Remark 2)*	766
Total		**23,065**	**13.2**	**6,184**	**26.8**		**300**	**4,558**

FY2017

	Major products sold	Revenue *RMB'000 (approximately)*	Percentage of total revenue *%*	Gross Profit *RMB'000 (approximately)*	Gross profit margin *%*	Major products/ services provided to our Group	Cost of purchases *RMB'000 (approximately)*	Subcontracting fees *RMB'000 (approximately)*
Espressif Group *(Note 2)*	PCBAs for IoT products	15,614	7.5	4,438	28.4	ICs	247	— *(Remark 3)*
Rigado *(Note 6)*	PCBAs for IoT products	2,548	1.2	745	29.2	ICs	137	— *(Remark 3)*
Supplier B *(Note 3)*	PCBAs for automotive related devices, auxiliary and other materials	31	— *(Remark 1)*	6	18.3	SMT mounting	— *(Remark 2)*	381
Supplier I *(Note 5)*	Auxiliary and other materials	1	— *(Remark 1)*	— *(Remark 4)*	32.7	SMT mounting	— *(Remark 2)*	30
Total		**18,194**	**8.7**	**5,189**	**28.5**		**384**	**411**

FY2018

	Major products sold	Revenue *RMB'000 (approximately)*	Percentage of total revenue *%*	Gross Profit *RMB'000 (approximately)*	Gross profit margin *%*	Major products/ services provided to our Group	Cost of purchases *RMB'000 (approximately)*	Subcontracting fees *RMB'000 (approximately)*
Espressif Group *(Note 2)*	PCBAs for IoT products	39,895	16.9	13,287	33.3	ICs	2	— *(Remark 3)*
Guangdong Fingerchip *(Note 7)*	PCBAs for IoT products	6,658	2.8	2,609	39.2	Fingerprint sensors, ICs and fingerprint modules	2,082	— *(Remark 3)*
Yinrun *(Note 8)*	PCBAs for IoT products	4,349	1.8	906	20.8	ICs, PCBs and crystal oscillators	3,664	— *(Remark 3)*
Shenzhen Fingerchip *(Note 9)*	PCBAs for IoT products	1,087	0.5	220	20.2	ICs	396	— *(Remark 3)*
Customer B *(Note 10)*	PCBAs for IoT products	639	0.3	172	27.0	ICs	1,676	— *(Remark 3)*
Supplier B *(Note 3)*	PCBAs for automotive related devices, auxiliary and other materials	155	— *(Remark 1)*	28	18.3	SMT mounting	— *(Remark 2)*	1,730
Total		**52,783**	**22.3**	**17,222**	**32.6**		**7,820**	**1,730**

For the four months ended 30 April 2019

	Major products sold	Revenue *RMB'000 (approximately)*	Percentage of total revenue *%*	Gross Profit *RMB'000 (approximately)*	Gross profit margin *%*	Major products/ services provided to our Group	Cost of purchases *RMB'000 (approximately)*	Subcontracting fees *RMB'000 (approximately)*
Espressif Group *(Note 2)*	PCBAs for IoT products	17,488	20.5	6,326	36.2	ICs	12	— *(Remark 3)*
Guangdong Fingerchip *(Note 7)*	PCBAs for IoT products	3,858	4.5	1,351	35.0	Fingerprint sensors, ICs and fingerprint modules	627	— *(Remark 3)*
Shenzhen Fingerchip *(Note 9)*	PCBAs for IoT products	628	0.7	128	20.3	ICs	3	— *(Remark 3)*
Supplier B *(Note 3)*	PCBAs for automotive related devices, auxiliary and other materials	4	— *(Remark 1)*	— *(Remark 4)*	17.8	SMT Mounting	— *(Remark 2)*	293
Total		**21,978**	**25.7**	**7,805**	**35.5**		**642**	**293**

Remarks:

1. It represents a figure less than 0.1%.
2. These suppliers are our subcontractors from whom we have not purchased any products.
3. These customers are not involved in subcontracting engagements.
4. It represents an amount less than RMB1,000.

Notes:

1. Sunway Group includes a group of two companies, namely Shenzhen Alex Connector Co., Ltd.* (深圳亞力盛連接器有限公司) and Shenzhen Sunway Telecommunication Co., Ltd.* (深圳市信維通信股份有限公司), which are limited liability company and joint stock company with limited liability established in the PRC in 1997 and 2006, respectively. The group is listed on the Shenzhen Stock Exchange. Their respective registered capital was approximately RMB10 million and RMB976 million, respectively. Sunway Group had a combined revenue of approximately RMB1,954.4 million and net profit of approximately RMB368.6 million for the six months ended 30 June 2019. Its combined total asset value was approximately RMB7,680.9 million and combined net asset value which was attributable to the shareholders of the listed company was approximately RMB4,041.9 million as at 30 June 2019. They are Independent Third Parties.

2. Espressif Group includes a group of two companies, namely Espressif Systems (Shanghai) Co., Ltd.* (樂鑫信息科技(上海)股份有限公司) and Espressif Star Systems (Shanghai) Co., Ltd.* (樂鑫星信息科技(上海)有限公司), which are joint stock company with limited liability and a limited liability company established in the PRC in 2008 and 2016, respectively. Their registered capital was RMB60 million and RMB10 million. Espressif Group is a listed company on the SSE STAR market of the Shanghai Stock Exchange. It had a combined revenue of approximately RMB474.9 million and combined net profit of approximately RMB93.9 million in FY2018. Its combined total asset value was approximately RMB377.5 million and combined net asset value was approximately RMB311.2 million in FY2018. They are Independent Third Parties.

3. Supplier B is a limited liability company established in the PRC in 2011. It engages in research and development and sales of SMT PCBAs, communication products, automotive products and electronic products, etc. Its registered capital was RMB10 million and it is an Independent Third Party.

4. Supplier H is a limited liability company established in the PRC in 2004. It engages in production of IC cards, computers and other peripheral equipment, etc. Its registered capital was HK$4 million. It is an Independent Third Party.

5. Supplier I is a limited liability company established in the PRC in 2009. It engages in technological development, production and sale of electronic components, telecommunication products and digital products, electrical appliances, SMT mounting, etc. Its registered capital was RMB80 million. It is an Independent Third Party.

6. Rigado INC. ("**Rigado**") is an U.S. corporation registered as a limited liability company in 2010 and converted into a corporation in 2016. It is an Independent Third Party.

7. Guangdong Fingerchip Electronics Technology Co Ltd.* (廣東紫文星電子科技有限公司) ("**Guangdong Fingerchip**") is a limited liability company established in the PRC in 2016. Its registered capital was RMB50 million and it is an Independent Third Party.

8. Shenzhen Yinrun Technology Co., Ltd.* (深圳市音潤科技有限公司) ("**Yinrun**") is a limited liability company established in the PRC in 2016. It engages in development and sales of software and hardware for intelligent electronic products, etc. Its registered capital was RMB5 million. It is an Independent Third Party.

9. Shenzhen Fingerchip Intelligent Technology Co., Ltd.* (深圳指芯智能科技有限公司) ("**Shenzhen Fingerchip**") is a limited liability company established in the PRC in 2014. Its registered capital was RMB33.5 million. It engages in biometric technology software and hardware development, sales, services and development of computer software and hardware, technology development and sales of circuits, semiconductors, and communication products, etc. It is an Independent Third Party.

10. Customer B is a limited liability company established in the PRC in 2016. Its registered capital was RMB50 million. It engages in robotics and automation equipment, acoustic products and IoT software and hardware, electronic product technology development, technology transfer, etc. It is an Independent Third Party.

Depending on (1) the scope of EMS we provided to our customers such as whether raw materials selection and procurement services are required; (2) the specifications of PCBAs required by our customers; and (3) the order size, the pricing of each batch of PCBAs is negotiated and determined on a case by case basis. For details, please refer to paragraphs headed "Pricing policy" in this section. As a result, the gross profit margins for these overlapping customers and suppliers could be higher or lower than our overall gross profit margin. In view of (1) the circumstances leading to the existence of overlapping customers and suppliers as described above; and (2) our endeavours to adopt our pricing policy when determining the price for these overlapping customers and suppliers, our Directors are of the view that there are no unusual benefits to our Group or the overlapping customers and suppliers other than the profit and loss derived from the arm's length transaction with the overlapping customers and suppliers as disclosed above.

INVENTORY MANAGEMENT

Our inventory comprises of raw materials. Our procurement and inventory team and our planning team will closely monitor the inventory level in the view of meeting the production requirements, and minimising any waste on inventory or obsolete inventory.

Raw materials

We generally purchase raw materials after we have confirmed the purchase orders with our customers and checked our inventory against the orders to avoid accumulation of excessive inventory. Hence, we maintain an adequate level of inventory for the raw materials based generally on the purchase orders. On the other hand, we try to accumulate buffer raw materials to cater our stable orders in our production, including capacitors, PCBs and ICs, in order to meet our continuous production needs.

To facilitate the monitoring of our inventory, we use a standard enterprise resource planning (ERP) system, which provides tools for us to, among other things, keep efficient and effective records of purchase orders placed with our suppliers, and to aid us in maintaining regular inventory levels, as well as commanding a centralised price information system with information of account receivables and account payables to our customers and suppliers. Our Directors believe that implementation of this ERP system has helped us control our inventory more effectively. With the assistance of the ERP system:

- once the amounts are confirmed, our procurement and inventory team will check the availability of the existing inventory and will then proceed to order the raw materials from suppliers chosen from our approved list of suppliers;

- after our quality control team has inspected the incoming raw materials, such raw materials will be warehoused and we will perform material categorisation and inventory tracking. Such information is recorded in our ERP system; and

- a stocktake is performed on a regular basis to ensure the accuracy of stock-in and stock-out information on record. Throughout the year, our Group reviews the stocktaking records and performs inventory aging analysis to ensure that (i) inventories are properly used; (ii) there is no unnecessary accumulation of aged inventories; and (iii) we will not have excessive purchase of raw materials.

Our manufacturing execution system (MES) records the date of purchase and warehouse of the raw materials while the SWS Smart Shelf* (SWS智能貨架) identifies the location of the raw materials after searching in the MES system. With this built in first-in-first-out function, we can ensure oldest stock is chosen and thus consumed first.

Our Group's inventory level as at 31 December 2016, 2017, 2018 and 30 April 2019 amounted to approximately RMB2.4 million, RMB6.9 million, RMB30.6 million and RMB28.0 million, respectively. For further details, please refer to the paragraph headed "Financial Information — Analysis on major components of the consolidated balance sheets — Inventories" in this prospectus.

QUALITY CONTROL

Our Group has adopted a series of quality control measures on the selection and testing of raw materials, conducting quality checks on work-in-progress and finished PCBAs throughout the assembling and production process to ensure the quality of our PCBAs as well as their adherence to customers' specifications. As at 30 April 2019, our Group had 66 quality control staff members, which include three team leaders, four engineers and technicians, 59 inspectors and other staff members. Our team leaders, engineers and technicians had an average of over three years of work experience in our Group as at 30 April 2019. They are responsible for the overall implementation of the relevant quality control measures at the different stages of production process and the finished PCBAs and identifying any quality control issues and the production and engineering teams will address such issues. Our quality control supervisor is involved in (i) reviewing the implementation of our quality control measures; (ii) meeting with our production team to discuss any enhancement measures in quality control processing; (iii) providing training in quality control and assessing their competence and skills of the quality control staff; and (iv) reporting and analysing findings of any causes of substandard works.

Quality control on the incoming raw materials

All incoming raw materials (including the raw materials supplied by our customers directly, the raw materials purchased from the designated suppliers of our customers and the raw materials purchased from our selected suppliers) are subject to inspection by our quality control team on the AQL. Our quality control team also inspects the incoming raw materials to ensure their conformity with the agreed specifications set out in the relevant schematic design and prepare a report on the results of the inspection and such report will be reviewed by the head of our quality control team. Subsequently, upon discovery of any sub-standard or defective raw materials, we will follow up with the relevant suppliers for defect analysis and arrange for the return or replacement. Our Directors believe that these measures can help minimise the risks of producing defective PCBAs.

Depending on the nature of the raw materials, our Group's internal guidelines require different testing and inspection process to cover aspects including appearance, size, structure, electrical testing and actual compatibility. The raw materials and components which pass the incoming quality check are delivered and stored in our warehouse.

Quality control on the work-in-progress

The quality control personnel test the quality of the work-in-progress at various stages of the PCB assembling process on a real time basis to ensure the work-in-progress can meet the required standards and customers' specifications. Apart from visual checking, we also use advanced quality control machinery and equipment including SPI, x-ray inspection, and AOI machines. Insofar as the assembling services are subcontracted to the third-party subcontractors, our staff will station at the production plant of our subcontractors to supervise the entire assembling process of our PCBAs, to conduct testing to ensure that the assembling process is carried out according to our instructions and the final electronic products can meet our customers' requirements and specifications.

If the work-in-progress are found to be defective, they will be passed to our production team for repair and will then be returned to the quality control team for a re-testing.

One of our major objectives is to ensure that the overall quality of the work-in-progress conforms to the required standards, by means of testing on all of the work-in progress, immediate defect analysis and timely repair. The defective work-in-progress are either repaired or disposed of and are subject to failure analysis, to identify the root cause of the failure and to determine what corrective actions need to be taken.

Quality control on overall quality of the finished PCBAs

It serves as our final control point to ensure that our PCBAs comply with the customers' requirements and the industry standards. As at the Latest Practicable Date, we had four automated testing lines that are equipped with robotic testing machines and two automated testing and packaging lines that are equipped with robotic inspection and packaging machines and other equipment and devices. The robotic testing machines and robotic inspection and packing machines had a workcell that automated the handling and inspection routines of our duly assembled PCBAs. The robot in the workcell performs functional test and automated vision inspection checking for defects, if any, created on our PCBAs during the assembly process. As we only have two automated testing and packaging lines, our workers still have to carry out visual inspection and packaging of some of our PCBAs. In respect of the inspection and testing of the PCBAs, the quality control personnel conduct random inspection on the physical appearance, level of adherence to our customers' specifications and functional testing on the quality of the PCBAs. The PCBAs must pass the final quality test on their functionality which put the PCBAs through its paces, simulating the normal circumstances in which the PCBAs will operate before packaging. The PCBAs that fail to meet quality standards will be subject to additional work and those which meet the requisite standard will be subject to final inspection by the customers, if required. Some of our customers also send their representatives to conduct on-site quality checks on the PCBAs. After the final inspection, the PCBAs will be packaged and delivered to the warehouse within our Shenzhen Production Plant to arrange for delivery to our customers or for collection by our customers.

The same quality control standards are applied to the PCBAs produced by Independent Third Party subcontractors.

Industrial electronics quality

In the provision of accurate assembling services to our customers on EMS basis, we have to comply with the manufacturing processes of our customers, including the guidelines for materials-handling and disposal.

This involves the measures to track defects throughout the production process by identifying flaws, reasons for failures, and errors that may also be found in other products of the same batch in order to ensure product quality and overall yield. By doing so, we can ensure accurate assemblies of electronic components and keep pace with the short product development cycles for electronic products.

Some of our customers, such as OPPO Group, ZTE and Espressif Group who are renowned brand owners in the PRC, would inspect our Shenzhen Production Plant on a regular basis. Our Shenzhen Production Plant has to pass their approval procedures in order to be qualified as their approved EMS providers. Having passed their stringent review procedures and become their EMS provider, we can enjoy the recognition as to our ability to provide quality EMS solutions to our customers, which can in turn enhance both our reputation and our market share in the EMS industry in the PRC.

Quality certifications and recognition

In recognition of our efforts in maintaining international standards of quality control and management, we have obtained the ISO 9001 certification on quality management in 2011 and ISO 14001 certification on environmental management system in 2012. Furthermore, we also obtained the IATF 16949 certification on quality management system in respect of the processing of automotive PCBA since 2017 and ANSI/ESD S20.20-2014 certification on electrostatic discharge control program since 2018.

RESEARCH AND PRODUCT DEVELOPMENT

As at 30 April 2019, we had 68 staff members in our research and development team, of whom (i) 13 possessed a master or bachelor degree in engineering, information technologies and other relevant disciplines; and (ii) 25 possessed a post-secondary-school qualification in the field of engineering, technologies studies, electronic information and other related disciplines in the PRC. For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our expenses related to research and development amounted to approximately RMB9.1 million, RMB10.2 million, RMB9.2 million and RMB4.0 million, respectively, which was mainly composed of the remunerations paid to these staff, depreciation expenses, rental of machinery for such purpose, repair expenditure, materials used by the research and development team.

Leveraging our experience and knowledge derived from provision of EMS, our research and development team focuses on the research and development of the manufacturing techniques for improving the efficiency and effectiveness of the PCB assembling process, particularly in light of the everchanging technologies in electronic products for telecommunication and IoT devices, cost saving in production process, quality control enhancement and design and/or verification of the design of PCBAs.

Alongside our provision of assembling services to our customers on EMS basis, our research and development team also participates in the development stage of our customers' products, which in the opinion of our Directors, would help strengthen our relationship with the customers and ensure that the quality of our PCBAs meet customers' specifications. Our research and development team also has the capability to design or verify customers' designs of the PCBAs and turn such design into functional PCBAs. Based on the product requirements, desired functions, size and conceptual designs or ideas provided by individual customers, upon individual customers' requests, our research and development team will draw up the schematic design of the PCBAs that can be incorporated in their electronic products, design the interfaces of the main chips and other electronic components and the layout of the PCBAs with a view to translating these requirements and conceptual designs or ideas into functional PCBAs. It will work together with our production team to manufacture the prototype or sample of the PCBAs for our customers' assessment and approval and test the functionalities of the PCBAs.

We also offer trial production and verification services to the new products of both our existing customers and potential customers. By offering trial production and verification testing of the product prototypes of our PCBAs, their designs, functions, quality, raw materials used and product compatibility with the software resided in the products of our customers can be verified. We will provide our customers with a detailed trial production report with the facts found and recommendations with an objective to improve the production process and product quality etc., which will provide incentive for our customers to place order with us instead of our competitors for such new products in the future. Furthermore, we can accumulate relevant knowledge and experience in producing these new PCBAs during the trial production and verification stage. As such, our trial production and verification services reduce our customers' supplier switching costs and enable us to secure their purchase orders in a long run.

As at the Latest Practicable Date, we have registered various trademark, patents, computer software copyrights and domain names. For details, please refer to the paragraph headed "C. Intellectual property rights of our Group" of Appendix IV to this prospectus.

As a result of our research and development capabilities, initiatives and achievements, our Group has been awarded the status of "High and New Technology Enterprise* (高新技術企業)" by the relevant PRC governmental authorities in October 2011. The status was renewed and extended in November 2016 and our Group has since been enjoying a preferential EIT of 15% during FY2016 to FY2018.

SEASONALITY AND PRODUCT LIFE CYCLE

As our PCBAs are generally applied to the production of the electronic products used in various downstream industries, our Directors consider that the product cycle of our PCBAs would be affected by the pace of technological development and the launching of new electronic products in these industries. With the increase in demand for electronic products, an increasing number of new electronic products springs up, old products are therefore expected to be replaced in the short term, which further increases the demand for PCBAs.

Based on our past experience, there is no seasonality for our PCBAs as sales of the end products including telecommunication devices, industrial-use devices, and IoT products are conducted year-round.

SALES AND MARKETING

As at 30 April 2019, our sales and marketing team comprised of four staff members who are responsible for the sales and marketing activities of our Group and formulating our Group's overall sales strategies, collecting and analysing market data, communicating with our customers from time to time to collect their feedback on our PCBAs and updated market information. Our sales and marketing team, is also responsible for negotiating and finalising sales terms with our customers and handling the return of defective products in a timely manner.

The sales process for our PCBAs is closely linked to our contributions to our customers' product development when our customers approach us to provide different kinds of EMS solutions for the PCBAs to be incorporated in their new electronic products. After our research and development team and our production team have initially assessed the manufacturability of the PCBAs, our customers may place purchase orders on us. Hence, we maintain close working relationship with our customers and obtain purchase orders for our PCBAs through our contribution to their product development and our delivery of various kinds of EMS to them.

After we have secured purchase orders from our customers, our sales and marketing team will continue to maintain close contact with our existing customers so as to keep abreast of any change in their product portfolio. This can ensure that we can capture the business opportunities in relation to these new products on time as the trend of electronic products is generally changing from time to time.

Furthermore, we will continue to attend large-scale trade fairs and exhibitions related to the EMS industry. For example, we attended the CES in January 2018.

We are members of various commercial associations related to the EMS industry so as to increase our market exposure and strengthen our access to the global EMS communities. This would also enable us to keep abreast of the electronic product market demand and to enhance our understanding towards the latest developments in SMT assembling process as well as the latest technological requirements of our customers' products.

As an established EMS provider in the PRC with a reputation of providing full-fledged EMS in assembling and production of PCBAs to our customers, we are able to source new customers through word-of-mouth or referrals from our existing customers and many of whom made recommendations on us based on their positive experience with our quality PCBAs and the competitive pricing of our PCBAs. We believe that customers' referrals and word-of-mouth is the most efficient way to expand our customer base and to gain trusts from new customers.

MARKET AND COMPETITION

According to the CIC Report, the development trends of the EMS industry in the PRC include (i) popularity of automated production as PCBA manufacturers tend to upgrade their operations towards the trend of automation due to the rapid increase of labour cost; (ii) higher levels of investment in research and development in order to swiftly respond to brand owners' demands for new product development; (iii) enhanced cooperation with brand owner in respect of new product development; and (iv) diversification of EMS downstream market, particularly, the emerging markets such as IoT, AI-powered smartphones, and automobile electronic products. The market size of EMS industry in the PRC increased from RMB1,085.6 billion in 2014 to RMB1,457.6 billion in 2018, representing a CAGR of 7.6% from 2014 to 2018.

Based on the CIC Report, the market size of PCBA industry, being a segment of the EMS industry in the PRC, increased from RMB282.3 billion in 2014 to RMB338.2 billion in 2018, representing a CAGR of 4.6%. In terms of revenue, our Group had a market share of approximately 0.07% of the PCBA industry in 2018. The major growth drivers of the PCBA industry in the PRC include (i) the PRC's growing electronic information industry; (ii) the relatively lower labour cost in the PRC as compared to that in the United States, Japan and Taiwan which can provide similar levels of manufacturing technology; (iii) development of 5G networks; and (iv) supporting policies and regulation put forward by the PRC government. The entry barriers of the PRC's PCBA industry include (i) large initial capital investment, particularly in upfront fixed assets such as advanced equipment; (ii) passing the strict certifications requirements of brand owners in terms of production process, quality control management, working environment etc.; (iii) the PCBA manufacturer's capability to provide its customers with EMS solutions through the PCBA supply chain; and (iv) technology capabilities of the PCBA manufacturers.

EMPLOYEES

As at 30 April 2019, our Group had 890 employees. The following table sets forth the number of our Group's employees by job functions as at the date specified:

	31 December 2016	31 December 2017	31 December 2018	30 April 2019
Managerial, administrative and accounts	47	50	47	45
Production	501	480	483	604
Quality control	47	59	63	66
Planning	30	25	30	32
Procurement and inventory	3	3	5	6
Research and development	16	65	65	68
Sales and marketing	2	3	4	4
Engineering	55	56	57	65
Total number of employees	701	741	754	890

Remuneration

Our Group's employees are generally remunerated by way of fixed salary. Our Group adopts an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary reviews, making promotion decisions and determining the amount of bonuses. Our Group's employees are also entitled to a performance-based bonus, paid leave and various subsidies.

Relationship with employees and recruitment policies

Our Directors believe that our management policies, working environment, employee development opportunities and employee benefits have together contributed to good employer-employee relations and successful employee retention. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had not encountered any difficulty in the recruitment and retention of staff for our operation or experienced any disruption in our operation as a result of labour disputes with our employees in all material respects.

We recruit employees based on a number of factors such as their working experience, educational background and vacancy needs.

Employee Training

In order to strengthen the overall competitiveness of our workforce and to attract and retain existing employees and strengthen their knowledge, skill level and quality, we place strong emphasis on training employees. We provide trainings across different operational functions, including induction training for new employees, functional training to provide our employees with the necessary skills and knowledge of their respective work areas and other on-the-job trainings to reinforce functional training and to enhance the employees' knowledge on the safety measures when performing their duties.

Social Welfare Scheme and Housing Provident Funds

According to the Social Insurance Law of the PRC* (中華人民共和國社會保險法), our major operating PRC subsidiary, namely, Shenzhen Confidence, is required to make social insurance fund contributions for its employees in the PRC, which shall cover basic pension insurance, basic medical insurance, maternity, worker related injury insurance and unemployment insurance. Shenzhen Confidence is also required under the Administrative Regulations on the Housing Provident Fund of the PRC* (住房公積金管理條例) to deposit housing provident funds to its employees in the PRC. For further details, please refer to the paragraph headed "Regulatory Overview — Laws and regulations in relation to our Group's business in the PRC — Labour protection" in this prospectus.

During the Track Record Period, Shenzhen Confidence failed to make adequate social insurance and housing provident fund contributions for all employees. As at the Latest Practicable Date, Shenzhen Confidence has been paying contributions to the social insurance scheme and housing provident fund for all of their employees since January 2019. To prevent the recurrence of such non-compliance, we have implemented a series of internal control measures. For details, please refer to the paragraph headed "Legal and compliance" in this section.

Dispatched workers

During the Track Record Period, Shenzhen Confidence utilised and engaged dispatched workers. Given the relatively high turnover rate of labour in the manufacturing industry, we believe the engagement of dispatched workers for temporary, auxiliary and substituting positions can enhance efficiency and flexibility to cope with the rapid business expansion in recent years.

Pursuant to the Interim Provisions on Labour Dispatch* (《勞務派遣暫行規定》) which came into effect on 1 March 2014, if the number of dispatched workers utilised by an employer exceeds 10% of the total number of its workers prior to the effective date of these Provisions, such employer shall develop a scheme for employment adjustments to reduce the proportion to the specified level within two years from the effective date of these Provisions. During the Track Record Period, Shenzhen Confidence had engaged dispatched workers, the number of which exceeded the regulatory threshold of 10% of its total number of workers. As at the Latest Practicable Date, Shenzhen Confidence has implemented internal control measures to ensure compliance with the Interim Provisions on Labour Dispatch* (《勞務派遣暫行規定》). For details, please refer to the paragraph headed "Legal and compliance" in this section.

ENVIRONMENTAL PROTECTION

Manufacturing enterprises, like our Group, in the PRC are subject to PRC environmental protection laws and regulations, which include the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and other PRC environmental protection laws and regulations. For further details, please refer to the paragraph headed "Regulatory Overview — Laws and regulations in relation to our Group's business in the PRC — Environmental protection" in this prospectus.

Shenzhen Confidence completed the environmental impact assessment procedures with the Environmental Protection Bureau of Bao'an District of Shenzhen* (深圳市寶安區環境保護局) in relation to our production premises located in No. 7 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen in February 2011.

During the Track Record Period, Shenzhen Confidence failed to complete the necessary environmental approval in relation to our production premises located in No. 18 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen. As at the Latest Practicable Date, our Group has obtained the environmental permit statement and has passed the environmental impact assessment by the Environmental Protection and Water Affairs Bureau of Bao'an District of Shenzhen* (深圳市寶安區環境保護和水務局) for our production premises located in No. 18 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen. For details, please refer to the paragraph headed "Legal and compliance" in this section.

For FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the costs incurred by our Group for compliance with the relevant environmental protection laws and regulations were approximately RMB58,000, RMB35,000, RMB0.3 million and RMB0.1 million, respectively. Based on the past experience of our Group's management team, the nature of the industry and future developments of the industry, our Directors believe that our Group's current environmental conservation facilities are adequate to satisfy the relevant laws and regulations and do not expect any major or significant expenditure to be incurred in the future.

According to our PRC Legal Advisers, Shenzhen Confidence had not received any administrative punishment by the environmental protection department for violation of any PRC environmental law and regulation during the Track Record Period. Save for the failure to complete the environmental approval as disclosed above, our Directors confirmed that our Group has not been subject to any material environmental claims, lawsuits, penalties or administrative sanctions, and the operations of our Group have been in compliance with the relevant environmental laws and regulations in all material respects in the PRC during the Track Record Period and up to the Latest Practicable Date.

RECOGNITIONS AND CERTIFICATIONS

As at 30 April 2019, our Group had the following major recognitions and certifications:

Year	Recognition or certification	Issuing authority/institution
2019	ISO 9001:2015 for manufacture, assembly and sales of PCBA and vehicular wireless terminal	TÜV SÜD Management Service GmbH
2018	ISO 9001:2015 quality management for manufacture, assembly and sales of PCBA	TÜV SÜD Management Service GmbH
2018	ANSI/ESD S20.20-2014 for manufacture of PCBA	TÜV SÜD America Inc.
2018	ISO 14001:2015 for the assembly of PCB	Intertek Certification Limited
2017	IATF 16949 for manufacture of PCBA for automobile	TÜV SÜD Management Service GmbH
2017	2016 Outstanding Supplier (2016年度優秀供應商)	Sunway Group

Year	Recognition or certification	Issuing authority/institution
2017	2016 Top 100 Enterprises of Taxation in Fuyong* (福永納稅百強企業)	Fuyong Sub-district Office of Bao'an District of Shenzhen City* (深圳市寶安區福永街道辦事處), Fuyong Branch of State Taxation Bureau of Bao'an District of Shenzhen City* (深圳市寶安區國家稅務局福永分局), Shenzhen Bao'an District Fuyong Industry and Commerce Federation (Commerce Chamber)* (深圳市寶安區福永工商業聯合會(商會)) and Fuyong Branch of Local Taxation Bureau of Bao'an District of Shenzhen City* (深圳市寶安區地方稅務局福永所)
2016–2019	2015 Outstanding Supplier (15年度優秀供應商) 2016 Outstanding Supplier (16年度優秀供應商) 2017 Outstanding Supplier (17年度優秀供應商) 2018 Outstanding Supplier (18年度優秀供應商)	OPPO Group
2016	Gold Supplier* (金牌供應商)	Allwins
2016	High and New Technology Enterprise* (高新技術企業)	Science, Technology and Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Finance Commission of Shenzhen Municipality* (深圳市財政委員會), SAT Shenzhen Municipal Office* (深圳市國家稅務局), and Shenzhen Local Taxation Bureau* (深圳市地方稅務局)
2016	2015 Best Supplier (2015年度優秀供應商)	Innovation Sound
2015	2014 Best Delivery of OEM Products External Assistance* (2014年OEM產品外協最佳交付獎)	ZTE

Year	Recognition or certification	Issuing authority/institution
2012	Champion on the Overall Ranking of the External Assistance of Mobile Telecommunication and Phones* (2012年通訊手機外協綜合排名第一名)	ZTE
2012	ISO 14001:2004 for the assembly of PCB	Intertek Certification Limited
2011	High and New Technology Enterprise* (高新技術企業)	Science, Technology and Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Finance Commission of Shenzhen Municipality* (深圳市財政委員會), SAT Shenzhen Municipal Office* (深圳市國家稅務局), and Shenzhen Local Taxation Bureau* (深圳市地方稅務局)
2011	ISO 9001:2008 for processing of PCBAs	Intertek Certification Limited

OCCUPATIONAL HEALTH AND SAFETY

Our Group has implemented measures in our Shenzhen Production Plant to promote occupational health and safety and to ensure compliance with applicable laws and regulations. We organise seminars to our employees to raise awareness of occupational health and safety among our employees. We had established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, warehouse safety and emergency and evacuation procedures.

During the Track Record Period, our Group did not experience any accidents or claims for personal or property damage that, individually or in aggregate, had a material effect on our Group's financial condition and results of operations.

As confirmed by our PRC Legal Advisers, our Group had complied with the applicable national and local safety laws and regulations in all material respects during the Track Record Period, and the relevant PRC authorities had not imposed any material sanctions or penalty on us for incidents of non-compliance of any safety laws or regulations in the PRC.

PROPERTIES

Owned property

During the Track Record Period and up to the Latest Practicable Date, our Group did not own any property.

Leased properties in the PRC

As at the Latest Practicable Date, our Group leased five properties in the PRC (the "**Leased Properties**"), details of which are set out as follows:

Lease	Location	Landlord	GFA *(sq.m.)*	Our Group's use of the property	Monthly rental *(RMB'000)* *(approximately)*	Term
1	(i) 3rd and 4th Floor, No. 18 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen (深圳市白石廈新開發區第18棟第三、四層)	Shenzhen Baishixia Shares Cooperation Company* (深圳市白石廈股份合作公司)	2,350	Shenzhen Production Plant	From 21 October 2017 to 20 October 2020: 65.8 From 21 October 2020 to 20 October 2022: 72.4	From 21 October 2017 to 20 October 2022 (with priority right to renewal)
	(ii) Room 201–207 and 3rd Floor, No. 17 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen (深圳市白石廈新開發區第17棟201–207及第三層)		784	Staff quarters		
2	(i) No. 7 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen (深圳市白石廈新開發區第7棟)	Shenzhen Baishixia Shares Cooperation Company* (深圳市白石廈股份合作公司)	7,025	Shenzhen Production Plant	From 1 December 2016 to 30 November 2019: 201.9 From 1 December 2019 to 30 November 2021: 222.0	From 1 December 2016 to 30 November 2021 (with priority right to renewal)
	(ii) No. 8 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen (深圳市白石廈新開發區第8棟)		3,068	Staff quarters		
3	2nd and 4th Floor, No. 17 Building, New Development Zone, Baishixia, Fuyong Street, Bao'an District, Shenzhen (深圳市白石廈新開發區第17棟第二、四層)	Heying Photoelectric (Shenzhen) Co., Ltd.* (合盈光電(深圳)有限公司)	760.96	Staff quarters	From 1 September 2018 to 30 September 2020: 16.0 From 1 October 2020 to 30 September 2022: 17.6	From 1 September 2018 to 30 September 2022

Title Defects

As at the Latest Practicable Date, we leased the Leased Properties for our production facilities and staff dormitory under two leases with Shenzhen Baishixia and one sub-lease with Heying Photoelectric (Shenzhen) Co., Ltd.* (合盈光電(深圳)有限公司) ("**Heying**"). Shenzhen Baishixia and Heying shall collectively be referred to as "the landlords". Due to historical reasons, the landlords of the Leased Properties failed to provide land use right certificate (土地使用權證書), land use planning permit (建設用地規劃許可證), construction planning permit (建設工程規劃許可證), construction approval document (建築工程施工許可證) and property ownership certificate (房屋所有權證) for the Leased Properties. In view of the reasons set out below, however, our PRC Legal Advisers advised that the risk that we are required by the relevant PRC government authorities to vacate from the Leased Properties is extremely remote.

Shenzhen Baishixia reported the title defect of the Leased Properties with the General Investigation Work Office for Historic Illegal Buildings of Fuyong Street of Bao'an District of Shenzhen due to Rural Urbanisation* (寶安區福永街道農村城市化歷史遺留違法建築普查工作辦公室) in 2009. In order to rectify the title defects, Shenzhen Baishixia has obtained a written confirmation from Shenzhen Bao'an District Fuyong Urban Construction Office* (深圳市寶安區福永街道城市建設辦公室) and Shenzhen Bao'an District Fuyong Baishixia Community Residents Committee* (深圳市寶安區福永街道白石廈社區居民委員會) confirming that the Leased Properties are located on collectively-owned industrial land (集體工業用地) and Shenzhen Baishixia has the valid and undisputed land use right in respect of the Leased Properties. As advised by our PRC Legal Advisers, according to the Decision of the Standing Committee of Shenzhen Municipal People's Congress on the Treatment of Illegal Constructions in the History of Rural Urbanisation* (《深圳市人民代表大會常務委員會關於農村城市化歷史遺留違法建築的處理決定》) and the Measures by the Shenzhen Municipal People's Government on the Illegal Constructions in the Heritage and Public Amenities Categories in the History of Rural Urbanisation* 《深圳市人民政府關於農村城市化歷史遺留產業類和公共配套類違法建築的處理辦法》), the above authorities are responsible for assessing historic illegal buildings within their respective jurisdiction, including among others the identity of land owners, boundary of the land and use of land, and therefore are competent to issue the above confirmation. Pursuant to the Index for Construction Land Use Control of Industrial Projects* (《工業項目建設用地控制指標》), our PRC Legal Advisers advised that the Leased Properties can also be used as staff dormitory as ancillary facilities.

Our PRC Legal Advisers have advised us that the risk of us being required by the relevant PRC governmental authorities to vacate from the Leased Properties is extremely remote, considering that:

i. according to a written confirmation from Urban Renewal and Land Replanning Bureau of Bao'an District of Shenzhen* (深圳市寶安區城市更新和土地整備局), the Leased Properties were not part of any urban renewal plan in Shenzhen for the next five years;

ii. according to a written confirmation issued by Land Planning Supervision of Bao'an District of Shenzhen* (深圳市寶安區土地規劃監察局), during the Track Record Period, Shenzhen Confidence was not in violation of laws and regulations in relation to land use planning;

iii. according to a written confirmation issued by Shenzhen Bao'an Urban Administrative and Enforcement Bureau* (深圳市寶安區城市管理和綜合執法局), during the Track Record Period, Shenzhen Confidence was not subject to any penalty as a result of violation of urban administration enforcement;

iv. according to a written confirmation issued by Shenzhen Public Security Bureau Bao'an Branch Fire Fighting Monitoring Management Brigade* (深圳市公安局寶安分局消防監督管理大隊), during the Track Record Period, Shenzhen Confidence was not in violation of laws and regulations in relation to fire safety inspection;

v. according to the appraisal reports on structure safety of house issued by Institute of Structural Engineering, Shenzhen University (深圳大學結構工程研究所), our production facility has complied with the safety assessment requirements as required under the PRC laws;

vi. according to the record on Shenzhen Planning and Natural Resources Bureau* (深圳市規劃和自然資源局), the Leased Properties are permitted to industrial use;

vii. as confirmed by our Directors, no administrative penalties have been imposed by the relevant authorities in connection with our use of the Leased Properties and from the date we leased the Leased Properties and up to the Latest Practicable Date, we and the landlords of the Leased Properties had not been challenged, investigated or penalised by relevant government authorities regarding the Leased Properties;

viii. the landlords of the Leased Properties confirmed that there was no dispute in relation to the existing lease arrangements and they will not require Shenzhen Confidence to vacate from the Leased Properties by reason of the lease agreement being voidable before the expiry of the lease agreements; and

ix. the parties of the lease agreements have registered the lease agreements with the Shenzhen Bao'an Leasing of Properties Management Administration Office* (深圳市寶安區房屋租賃管理辦公室) pursuant to the Administrative Measures for Commodity House Leasing* (《商品房屋租賃管理辦法》).

As advised by our PRC Legal Advisers, each of Urban Renewal and Land Replanning Bureau of Bao'an District of Shenzhen* (深圳市寶安區城市更新和土地整備局), Land Planning Supervision of Bao'an District of Shenzhen* (深圳市寶安區土地規劃監察局), Shenzhen Bao'an Urban Administrative and Enforcement Bureau* (深圳市寶安區城市管理和綜合執法局) and Shenzhen Public Security Bureau Bao'an Branch Fire Fighting Monitoring Management Brigade* (深圳市公安局寶安分局消防監督管理大隊) was considered as a competent government authority to provide the relevant confirmations.

Contingency relocation plan of our production facility and staff dormitory

Our Directors consider that the Leased Properties are crucial to our operation as our manufacturing activities are conducted thereon. Notwithstanding that we reasonably and firmly believe that the risk of relocation of our Shenzhen Production Plant within a short term is remote and that we intend to continue our operation in the existing Shenzhen Production Plant, in the unlikely event that we are forced to move out from the Leased Properties by the relevant authorities in the PRC, as at the Latest Practicable Date, we had identified a Back-up Site of a total GFA of 11,146.11 sq.m. located in the vicinity of our existing Shenzhen Production Plant to serve as our back-up production base. The Back-up Site possesses valid building ownership certificates and can be used for industrial purposes.

On 8 March 2019, we entered into a legally binding agreement (the "**Pre-lease Agreement**") with the landlord of the Back-up Site (the "**New Landlord**"), pursuant to which we shall have the right, but not the obligation, to lease the Back-up Site upon our request. The major terms of the Pre-lease Agreement are summarised as follows:

Location:	No. 2 Factory Building, No. 4 Industrial Zone, Fenghuang Community, Fuyong Street, Bao'an District, Shenzhen (深圳市寶安區福永街道鳳凰社區第四工業區廠房2棟)
Area to lease:	11,146.11 sq.m.
Right to lease:	We have the right, but not the obligation, to (i) lease the Back-up Site from the date of the Pre-lease Agreement to 31 December 2020 (the "**Term**") by delivering a written lease confirmation to the New Landlord; and (ii) request the New Landlord to deliver vacant possession of the Back-up Site to us within 30 days from the date of receipt of the lease confirmation.
Lease term:	5 years from the date of the delivery of the Back-Up Site. Upon expiry of the lease term, we have the priority to renew the lease on the same terms as stipulated in the Pre-lease Agreement.
Monthly rent:	RMB256,360
Deposit:	RMB512,720

In the event that any relocation of our operations is required, such relocation will be carried out in phases so as to minimise the disruption to our operations. Provided that (i) the Back-up Site is in the vicinity of and approximately 3.3 kilometres from our existing production base; and (ii) most of our machinery and equipment are movable, can be assembled and disassembled, our Directors estimate that the relocation will be completed within 80 days, which includes 60 days for renovation and 20 days for relocation and trial run of machines. During renovation of the new production facility, we will continue to carry on our operations in our Shenzhen Production Plant. The relocation of our machinery and equipment will be effected in phases and trial run of machines will take place once each phase of machinery and equipment are moved to the new production facility. As such, our Directors expect to maintain operation of most of our production lines during the period of relocation without any material impacts on our operation and financial performance. Our Directors further estimate that the total costs and expenses of relocation, including renovation and setting-up costs but excluding rental deposit and expenses, will not exceed RMB3.5 million. Given that any relocation of operations will be carried out in phases, our Directors anticipate that, save for the relocation costs and expenses referred to hereinabove, any such relocation will not result in any material loss of revenue or other related loss, and will not materially or adversely affect our business operations or financial condition.

Having considered that (i) Shenzhen Confidence as the tenant of the Leased Properties will only be subject to the risk of being required by the relevant PRC government authorities to vacate from the Leased Properties and will not be subject to any fine and penalty; and (ii) our PRC Legal Advisers have advised us that such risk is extremely remote as mentioned above, our Directors believe that there is no imminent need to relocate our production facility and it is in our Group's interests as a whole to continue our operation in the existing Shenzhen Production Plant. As advised by our PRC Legal Advisers, Shenzhen Baishixia has applied to rectify the title defects of the Leased Properties with the relevant authorities yet no title rectification procedures have been undertaken by the authorities as at the Latest Practicable Date. Upon expiry of the relevant lease agreements in 2021 and 2022, we plan as follows:

(i) if the relevant authorities issue title certificates or permits to Shenzhen Baishixia, the title defects will be rectified and we will continue our operation in the existing Shenzhen Production Plant;

(ii) if the relevant authorities reject to issue title certificates or permits to Shenzhen Baishixia, we will relocate our production facilities to another site after conducting internal review procedures as detailed in the paragraph headed "Enhanced internal control measures to prevent reoccurrence" below; and

(iii) if reviewing process by the relevant authorities is still on-going, our Directors will obtain PRC legal advice to assess the risk by that time and consider whether any relocation plan is needed.

Indemnity by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Group whereby, among other things, they have undertaken to indemnify our Group from and against any liabilities, losses and damages resulting from any suspension of operation and/or relocation costs and expenses sustained or incurred as a result of or in connection with the title defects.

Given that (i) the total costs and expenses of relocation, if required, is not substantial; (ii) the relocation, if required, is estimated to be completed within 80 days; and (iii) our Controlling Shareholders have undertaken to indemnify us for any liabilities, losses and/or relocation costs and expenses resulting from the title defects, our Directors are of the view that the title defects of the Leased Properties will not have any material adverse impact on our business operations or financial condition.

Enhanced internal control measures to prevent reoccurrence

Our Group has adopted internal policy to govern the procedures in relation to the lease of properties. When assessing whether to lease a property, our Group will conduct inspections (by way of site visits and reviewing relevant documents) and take into account factors including but not limited to expenses, size of the site, land use restrictions, whether the landlord possesses the relevant title certificates and permits and whether the condition of the property fits the purpose of our operation. In the event that material defect or non-compliance is discovered, the same must be reported to the Directors and PRC legal advice will be sought to determine whether to lease such property.

INSURANCE

Our Group currently maintains social security insurance for our employees, property insurance for our production facilities in the Shenzhen Production Plant. Our Group does not maintain product liability insurance arising from the manufacture and sale of our products. Our Directors confirm that our Group's insurance coverage is adequate for our operations and is in line with industry practice. As at the Latest Practicable Date, our Group had not made, nor been the subject of, any material insurance claim. There had been no product liability claims against us during the Track Record Period.

INTELLECTUAL PROPERTY

Our know-how in the assembling process is important to our success. We have registered certain trademarks, patents, computer software copyrights and domain names. For details, please refer to the paragraph headed "C. Intellectual property rights of our Group" in Appendix IV to this prospectus.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group had not engaged in or been threatened with any claim for infringement of any intellectual property rights which would have a material financial and operational impact on us, either as claimant or as respondent.

LICENCES, APPROVALS AND PERMITS

Based on the advice of the PRC Legal Advisers, our Group has obtained all necessary licences, approvals and permits from the relevant governmental authorities for our Group's business operations in the PRC.

LEGAL AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, save for the non-compliance incidents as disclosed below under this paragraph, our Group did not experience any material non-compliance, which, in the opinion of our Directors and our PRC Legal Advisers, will have any material operational or financial impact on our operations. Having considered the facts and circumstances leading to the non-compliance incidents as disclosed below, our Group's internal control measures to avoid recurrence of the non-compliance incident, and the preventive measures mentioned below, our Directors and the Sole Sponsor are of the view that we now have adequate and effective internal control procedures in place in accordance with the requirements under the Listing Rules, and the past non-compliance incidents will not affect the suitability of the Directors to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. As at the Latest Practicable Date, we have been in compliance with the applicable PRC laws and regulations relating to our business operations in all material respects.

Non-compliance incident and reason	Legal consequences	Remedial actions and status	Enhanced internal control measures to prevent recurrence of non-compliance
Social welfare scheme and housing provident funds			
During the Track Record Period, Shenzhen Confidence failed to make adequate social insurance and housing provident fund contributions for our employees as required by relevant PRC laws and regulations. Our Directors confirm that, the total underpaid social insurance and housing provident funds for each of FY2016, FY2017 and FY2018 amounted to approximately RMB1.6 million, RMB1.8 million and RMB1.8 million, respectively. To the best knowledge of our Directors, some employees were generally unwilling to participate in the social insurance scheme and housing provident fund because it would result in a reduction in their disposable income.	According to the Social Insurance Law of the PRC* (中華人民共和國社會保險法) and other relevant regulations, the relevant government authority may require the company to make up the outstanding contribution with an additional late payment fee at a daily rate of 0.05% of the outstanding contribution from the due date within a given period, and if the company fails to do so, may impose a fine on the company ranging from one to three times of the total amount of the outstanding contribution. According to the Regulations on the Administration of Housing Provident Fund* (住房公積金管理條例), if a company fails to pay or does not contribute to the housing provident fund within the prescribed time period, the relevant government authority may order it to make up the outstanding contributions within the prescribed time limit, and failing which, the relevant authority may apply for compulsory enforcement by the People's Court.	We obtained confirmation letters from the Social Insurance Fund Management Bureau of Shenzhen* (深圳市社會保險基金管理局) and Shenzhen Human Resources and Social Security Bureau* (深圳市人力資源和社會保障局), which are competent authorities, confirming that during the Track Record Period, Shenzhen Confidence had not been subject to any penalty with respect to our payment of social insurance contribution and labour related laws and regulations. Our PRC Legal Advisers conducted an interview with the Social Insurance Fund Management Bureau of Shenzhen (Bao'an Branch)* (深圳市社會保險基金管理局寶安分局) on 25 January 2019 whereby the official confirmed that the current payment situation of social insurance by our Group has satisfied their requirements and, unless any employee files a complaint to the authority, it will not impose any penalty against our Group for our historic non-compliance.	Our Group has adopted internal policies to require our human resources department to provide, on a monthly basis, an updated list of social insurance contribution to our management who will review if the social insurance fund contribution complies with the Social Insurance Law of the PRC* (中華人民共和國社會保險法). Our Group has adopted internal policies to require our human resources department to provide, on a monthly basis, an updated list of housing provident fund contribution to our management who will review if the housing provident fund contribution complies with the Regulations on the Administration of Housing Provident Fund* (住房公積金管理條例). Our human resources department will consult our PRC Legal Advisers on the relevant laws and regulations on social security welfare contributions from time to time.

Non-compliance incident and reason	Legal consequences	Remedial actions and status	Enhanced internal control measures to prevent recurrence of non-compliance
		We obtained a written confirmation from Shenzhen Housing and Provident Fund Management Centre* (深圳市住房公積金管理中心), which is a competent authority, and our PRC Legal Advisers conducted an interview with its Bao'an branch on 25 January 2019, confirming that during the Track Record Period, Shenzhen Confidence had not been subject to any penalty with respect to our payment of housing provident fund and, unless any employee file a complaint to the authority, it will not impose any penalty against our Group for our historic non-compliance. We further obtained written confirmation from our employees confirming that they will not raise any dispute or complaint regarding our social insurance and housing provident fund contributions.	

Non-compliance incident and reason	Legal consequences	Remedial actions and status	Enhanced internal control measures to prevent recurrence of non-compliance
		In view of the two-year statutory limitation period and based on the above confirmations and interview, our PRC Legal Advisers are of the view that the likelihood of the relevant authority to require Shenzhen Confidence to pay the shortfall of the contribution in respect of the social insurance scheme and/or housing provident fund and impose penalty/fine on Shenzhen Confidence in respect thereof is extremely remote and our failure to make full contribution to the social insurance scheme and housing provident fund would not have any material adverse effect on our financial conditions and results of operations. Since January 2019, Shenzhen Confidence has commenced making social insurance contributions and housing provident funds for all of its employees.	

Non-compliance incident and reason	Legal consequences	Remedial actions and status	Enhanced internal control measures to prevent recurrence of non-compliance
Dispatched workers			
During 2017, Shenzhen Confidence had engaged dispatched workers, the number of which exceeded the regulatory threshold of 10% of its total number of workers. The non-compliance incidents were due to the fact that the relevant staff of our human resources department were unfamiliar with the relevant PRC laws and regulations.	According to the Labour Contract Law of the PRC (中華人民共和國勞動合同法), an employer who violates any provision of this law on labour dispatch and be ordered by the labour administrative department to make rectification within a prescribed time limit, and if fails to do so, may be imposed with a fine ranging from RMB5,000 to RMB10,000 per employee exceeding the 10% statutory threshold.	We obtained a confirmation letter from Shenzhen Human Resources and Social Security Bureau* (深圳市人力資源和社會保障局), which is a competent authority, confirming that during the Track Record Period, Shenzhen Confidence had not been subject to any penalty with respect to labour related laws and regulations. We further obtained a written confirmation from Labour Monitoring Squadron of Fuyong Street Office of Bao'an District of Shenzhen* (深圳市寶安區福永街道勞動管理辦公室) on 1 March 2019 certifying that the current number of dispatched workers engaged by Shenzhen Confidence was lower than the statutory threshold of 10%. Based on the above confirmations and the fact that Shenzhen Confidence has taken rectification actions, our PRC Legal Advisers are of the view that Shenzhen Confidence will not be subject to any fines or penalties in relation to our engagement of dispatched workers.	Our Group has adopted internal policies to require our human resources department to calculate the ratio of dispatched workers to total number of workers on a monthly basis. Such ratio shall be reviewed by the head of the human resources department to ensure compliance with the relevant regulatory requirements in the PRC in relation to dispatched workers. Our human resources department will consult our PRC Legal Advisers on the relevant laws and regulations on employment matters from time to time.

Non-compliance incident and reason	Legal consequences	Remedial actions and status	Enhanced internal control measures to prevent recurrence of non-compliance
Environmental approval			
During the Track Record Period, Shenzhen Confidence failed to complete the necessary environmental approval procedures in relation to our production premises located in No. 18 Building, New Development Zone, Bashixia, Fuyong Street, Bao'an District, Shenzhen. The non-compliance incident was due to the fact that the relevant staff of our administrative department were unfamiliar with the relevant PRC laws and regulations.	According to the Law of the People's Republic of China on Environmental Impact Assessment (中華人民共和國環境影響評價法), if a company fails to submit environmental impact assessment reports or forms for a construction project, the relevant authority may order suspension of construction works and may impose a fine ranging from 1% to 5% of the value of construction project, and order the company to restore the construction works to its original state.	We have completed all necessary environmental approval and inspection procedures on 7 March 2019. According to a written confirmation from the Environmental Protection and Water Affairs Bureau of Bao'an District of Shenzhen* (深圳市寶安區環境保護和水務局), which is a competent authority, and an interview conducted with its official by our PRC Legal Advisers on 28 February 2019, and a written confirmation from the Ecology and Environment Bureau of Shenzhen, Bao'an Management Bureau* (深圳市生態環境局寶安區管理局), the authorities confirmed that during the Track Record Period, Shenzhen Confidence had not been subject to any penalty with respect to environmental protection related laws and regulations and since Shenzhen Confidence has taken rectification actions, the likelihood of administrative penalty as a result of our past non-compliance is extremely remote.	Our Group has complied with all environmental approval requirements in respect of our Shenzhen Production Plant.

LITIGATIONS

Our Directors and our PRC Legal Advisers have confirmed that, during the Track Record Period and as at the Latest Practicable Date, there is no legal proceedings or claim pending or threatened against us or our Directors that could, individually or in aggregate, have a material adverse effect on our business, financial condition or results of operations.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of, among others, any claim to which our Group may be subject to in respect of any disputes, arbitrations or legal proceedings occurring on or before the Listing Date. Further details of the Deed of Indemnity are set out in the paragraph headed "F. Other information — 1. Tax and other indemnities" in Appendix IV to this prospectus.

INTERNAL CONTROL

To streamline the current internal control procedure, we engaged the Internal Control Consultant in January 2019 to review the adequacy and effectiveness of our internal control procedures, systems and controls. The Internal Control Consultant is a professional firm specialising in providing corporate governance, internal audit and internal control review services to new listing applicants and listed companies.

The objective of the internal control review is to assess and identify significant weakness in relevant procedures, systems and controls as established by our Group. A detail evaluation was done by our Internal Control Consultant. Through an initial review in January 2019 and subsequent review in May 2019, our Internal Control Consultant identified some weaknesses and deficiencies in our internal control system and recommended certain measures on the area including staff management, budget and risk management, written policy and procedures to improve our internal control system.

The Internal Control Consultant has identified the following key findings and our Group has taken the following remedial actions based upon the Internal Control Consultant's recommendations:

KEY FINDINGS	REMEDIAL ACTION TAKEN
Our Group did not have written policies to govern the following procedures, including but not limited to staff reimbursement, insurance and claim management and information system management.	Our Group has established the relevant policies to govern the following procedures, including but not limited to staff reimbursement, insurance and claim management and information system management.

KEY FINDINGS	REMEDIAL ACTION TAKEN
Our Group has no formalised succession plan for key directorship and management functions.	Our Group has established succession plan for key directorship and management functions.
Our Group has no formalised delegation of authority that sets out access and edit limits for endorsing different activities within the accounts system based on roles and responsibilities of staff.	Our Group has formalised delegation of authority that sets out access and edit limits for endorsing different activities within the accounts system based on roles and responsibilities of staff.

Internal control measures to improve corporate governance

Our Directors recognise the importance of up-keeping adequate internal control and risk management systems. In order to continuously improve our Group's corporate governance, our Group has implemented and will implement the following measures:

- Our Group will engage a PRC legal adviser to provide legal services to it in relation to future compliance with the PRC laws and regulations in all respects;
- Our Group has arranged for our Directors and senior management to attend a training program on the relevant applicable laws and regulations, including the Listing Rules, provided by our Company's Hong Kong legal advisers prior to the Listing. Our Group will continue to arrange various training programs on an annual basis to be provided by its legal advisers in Hong Kong and the PRC and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations. In addition, specific training programme(s) in relation to updates on relevant applicable laws and regulations will also be held when necessary;
- Our Company has appointed Dakin Capital as our compliance adviser to advise on regulatory compliance with the Listing Rules;
- When necessary, we will engage external professional, including auditors, internal control consultant, and external legal advisers to render professional advice as to compliance with statutory and regulatory requirements, as applicable to our Group from time to time. Our Group intends to retain PricewaterhouseCoopers as the auditor for the consolidated financial statements of the Group after listing;
- Our Group will provide trainings for our employees on compliance matters in order to develop a corporate culture and to enhance their compliance perception and responsibility and to enhance their knowledge to manage our operation risks; and

- On 20 September 2019, we established an Audit Committee which will implement formal and transparent arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts. It will also periodically review our compliance status with the Hong Kong laws after the Listing. The Audit Committee will exercise its oversight by:

  (i) reviewing our internal control and legal compliance;

  (ii) discussing the internal control systems with the management of our Group to ensure that the management has performed its duty to have an effective internal control system; and

  (iii) considering the major investigation findings on internal control matters as delegated by the Board or on its own initiative and the management's response to these findings.

Based on the above, our Directors are of the view that the above internal control measures could adequately and effectively ensure that our Group has implemented a proper internal control system and maintained good corporate governance practice.

TRADE DISPUTES BETWEEN THE UNITED STATES AND THE PRC

Additional tariffs imposed by the U.S. against products manufactured in the PRC effective from 10 May 2019

The United States and the PRC have been involved in various negotiations relating to the export and import of products and technology since 2018, and have implemented various tariffs and placed other restrictions on goods to be exported to each country. In particular, certain products manufactured in the PRC listed on the September 2018 Tariffs List including aerospace, information and communication technology, robotics and machinery, among other items, are currently subject to import tariffs of 25%, which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019. Further, certain products manufactured in the PRC and listed on the September 2019 Tariffs List and the December 2019 Tariffs List would be subject to import tariffs of 15% starting from 1 September 2019 and 15 December 2019 respectively. The September 2019 Tariffs List and the December 2019 Tariffs List cover essentially all products not covered by the September 2018 Tariffs List, but excludes pharmaceuticals, certain pharmaceutical inputs, select medical goods, rare earth materials, and critical minerals, and certain products based on health, safety, national security and other factors. None of our Group's products sold to customers located in the United States during the Track Record Period and up to the Latest Practicable Date were named on the then effective tariffs lists. However, as advised by our U.S. Legal Advisers and based on the communication between individual customers and us and our understanding on the applicability of our PCBAs, certain ultimate electronic products sold by our Group's customers that incorporate our products were named on the tariffs lists (including the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List) as at the Latest Practicable Date, particulars of which are set out in the paragraphs below.

PCBAs for telecommunication devices

Among our sales of PCBAs for telecommunication devices during the Track Record Period, routers are the type of ultimate electronic products in which our PCBAs were incorporated that are on the September 2018 Tariffs List, and smartphones are the type of ultimate electronic products in which our PCBAs were incorporated that are on the December 2019 Tariffs List.

Among our sales of PCBAs for telecommunication devices during the Track Record Period, all of our sales of PCBAs for smartphones during the Track Record Period were incorporated in Chinese brand smartphones, where OPPO Group accounted for over 99.5%, 99.9%, 99.9% and 87.5% of our sales of PCBAs for smartphones for each of the three years ended 31 December 2018 and the four months ended 30 April 2019 respectively. According to the CIC Report, in 2018, the export volume of smartphones to the United States of Chinese smartphone brand owners was estimated at 18.0 million units, representing approximately 2.3% of Chinese smartphone brand owners' total shipment of smartphones, while the export volume of OPPO smartphones to the United States was estimated at 0.3 million units and contributed to approximately 0.3% of OPPO's total shipments of smartphones.

Having considered the above factors and the fact that the revenue derived from the sales of our PCBAs for telecommunication devices which were incorporated in the type of ultimate electronic products that are on the September 2018 Tariffs List and subject to 25% U.S. tariffs (which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019) amounted to only approximately RMB254,000, RMB207,000, RMB24,000 and RMB2,000 for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively, our Directors are of the view that the U.S. tariffs currently imposed and will be imposed on telecommunication devices based on the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List will not materially or adversely affect our business operations or financial condition.

PCBAs for industrial-use devices

Among our sales of PCBAs for industrial-use devices during the Track Record Period, all of our sales of PCBAs for testing devices during the Track Record Period were incorporated in testing devices for electronic products (including smartphones and other electronic products), representing approximately 96.4%, 97.4%, 87.7% and 56.7% of our sales of PCBAs for industrial-use devices for each of the three years ended 31 December 2018 and the four months ended 30 April 2019 respectively. According to the CIC Report, testing devices are generally used in the process of manufacturing electronic products in factories, so they may not be exported to the United States unless the factories intending to use such testing devices are located in the United States. According to the CIC Report, China and the United States accounted for approximately 47.1% and 8.3% of the global EMS market share in terms of revenue in 2018 respectively, and it is not likely that a significant number of factories which manufacture electronic products currently located in countries other than the United States will relocate to the United States in the foreseeable future due to the relatively high labour cost in the United States.

Testing devices for certain electronic products (not including smartphones) under the category "testing devices", and Ethernet switches, industrial controllers, industrial control panels, charging boards and 3D printers under the category "others" are the types of ultimate electronic products in which our PCBAs were incorporated that are on the September 2018 Tariffs List and subject to 25% U.S. tariffs (which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019); for other testing devices in which our PCBAs were incorporated that are not on the September 2018 Tariffs List, they are likely on the September 2019 Tariffs List. The revenue derived from the sales of our PCBAs incorporated in those testing devices that are on the September 2018 Tariffs List amounted to approximately RMB1.2 million, RMB345,000, RMB4.1 million and RMB377,000 for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively.

Sunway Group was the largest customer of our PCBAs for industrial-use devices during the Track Record Period, accounting for approximately 94.8%, 96.5%, 84.4% and 53.1% of our revenue from the sale of PCBAs for industrial-use devices for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively. To the best knowledge and belief of our Directors, Sunway Group is a supplier to the manufacturers for a leading consumer electronics company in the United States, and approximately 51% of Sunway Group's revenue was derived from overseas sales in FY2018. As a result, Sunway Group is more likely to be affected by uncertainties of external economic environment such as trade disputes, in fact Sunway Group recorded a decrease in its net profit of approximately 15.7% for the six months ended 30 June 2019 as compared with the six months ended 30 June 2018 mainly due to (i) the sluggish business expansion of its customers in light of the uncertainties in the external economic environment; (ii) the increase in cost and the influence to its production volume due to the relocation and construction of some new factories in the PRC and Vietnam; and (iii) the increase in expenses arising from the recruitment of employees and the investment on research and development in view of the upcoming commercial launch of 5G and other new business opportunities. Based on the communication between Sunway Group and us and our understanding on the applicability of our PCBAs, the PCBAs we sold to Sunway Group were incorporated in testing devices for smartphones, which are not on the September 2018 Tariffs List. Having considered that (i) the revenue derived from the sales of our PCBAs for industrial-use devices which were incorporated in the type of ultimate electronic products that are on the September 2018 Tariffs List and subject to 25% U.S. tariffs (which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019) amounted to only approximately RMB1.2 million, RMB345,000, RMB4.1 million and RMB377,000 for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively; and (ii) it is unlikely that a significant amount of the testing devices of our customers, including Sunway Group, in which our PCBAs are incorporated will be exported to factories located in the United States (according to the CIC report, the United States accounted for approximately 8.3% of the global EMS market share in terms of revenue in 2018, and it is not likely that a significant number of factories which manufacture electronic products currently located in countries other than the United States will relocate to the United States in the foreseeable future due to the relatively high labour cost in the United States), our Directors are of the view that the U.S. tariffs currently imposed and will be imposed on industrial-use devices based on the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List will not materially or adversely affect our business operations or financial condition.

PCBAs for IoT products

Among our sales of PCBAs for IoT products during the Track Record Period, IoT modules can be applied in various kinds of ultimate electronic products that are on the September 2018 Tariffs List and subject to 25% U.S. tariffs (which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019), such as smart lighting devices, air conditioners, washing machines, dehumidifiers, air heaters and sensing devices; while other major types of ultimate electronic products such as computers, tablets, Bluetooth headsets, fingerprint locks, smart watches, mobile POS terminal and smart speaker are on the September 2019 Tariffs List or December 2019 Tariffs List. During the Track Record Period, our revenue derived from the sales of PCBAs which were incorporated in IoT modules amounted to approximately RMB245,000, RMB18.3 million, RMB59.7 million and RMB30.7 million for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively.

Espressif Group was the largest customer of our PCBAs for IoT products during the Track Record Period, accounting for approximately 1.6%, 68.6%, 53.1% and 47.5% of our revenue from the sale of PCBAs for IoT products for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively. Since Espressif Group derived more than 74% of revenue from the PRC and less than 4% of revenue from the United States in FY2018, Espressif Group is less likely to be affected by uncertainties of external economic environment such as trade disputes. In fact Espressif Group recorded revenue growth of approximately 46.7% and net profit growth of approximately 42.2% for the six months ended 30 June 2019 as compared with the six months ended 30 June 2018. Our Directors are of the view that the U.S. tariffs currently imposed and will be imposed on IoT products based on the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List will not materially or adversely affect our business operations or financial condition after considering the following factors:

(i) as the large majority of the revenue of Espressif Group, being the largest customer of our PCBAs for IoT products during the Track Record Period, are derived from the PRC, and less than 4% of its revenues are derived from the United States. Espressif Group is less likely to be affected by the trade disputes as mentioned above;

(ii) as confirmed by Info Safe, the second largest customer of our PCBAs for IoT products for FY2018 and the four months ended 30 April 2019 accounting for approximately 18.1% and 23.0% of our revenue from the sales of PCBAs for IoT products respectively, none of its products in which our PCBAs were incorporated were exported to the United States during the Track Record Period;

(iii) as confirmed by Guangdong Fingerchip and Shenzhen Fingerchip, whom our sales to them amounted to less than RMB100, RMB2.9 million, RMB7.7 million and RMB4.5 million for each of the three years ended 31 December 2018 and the four months ended 30 April 2019 respectively, none of their fingerprint lock products in which our PCBAs were incorporated were exported to the United States during the Track Record Period; and

(iv) as confirmed by Yinrun, whom our sales to it amounted to approximately nil, RMB19,000, RMB4.3 million and RMB1.5 million for each of the three years ended 31 December 2018 and the four months ended 30 April 2019 respectively, none of its smart watch products in which our PCBAs were incorporated were exported to the United States during the Track Record Period.

Tariffs imposed by PRC against materials imported from the U.S.

As confirmed by our Directors and our PRC Legal Advisers, among our purchase of raw materials during the Track Record Period, triodes are the only type of raw materials imported from the U.S. which are subject to additional PRC tariffs. As the purchase amount of which only amounted to approximately RMB13,000, RMB25,000, RMB26,000 and RMB8,000 for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 respectively, our Directors are of the view that the impact of additional PRC tariffs on raw materials imported from the U.S. on our Group's business operation and financial performance is not significant.

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), Skyflying Company, which is wholly-owned by Mr. Li, will be interested in approximately 39.95% of the issued share capital of our Company. Accordingly, Skyflying Company and Mr. Li will be our Controlling Shareholders.

Save as disclosed above, there is no other person who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such entity.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the Listing after taking into consideration of the following factors:

Management independence

The day-to-day management and operations of our Group will be the responsibility of all our executive Directors and senior management of our Company. The Board consists of seven Directors, comprised of three executive Directors, one non-executive Director and three independent non-executive Directors. Although Mr. Li, being the ultimate Controlling Shareholder, also holds directorship in our Company, we consider that our Board and senior management will function independently from our Controlling Shareholders because:

(a) each Director is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interest of our Company and does not allow any conflict between his duties as a Director and his personal interests; and

(b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions, and shall not be counted in forming quorum.

Operational independence

Our Group has established our own organisational structure comprising of individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources and general administration resources with the Controlling Shareholders and/or their respective close associates. Our Group has also established a set of internal controls to facilitate the effective operation of our business.

Financial independence

Our Group has our own financial management and accounting systems and functions and makes financial decisions according to our own business needs. Our Group has the ability to operate independently from the Controlling Shareholders from a financial perspective.

During the Track Record Period and up to the Latest Practicable Date, our Group had certain bank borrowings that were secured by personal guarantee given by Mr. Li, details of which are set out in note 24 of the Accountant's Report set out in Appendix I to this prospectus. Such guarantees will be repaid or released upon Listing and will be replaced by corporate guarantees from the Group companies. Save as disclosed above, our Directors confirm that as at the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure required under Rules 13.13 to 13.19 of the Listing Rules.

Having considered the above factors, our Directors consider that our Group is able to maintain financial independence from the Controlling Shareholders and their respective close associates after Listing and our Group is able to obtain external financing on market terms and conditions for its business operations as and when required without reliance on the Controlling Shareholders after Listing.

RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders, our Directors and their respective close associates confirm that they do not have any interest in a business apart from our Group's business which competes and is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS

The following table sets forth certain information regarding our Directors:

Name	Age	Position	Date of appointment as Director of our Company	Date of joining our Group	Brief description of roles and responsibilities	Relationship with other Director(s) and/or senior management
Executive Directors						
Mr. Li Hao (李浩)	48	Executive Director, Chairman of the Board and chief executive officer	7 December 2018	March 2000	Responsible for the overall strategic planning, business development and overseeing the daily operation of our Group	Cousin of Mr. Xu Shizhen
Mr. Zhang Bizhong (張必鍾)	53	Executive Director	7 December 2018	February 2002	Responsible for overseeing sales and operations of our Group	None
Mr. Xu Shizhen (許世真)	45	Executive Director and chief financial officer	7 December 2018	March 2000	Responsible for the overall financial, accounting, administration and secretarial affairs of our Group	Cousin of Mr. Li Hao
Non-Executive Director						
Mr. Yuan Shuntang (袁順唐)	47	Non-executive Director	7 December 2018	December 2018	Providing strategic advice to the business development of our Group	None
Independent Non-executive Directors						
Mr. Chen Zhong (陳忠)	54	Independent non-executive Director	20 September 2019	20 September 2019	Providing independent advice to the Board	None
Mr. Wong Chun Sek Edmund (黃俊碩)	34	Independent non-executive Director	20 September 2019	20 September 2019	Providing independent advice to the Board	None
Mr. Wu Tai Cheung (胡大祥)	62	Independent non-executive Director	20 September 2019	20 September 2019	Providing independent advice to the Board	None

The Board currently consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Mr. Li Hao (李浩), aged 48, is an executive Director, chairman of the Board and chief executive officer of our Group. Mr. Li joined our Group in March 2000 and has over 20 years of experience in the electronic engineering and manufacturing industry. He is primarily responsible for the overall strategic planning and business development and overseeing the daily operation of our Group.

Mr. Li obtained his diploma in industrial electrical automation from Wuhan University of Science and Technology (formerly known as Wuhan Institute of Metallurgy) in July 1993. He further completed a top-up degree in electronic and information technology from University of Electronic Science and Technology of China in January 2019 through online studies.

Prior to founding our Group, Mr. Li worked as a sales manager in Shenzhen International Business Data Co., Ltd* (深圳國際商業數據有限公司), a data input service provider, from July 1993 to March 1996 and a sales manager in Shenzhen Tefa Songli Electronic Industry Co., Ltd.* (深圳特發松立電子實業有限公司), an electronic products manufacturer, from April 1996 to July 1998. He then worked in Shenzhen Bolinshijia Modern Households Co., Ltd.* (深圳市柏林世家現代家居用品有限公司) (formerly known as Shenzhen Xinwei Industry Co., Ltd.* (深圳市信維實業有限公司)), a household products trader, as a deputy general manager from August 1998 to February 2000. He has been the director and general manager of Shenzhen Confidence since March 2000.

Mr. Zhang Bizhong (張必鍾), aged 53, is an executive Director of our Company. Mr. Zhang joined our Group in February 2002 and has over 25 years of experience in the electronic engineering and manufacturing industry. He is primarily responsible for overseeing sales and operations of our Group.

Mr. Zhang obtained his diploma in physics from Zhejiang Normal University in July 1988. Prior to joining our Group, Mr. Zhang worked as a production engineer in Lianguang Electronics and Plastics (Shenzhen) Co., Ltd* (聯光電子塑膠(深圳)有限公司), an electronic products manufacturer, from February 1990 to August 1992. He then joined Shenzhen Dinghan Electronics Technology Co., Ltd.* (深圳鼎漢電子技術有限公司), an electronic technology service provider, as a production manager from September 1992 to October 1995. He then worked in Shenzhen Bao'an Tongbang Electronics Co., Ltd.* (深圳市寶安桐邦電子有限公司), a PCBA manufacturer, as a factory head from November 1995 to February 2002. He has been the deputy general manager of Shenzhen Confidence since February 2002 and has been appointed as a director since December 2015.

Mr. Xu Shizhen (許世真), aged 45, is an executive Director and the chief financial officer of our Company. Mr. Xu joined our Group in March 2000 and is primarily responsible for the overall financial, accounting, administration and secretarial affairs of our Group.

Mr. Xu obtained his diploma in finance and accounting from Wuhan University of Technology (formerly known as Wuhan Automotive Polytechnic University) in July 1996.

Prior to joining our Group, Mr. Xu worked as a sales manager in Shenzhen Tefa Songli Electronic Industry Co., Ltd* (深圳市特發松立電子實業有限公司), an electronic products manufacturer, from September 1996 to December 1998. He then joined Shenzhen Suzhu Co., Ltd.* (深圳市塑住有限公司) as a purchasing manager from January 1999 to January 2000. He has been the chief financial officer of Shenzhen Confidence since March 2000 and has been appointed as a director, financial controller and secretary of the board since December 2015.

Mr. Xu was a director or supervisor of the following companies immediately before their respective dissolution and/or revocation of business license:

Name of company	Place of incorporation/ establishment	Nature of business	Position of Mr. Xu	Status of the Company	Date of dissolution/ revocation
Profit News (Hong Kong) Limited	Hong Kong	No business operation	Director	Dissolved and deregistered pursuant to section 751 of the Companies Ordinance	21 July 2017
Shenzhen Dakaifeng Trading Co., Ltd.* (深圳市達凱豐貿易有限公司)	PRC	Trading of clothings	Supervisor	Business license revoked	6 November 2009

It is confirmed by Mr. Xu that the deregistration of Profit News (Hong Kong) Limited was made voluntarily by way of submitting an application to the Companies Registry of Hong Kong because it does not have business operation immediately before the said application. The business licence of Shenzhen Dakaifeng Trading Co., Ltd.* (深圳市達凱豐貿易有限公司), was revoked in 6 November 2009 due to its cessation of business operation and failure to undergo annual inspection as required under the relevant PRC regulations. Mr. Xu confirmed that the above companies were solvent immediately prior to its deregistration/revocation and there is no wrongful act on his part leading to the deregistration/revocation and he is not aware of any actual or potential claim that has been or will be made against him as a result of the deregistration/revocation of the companies.

Non-executive Director

Mr. Yuan Shuntang (袁順唐), aged 47, is a non-executive Director of our Group. He is primarily responsible for providing strategic advice to the business development of our Group.

Mr. Yuan obtained his diploma in industrial electrical automation from Wuhan University of Science and Technology (formerly known as Wuhan Institute of Metallurgy) in July 1993.

Mr. Yuan worked as a sales engineer in Shenzhen Tianyuan Finance Electronics Co., Ltd* (深圳天元金融電子有限公司), an electronic products wholesaler, from September 1993 to June 1995 and joined Yantian International Container Terminals Limited* (鹽田國際集裝箱碼頭有限公司), a logistic company, as an operation manager from August 1995 to October 2002. He then worked in Shenzhen Haoyang Logistics Co., Ltd.* (深圳市浩洋貨運有限公司), a logistics company, as a sales manager from November 2002 to August 2005. Since September 2005, Mr. Yuan served as the general manager of Shenzhen Highway Sender International Transport Co., Ltd.* (深圳市海威順達國際貨運代理有限公司), a logistics agency, where he was responsible for strategic planning and overseeing the overall operation management of the company.

Mr. Yuan was a director of the following company incorporated in Hong Kong immediately before its dissolution:

Name of company	Nature of business	Means of dissolution	Date of dissolution
Natural Raise Limited	No business operation	Deregistration pursuant to section 751 of the Companies Ordinance	23 June 2017

Mr. Yuan confirmed that the deregistration of Natural Raise Limited was made voluntarily by way of submitting an application to the Companies Registry of Hong Kong because it does not have business operation immediately before the said application. He further confirmed that the above dissolved company was solvent immediately prior to its dissolution and there is no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of the company.

Independent Non-executive Directors

Mr. Chen Zhong (陳忠), aged 54, was appointed as an independent non-executive Director of our Group on 20 September 2019. He is the chairman of the Nomination Committee, a member of the Audit Committee and the Remuneration Committee of our Group. He is responsible for providing independent advice to the Board.

Mr. Chen Zhong obtained his Bachelor's degree in Radio Physics from Xiamen University in July 1985. He further obtained a Master's degree in Science and a Doctorate degree in Science from Xiamen University in August 1988 and February 1993 respectively.

Mr. Chen Zhong is a professor and lecturer of the Faculty of Electronic Science in Xiamen University. From April 1993 to July 1995, Mr. Chen Zhong worked as a postdoctoral researcher in the Fujian Institute of Research on the Structure of the Chinese Academy of Science. He then joined Xiamen University in August 1995 as an assistant professor of the Faculty of Chemistry and was promoted to a professor in December 2000. From December 2003 to September 2017, Mr. Chen

Zhong served as the associate dean of the College of Physical Science and Technology of Xiamen University. He became the associate dean of the College of Electronic Science and Technology of Xiamen University since October 2017.

Mr. Wong Chun Sek Edmund (黃俊碩), aged 34, was appointed as an independent non-executive Director of our Group on 20 September 2019. He is the chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee of our Group. He is responsible for providing independent advice to the Board.

Mr. Wong obtained his Bachelor's degree in Accountancy from Hong Kong Baptist University in November 2007, Master of Science in Applied Accounting and Finance from Hong Kong Baptist University in November 2013, and Master of Business Administration from The Open University of Hong Kong in October 2016 and Master of Corporate Governance from The Open University of Hong Kong in August 2017.

Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants of the United Kingdom, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administration.

Mr. Wong has more than 10 years of experience in accounting, taxation and auditing. He joined Deloitte Touche Tohmatsu as an audit associate in September 2007 and left as an audit senior in November 2011. Mr. Wong joined Patrick Wong C.P.A. Limited as an audit manager in February 2012 and has been its practicing director since March 2013. Mr. Wong is currently the independent non-executive director of InvesTech Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1087) which is principally engaged in the provision of network system integration.

Mr. Wong was a director of the following company incorporated in Hong Kong immediately before its dissolution:

Name of company	Nature of business	Means of dissolution	Date of dissolution
Smart Well Business Consultants Limited	Accounting	Deregistration pursuant to section 751 of the Companies Ordinance	30 November 2018

Mr. Wong confirmed that the deregistration of Smart Well Business Consultants Limited was made voluntarily by way of submitting an application to the Companies Registry of Hong Kong because it had ceased to carry on business immediately before the said application, the above dissolved company was solvent immediately prior to its dissolution and there is no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of the company.

Mr. Wu Tai Cheung (胡大祥), aged 62, was appointed as an independent non-executive Director of our Group on 20 September 2019. He is the chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of our Group. He is responsible for providing independent advice to the Board.

Mr. Wu obtained his Bachelor's degree in Arts in Accountancy from the University of Bolton (formerly known as the Bolton Institute of Higher Education) in October 2002 and his Master's degree in Business Administration from the University of Newcastle, Australia in December 2004. He has also been holding the following memberships, namely (i) member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since October 2003; (ii) associate of the Taxation Institute of Hong Kong since November 2003; (iii) fellow of the Association of Chartered Certified Accountants since December 2007 (member of the same association since December 2002); (iv) associate of the Hong Kong Institute of Chartered Secretaries since October 2008; and (v) associate of the Institute of Chartered Secretaries and Administrators since October 2008.

Mr. Wu has over 35 years of experience in accounting and corporate finance. He worked in Peat, Marwick, Mitchell & Co. (which was later merged into KPMG) since October 1977 and left as an assistant manager in May 1985. During June 1985 to around July 1987, Mr. Wu worked as an accounting manager in Falcon Insurance Company (Hong Kong) Limited (formerly known as Ka Wah AMEV Insurance Limited). After that, he joined Asian Properties Limited as a financial controller and left as the finance director in September 1998, during which he was responsible for the control of the overall management reporting and cashflow projection and compliance of statutory requirements. Since August 1998, he has served as a director in Croydon Management Services Limited which was principally engaged in the provision of accounting and corporate services. Since 2002, Mr. Wu has held various positions in companies listed on the Main Board of the Stock Exchange. He served as a financial controller and company secretary in Zhongda International Holdings Ltd. (then stock code: 909) from April 2002 to March 2004 and a financial controller and company secretary in Zhejiang Shibao Company Limited (stock code: 1057) from April 2005 to September 2006. During the period from September 2007 to March 2010, Mr. Wu worked as the company secretary of Pacific Textiles Holdings Limited (stock code: 1382), which he joined in October 2006 as the financial manager. Mr. Wu was a chief financial officer and company secretary in China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited) (stock code: 1269) from October 2011 to February 2012. He was the company secretary of Shenyang Public Utility Holdings Company Limited (stock code: 747) from May 2013 to March 2014 and acted as the joint company secretary from March 2014 to July 2018. He has been the chief financial officer and company secretary of Yee Hop Holdings Limited (stock code: 1662) since June 2015. Mr. Wu served as an independent non-executive director of New Provenance Everlasting Holdings Limited (formerly known as BEP International Holdings Limited) (stock code: 2326) from January 2006 to October 2007 and Munsun Capital Group Limited (formerly known as China Precious Metal Resource Holdings Company Limited) (stock code: 1194) from October 2016 to February 2019. Mr. Wu has been the independent non-executive director of Yun Lee Marine Group Holdings Limited since March 2019 (stock code: 2682).

Mr. Wu was a director of the following companies incorporated in Hong Kong immediately before their respective dissolution:

Name of company	Nature of business	Means of dissolution	Date of dissolution
3E Manufacturing Company Limited	No business operation	Deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	28 January 2005
Cetro Services Limited	No business operation	Deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	25 November 2005
Croydon Enterprises Limited	No business operation	Deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	22 January 2010
Forward Pace Enterprises Limited	Trading and provision of merchandising services	Deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	29 July 2011
Croydon Corporate Services Limited	Property holding	Deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	7 September 2012

Mr. Wu confirmed that the deregistrations of the above companies were made voluntarily by way of submitting an application to the Companies Registry of Hong Kong because these companies did not have or had ceased to carry on business or operation immediately before the relevant application. The above dissolved companies were solvent immediately prior to their respective dissolution and there is no wrongful act on his part leading to the dissolution and he is no aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of the companies.

Other disclosure pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this section, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our

Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed companies in the three years prior to the date of this prospectus. Immediately following completion of the Share Offer and the Capitalisation Issue, save as the interests in the Shares which are disclosed in the section headed "Substantial Shareholders" in this prospectus, each of our Directors will not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed in this section, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there were no other matters with respect to the appointment of our Directors that need to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

The following table sets forth certain information regarding our senior management:

Name	Age	Present position(s) in our Group	Date of joining our Group	Brief description of roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Yang Zougao (楊奏高)	42	General manager of production	August 2001	Responsible for overseeing productions and quality control of our Group	None
Mr. Chen Qin (陳勤)	36	General manager of marketing and product affairs	March 2015	Responsible for overseeing sales and operations, business development and project management of our Group	None

Mr. Yang Zougao (楊奏高), aged 42, is the general manager of production of our Group and is responsible for overseeing productions and quality control of our Group. He has over 20 years of experience in the electronic engineering and manufacturing industry.

Mr. Yang obtained his diploma in electrical engineering from Hunan Industry Polytechnic in July 1998. Prior to joining our Group, Mr. Yang worked as a technician in Dongguan Jinzheng Digital Technology Co., Ltd.* (東莞市金正數碼科技有限公司) from February 1998 to August 2000. He worked in Dongguan Jinzhong Electronics Co., Ltd.* (東莞市金眾電子有限公司) as an equipment officer from August 2000 to December 2000. He then worked as a production line engineer in BBK Educational Electronics Co., Ltd.* (步步高教育電子有限公司), a company principally engaged in the sales and supply of electronic products, from January 2001 to July 2001. In August 2001, he joined Shenzhen Confidence as the general manager of production and became a director since December 2015.

Mr. Chen Qin (陳勤), aged 36, is the general manager of marketing and product affairs of our Group and is responsible for overseeing sales and operations, business development and project management of our Group. He has over 10 years of experience in the electronic engineering and manufacturing industry.

Mr. Chen Qin obtained his degree in telecommunication engineering from Guilin University of Electronic Technology in July 2006. He further obtained a master's degree in software engineering from University of Electronic Science and Technology of China in December 2012.

Prior to joining our Group, Mr. Chen Qin worked as a senior engineer and project manager in Shenzhen Jiuzhou Electric Co., Ltd.* (深圳市九州電器有限公司) from July 2006 to July 2009. He then worked as a head of production line in Jiuzhou Jena Co., Ltd., a digital video network provider located in the U.S., from August 2009 to May 2013 where he was responsible for expanding the market and managing the production lines of the company in Northern U.S.. He returned to Shenzhen Jiuzhou Electric Co., Ltd* (深圳市九州電器有限公司) and served as the head of technical support department from June 2013 to September 2014. In March 2015, he joined Shenzhen Confidence as the general manager of marketing and product affairs and was promoted as a director in December 2015.

COMPANY SECRETARY

Ms. Jian Xuegen (簡雪艮), aged 34, was appointed as the company secretary of our Group on 21 February 2019.

Ms. Jian obtained her Bachelor's degree in Accountancy from the South China University of Technology in July 2008. She has been a member of the Hong Kong Institute of Certified Public Accountants since January 2019. She has also been a member of the Chinese Institute of Certified Public Accountants since December 2010.

Ms. Jian joined Ernst & Young Hua Ming LLP Guangzhou Branch in November 2008 and left with her last position as manager in the assurance department in December 2016. Since December 2016, she has worked in the group of Eternity Technology Holdings Limited, a company listed on the Stock Exchange (stock code: 1725), as the financial controller and is responsible for financial reporting, financial planning, treasury and financial control of the company. Since February 2019, Ms. Jian has joined Wisdom Professional Limited, a professional services provider specialising in corporate and investor services, with her position as a consultant and is responsible for providing professional corporate secretarial services to companies listed on the Stock Exchange.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Corporate Governance Code provision A.2.1 stipulates that the roles of chairman of the Board and chief executive should be separate and should not be performed by the same individual. Mr. Li is the chairman of the Board and the chief executive officer of our Group. However, having considered the nature and extent of our Group's operations, Mr. Li's extensive experience in the industry, familiarity with the operations of our Group since its business operation, that all major decisions are made in consultation with members of our Board and relevant Board committees, and that there are three independent non-executive Directors on our Board offering independent perspectives, our Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers and authorities between our Board and the management of our Company and that it is in the best interest of our Group to have Mr. Li taking up both roles. As such, the roles of the chairman and chief executive officer of our Group are not being separated pursuant to the requirement under code provision A.2.1 of the Corporate Governance Code.

We are committed to achieving high standards of corporate governance with a view to safeguard the interests of our Shareholders. To accomplish this, save as disclosed above, our Company will comply with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules after the Listing.

BOARD COMMITTEES

Audit Committee

We have established an Audit Committee on 20 September 2019 and on the same date, the Audit Committee approved the written terms of reference in compliance with the Listing Rules, which will come into effect upon the Listing. The Audit Committee consists of all the independent non-executive Directors, namely, Mr. Wong Chun Sek Edmund, Mr. Chen Zhong and Mr. Wu Tai Cheung. Mr. Wong Chun Sek Edmund is the chairman of the Audit Committee. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process and the internal control systems of our Group.

Remuneration Committee

We have established a Remuneration Committee on 20 September 2019 and on the same date, the Remuneration Committee approved the written terms of reference in compliance with the Listing Rules, which will come into effect upon the Listing. The Remuneration Committee consists of three members, namely, Mr. Wu Tai Cheung, Mr. Chen Zhong and Mr. Wong Chun Sek Edmund. Mr. Wu Tai Cheung is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration of the Directors and senior management of our Company, determine on behalf of the Board specific remuneration packages and conditions of employment for the Directors and senior management of our Company, and to assess the performance of the Directors and senior management of our Company.

Nomination Committee

We have established a Nomination Committee on 20 September 2019 and on the same date, the Nomination Committee has approved the written terms of reference in compliance with the Listing Rules, which will come into effect upon the Listing. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the

Board with reference to our board diversity policy ("**Board Diversity Policy**"). The Nomination Committee consists of three members, namely, Mr. Chen Zhong, Mr. Wong Chun Sek Edmund and Mr. Wu Tai Cheung. Mr. Chen Zhong is the chairman of the Nomination Committee.

BOARD DIVERSITY POLICY

We have adopted the Board Diversity Policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth. Pursuant to the Board Diversity Policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, industry experience, ethnicity and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at our Board and senior management levels. In recognising the particular importance of gender diversity, we are committed to provide career development opportunities for female staff and seek to shortlist at least two suitable female candidates for future appointments to our Board so that the Board will consist of at least 25% female directors within two years after the Listing. Nevertheless, the Company will continue to apply the principle of appointments based on merits with reference to the Board Diversity Policy as a whole.

The effective implementation of the Board Diversity Policy requires that our Shareholders are able to judge for themselves whether our Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support. To this end, our Shareholders will be provided with detailed information of each candidate for appointment or re-election to our Board through announcements and circulars published prior to general meetings of our Company.

Our Nomination Committee is responsible for ensuring the diversity of our Board. After the Listing, our Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and we will disclose the implementation of the Board Diversity Policy in our corporate governance report on an annual basis.

Our Board comprises seven members, including three executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including business management, strategic development, accounting and corporate finance experiences. Furthermore, the ages of our Directors range from 34 years old to 62 years old. We will take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels. After due consideration, our Board believes that based on our existing business model and specific needs, and the background of our Directors, although our Board currently has no female representation, the composition of our Board satisfies the principles under the Board Diversity Policy.

DIRECTORS' REMUNERATION

For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the aggregate amount of fees, salaries, allowances, discretionary payments, bonuses and contribution to pension schemes paid by our Company to our Directors were approximately RMB2.1 million, RMB1.9 million, RMB2.2 million and RMB0.7 million respectively. It is estimated that under the arrangements currently in force, the aggregate remuneration (including directors' fee, basic salary, allowance, non-cash benefit and retirement scheme contribution but excluding discretionary bonus) payable to our Directors (including the independent non-executive Directors) for the year ending 31 December 2019 will be approximately RMB1.8 million. We shall maintain relevant liability insurance for our Directors upon Listing.

The remuneration paid by our Company to our top five highest paid individuals (including our Directors) for each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019 were approximately RMB3.0 million, RMB2.8 million, RMB3.5 million and RMB1.2 million respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, the Directors or our five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by our Company to, or receivable by, the Directors, past Directors or our five highest paid individuals for the loss of any office in connection with the management of the affairs of any subsidiary of our Company during the Track Record Period.

During the Track Record Period, none of our Directors waived any emoluments. Save as disclosed in this section, the Accountant's Report set out in Appendix I and the paragraph headed "D. Disclosure of interests — 4. Remuneration of Directors" in Appendix IV to this prospectus, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors or our five highest paid individuals during the Track Record Period.

Under the remuneration policy of our Company, the Remuneration Committee will consider factors, such as salaries paid by comparable companies, tenure, commitment, responsibilities and performance, in assessing the amount of remuneration payable to our Directors, senior management and employees.

EMPLOYEES

For details, please refer to the paragraph headed "Business — Employees" in this prospectus.

EMPLOYEES' RELATIONS

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes. The remuneration payable to our employees includes salaries, discretionary bonuses and commission.

Bonuses are generally discretionary and based on the overall performance of our Group's business. We believe that our employee relations are satisfactory in general. We believe that the management policies, working environment, career prospects and benefits extended to our employees have contributed to employee retention and building of amicable employee relations.

COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, our Company has appointed Dakin Capital as our compliance adviser, who will have access to all relevant records and information relating to our Company that it may reasonably require to properly perform its duties. Pursuant to Rule 3A.23 of the Listing Rules, our Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be considered a notifiable or connected transaction under Chapters 14 and/or 14A of the Listing Rules, is contemplated by our Company, including share issues and share repurchases;

(iii) where our Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate (if any) or other information in this prospectus; and

(iv) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date (i.e. the date of despatch of the annual reports of our Company in respect of our results for the year ending 31 December 2020), or until the agreement is terminated, whichever is the earlier.

The compliance adviser shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines, and to act as one of our principal channels of communication with the Stock Exchange.

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), each of the following persons will have an interest or short position in the Shares or 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 any other member of our Group:

Name	**Capacity/Nature of Interest**	**Number of Shares** *(Note 1)*	**Approximate percentage of interests in our Company**
Skyflying Company	Beneficial owner	99,881,250 ordinary Shares (L)	39.95%
Mr. Li *(Note 2)*	Interest in a controlled corporation	99,881,250 ordinary Shares (L)	39.95%
Central Wealth	Beneficial owner	46,950,000 ordinary Shares (L)	18.78%
Mr. Yuan *(Note 3)*	Interest in a controlled corporation	46,950,000 ordinary Shares (L)	18.78%
Ms. Zhang Juan *(Note 4)*	Interest of spouse	46,950,000 ordinary Shares (L)	18.78%
Realtime	Beneficial owner	27,543,750 ordinary Shares (L)	11.02%
Mr. Zhang *(Note 5)*	Interest in a controlled corporation	27,543,750 ordinary Shares (L)	11.02%
Ms. Chen Juan *(Note 6)*	Interest of spouse	27,543,750 ordinary Shares (L)	11.02%
Bright Shine	Beneficial owner	13,125,000 ordinary Shares (L)	5.25%
Mr. Yuen Hoi Po *(Note 7)*	Interest in a controlled corporation	13,125,000 ordinary Shares (L)	5.25%
Ms. Chen Jun Man, Sophie *(Note 8)*	Interest of spouse	13,125,000 ordinary Shares (L)	5.25%

Notes:

1. The letter (L) denotes the person's long interest in our Shares.

2. Skyflying Company is a company incorporated in BVI and is wholly-owned by Mr. Li. Mr. Li is deemed to be interested in all the Shares held by Skyflying Company for the purpose of the SFO.

3. Central Wealth is a company incorporated in BVI and is wholly-owned by Mr. Yuan. Mr. Yuan is deemed to be interested in all Shares held by Central Wealth for the purpose of the SFO.

4. Ms. Zhang Juan is the spouse of Mr. Yuan. Accordingly, Ms. Zhang Juan is deemed to be interested in all the Shares held by Mr. Yuan under the SFO.

5. Realtime is a company incorporated in BVI and is wholly-owned by Mr. Zhang. Mr. Zhang is deemed to be interested in all the Shares held by Realtime for the purpose of the SFO.

6. Ms. Chen Juan is the spouse of Mr. Zhang. Accordingly, Ms. Chen Juan is deemed to be interested in all the Shares held by Mr. Zhang under the SFO.

7. Bright Shine is a company incorporated in BVI and is wholly-owned by Mr. Yuen Hoi Po. Mr. Yuen Hoi Po is deemed to be interested in all the Shares held by Bright Shine for the purpose of the SFO.

8. Ms. Chen Jun Man, Sophie is the spouse of Mr. Yuen Hoi Po. Accordingly, Ms. Chen Jun Man, Sophie is deemed to be interested in all the Shares held by Mr. Yuen Hoi Po under the SFO.

Save as disclosed in this section, our Directors are not aware of any person who will, immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which fail to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

SHARE CAPITAL

The following is a description of the share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the Capitalisation Issue and the Share Offer, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme:

Authorised share capital		*HK$*
100,000,000,000	Shares of HK$0.01 each	1,000,000,000
Shares issued and to be issued, fully paid or credited as fully paid		
10,753	Shares in issue as at the date of this prospectus	107.53
187,489,247	Shares to be issued pursuant to the Capitalisation Issue *(Note)*	1,874,892.47
62,500,000	Shares to be issued pursuant to the Share Offer	625,000
250,000,000	Total	2,500,000

Note: Pursuant to the written resolutions of the Shareholders passed on 20 September 2019, conditional upon the share premium account of our Company being credited as a result of the Share Offer, the Directors were authorised to capitalise the amount of HK$1,874,892.47 from the amount standing to the credit of the share premium account of our Company and to apply such amount to pay up in full at par 187,489,247 Shares for allotment and issue to the persons whose names appeared on the register of members of the Company at the close of business on the Business Day immediately before the Listing Date, in proportion (or as nearly as possible without involving fractions) to their respective shareholdings in the Company.

Assuming the Over-allotment Option is exercised in full, (i) the additional number of Shares to be issued pursuant to the Share Offer will be 9,375,000 Shares; and (ii) the issued share capital of our Company immediately following completion of the Share Offer will be HK$2,593,750 divided into 259,375,000 Shares.

ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional and the issue of Shares pursuant to the Share Offer and the Capitalisation Issue are made. It takes into no account of any Shares which may be allotted and issued upon the exercise of the options which may be granted under the Over-allotment Option and the Share Option Scheme any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

MINIMUM PUBLIC FLOAT

The minimum level of public float to be maintained by our Company at all times after Listing under the Listing Rules is 25% of its share capital in issue from time to time. The 62,500,000 Offer Shares represent not less than 25% of the issued share capital of our Company upon the Listing.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally in all respects with all other Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will qualify in full for all dividends or other distributions thereafter declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus save for any entitlement under the Capitalisation Issue.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 20 September 2019, the principal terms of which are summarised in the paragraph headed "Statutory and General Information — E. Share Option Scheme" in Appendix IV to this prospectus. As at the Latest Practicable Date, no option had been granted under the Share Option Scheme.

CAPITALISATION ISSUE

Pursuant to the written resolutions of the Shareholders passed on 20 September 2019, subject to the share premium account of our Company being credited as a result of the issue Offer Shares pursuant to the Share Offer, our Directors were authorised to allot and issue a total of 187,489,247 Shares credited as fully paid to the Shareholders on the register of members of our Company at the close of business on 20 September 2019 (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of Capitalisation of the sum of HK$1,874,892.47 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares (other than the right to participate in the Capitalisation Issue).

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the paragraph headed "Structure and Conditions of the Share Offer — Conditions of the Share Offer" of this prospectus being fulfilled, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares and to make or grant offers or agreements which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

(a) 20% of the number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); and

(b) the total number of Shares repurchased pursuant to the general mandate granted to our Directors referred to in the paragraph headed "General Mandate to Repurchase Shares" in this section.

Our Directors may, in addition to our Shares which they are authorised to issue under the general mandate, allot, issue and deal in our Shares pursuant to a rights issue, scrip dividends or similar arrangements or options granted or to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of any option which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(c) the date when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders in general meeting, whichever occur the earliest.

For details of this general mandate, please refer to the paragraph headed "Statutory and General Information — A. Further Information about Our Company — 4. Written resolutions of the Shareholders" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the paragraph headed "Structure and Conditions of the Share Offer — Conditions of the Share Offer" of this prospectus being fulfilled, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) with an aggregate number of not more than 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares to be issued upon exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Statutory and General Information — A. Further information about our Company — 6. Repurchase by our Company of our own securities" in Appendix IV to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(c) the date when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For details of this general mandate, please refer to the paragraph headed "Statutory and General Information — A. Further information about our Company — 6. Repurchase by our Company of our own securities" in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles and the Memorandum of Association, a summary of which is set out in Appendix III to this prospectus.

The following discussion and analysis of our Group's financial condition and results of operations should be read together with our consolidated financial information as of and for each of FY2016, FY2017 and FY2018 and for the four months ended 30 April 2019 with the accompanying notes as set out in the Accountant's Report in Appendix I to this prospectus. The financial statements have been prepared in accordance with HKFRS. Prospective investors should read the whole of the Accountant's Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risk and uncertainties. However, whether our actual results and developments will meet our expectations and projection depend on a number of risks and uncertainties over which our Group does not have control. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are an EMS provider offering comprehensive PCB assembling and production services in the PRC integrating research and design, selection and procurement of raw materials, assembly of PCBAs, quality control, testing, logistics and aftersales services. PCBA is used as an electronic circuit interconnecting medium and a mechanical mounting substrate which is a vital part of an electronic product.

Our products are PCBAs that are generally incorporated in downstream electronic products such as telecommunication devices, industrial-use devices, IoT products and other devices under the brands of our customers or ultimate customers

During the Track Record Period, our customers mainly include manufacturers, OEMs and brand owners of electronic products in the PRC and the United States. For each of FY2016, FY2017, FY2018 and the four months ended 30 April 2019, our sales to our top five customers accounted for approximately 99.0%, 98.3%, 90.2% and 80.9% of our total revenue respectively. For the same periods, our largest customer accounted for approximately 77.2%, 68.2%, 53.8% and 38.9% of our total revenue, respectively.

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospect since 30 April 2019, being the date to which our latest audited financial information was prepared, and there is no event which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report set out in Appendix I to this prospectus. Further details of our Group's indebtedness position have been set out under "Indebtedness" in this section.

For further information about our business and operations, please refer to the section headed "Business" in this prospectus.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 7 December 2018 and became the indirect holding company of Shenzhen Confidence pursuant to the Reorganisation completed on 12 March 2019. Details of which are set out in the section headed "History, development and Reorganisation" in this prospectus.

The financial information of our Group has been prepared by our Directors based on accounting policies which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, on the basis of presentation as set out in note 1.3 in the Accountant's Report contained in Appendix I to this prospectus.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Group's financial condition and results of operations have been and will continue to be affected by a number of factors, including those factors set out below and in the section headed "Risk Factors" in this prospectus.

Change in market demand of our customers

Our Group's revenue is dependent on the orders from our customers. Demand from our customers may change from time to time due to various reasons. For instance, if the prices of our products are not as competitive as those set by our competitors for comparable products or if the quality of our products does not meet our customers' expectations or requirements, our customers may reduce their purchase volume or may not make purchases from us. Since we are not their exclusive supplier, there is no assurance that our existing customers will continue to purchase our products at current level or at all in the future. In these circumstances, our results of operations and financial performance may be affected.

Our relationship with OPPO Group

During the Track Record Period, OPPO Group, which is one of the top six global smartphone brand owners and one of the top four smartphone brand owners in the PRC, was our largest customer for each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, with the revenue generated from the sales to OPPO Group amounted to approximately RMB134.4 million, RMB142.2 million, RMB127.0 million and RMB33.2 million, representing approximately 77.2%, 68.2%, 53.8% and 38.9% of our total revenue, respectively. Consequently, changes in relationship with OPPO Group may materially affect our results of operation and financial condition.

Production costs

Our most significant cost of sales are cost of raw materials and direct labour. The raw materials we use for the provision of PCB assembling and production services can generally be divided into electronic components and ancillary materials (including ICs, PCBs, capacitors, resistors, crystal oscillators, diodes, triodes, nitrogen and other consumables). Cost of raw materials and consumables used is one of the major components in our cost of sales. For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, the cost of raw materials and consumables used amounted to approximately RMB27.2 million, RMB49.8 million, RMB72.5 million and RMB27.9 million, respectively, representing approximately 24.4%, 34.4%, 44.8% and 49.4% of our total cost of sales, respectively. Our direct labour cost represents the labour cost directly incurred for the assembling and production of PCBAs, which amounted to approximately RMB41.9 million, RMB53.4 million, RMB47.2 million and RMB15.0 million, respectively, representing approximately 37.6%, 36.9%, 29.1% and 26.5% of our total cost of sales, respectively. As such, any significant fluctuation in the price of raw materials and consumables may have a significant impact on our Group's profitability.

Since the cost of raw materials and consumables used and direct labour cost accounted for the largest portion of our Group's cost of sales during the Track Record Period, a sensitivity analysis on the fluctuation in raw materials and consumable cost and direct labour cost during the Track Record Period is set out below to illustrate the impact of hypothetical fluctuations on our profit before tax for the Track Record Period, assuming all other variables remained constant. During the Track Record Period, purchase of ICs and capacitors, resistors, etc. accounted for over 60% of our purchase of raw materials, and our purchase price of ICs and capacitors, resistors, etc. recorded a CAGR of approximately –3.1% and 3.2% respectively, while the average wage of our direct labour recorded a CAGR of approximately 4.1% between FY2016 and FY2018. Our Group adopted hypothetical fluctuations of –3.1% and 3.2% in performing the sensitivity analysis in raw materials and consumables cost, and 4.1% in performing the sensitivity analysis in direct labour cost:

Hypothetical fluctuation in cost of raw material and consumables used	**3.2%**	**3.1%**	**–3.2%**	**–3.1%**
Change in profit before tax (RMB'000)				
FY2016	(872)	(844)	872	844
FY2017	(1,594)	(1,544)	1,594	1,544
FY2018	(2,320)	(2,248)	2,320	2,248
For the four months ended 30 April 2019	(893)	(865)	893	865

Hypothetical fluctuation in direct labour cost	**4.1%**	**–4.1%**
Change in profit before tax (RMB'000)		
FY2016	(1,720)	1,720
FY2017	(2,190)	2,190
FY2018	(1,933)	1,933
For the four months ended 30 April 2019	(614)	614

To effectively control the cost of raw materials and consumables and mitigate the effect of price fluctuation of raw materials on our profitability, we maintain a good relationship with a number of qualified suppliers and procure raw materials from diversified sources. The price and availability of raw materials may vary from period to period due to factors such as consumer demand and market conditions. However, we cannot completely avoid fluctuation in the prices of raw materials and are exposed to market risk of raw material price fluctuation. We do not have any hedging policy against any risk of fluctuation in raw material price. Any increase in our cost of raw materials would negatively impact our gross profit margin if we are unable to pass on the increased cost to our customers by increasing the selling price of our products.

Composition of our product

Our products are PCBAs that are generally incorporated in downstream electronic products such as telecommunication devices, industrial-use devices, IoT products and other devices. For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, the amount of revenue generated from PCBAs for telecommunication devices was approximately RMB135.4 million, RMB143.0 million, RMB127.2 million and RMB38.1 million, representing approximately 77.8%, 68.6%, 53.9% and 44.5% of our total revenue respectively. The amount of revenue generated from PCBAs for IoT products was approximately RMB14.6 million, RMB22.8 million, RMB75.2 million and RMB36.8 million, representing approximately 8.4%, 10.9%, 31.8% and 43.1% of our total revenue respectively for each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019. The change in demand for different kinds of electronic products that incorporated our PCBAs could be driven by a number of factors, including but not limited to customers' preferences, customer base, market conditions and industry environment. Our results of operations may vary significantly from period to period as a result of changes in the composition of our PCBAs sold in the future.

Production capacity

Our ability to maintain our profitability depends partly on our ability to maintain a high utilisation rate of our production machinery and equipment in our Shenzhen Production Plant. The level of utilisation rate of our production machinery and equipment can impact our operating results as a certain percentage of our cost of sales such as direct labour cost and factory overhead are relatively fixed in nature. A higher utilisation rate of our production machinery and equipment allows us to spread our fixed cost over a larger quantity of product, resulting in a higher profit margin. For each of FY2014, FY2015, FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, the utilisation rate of our SMT assembling lines which consisted machinery owned and leased by us was approximately 74.3%, 88.3%, 90.8%, 91.1%, 92.0% and 93.5%, respectively. The utilisation rate of our SMT assembly lines which consisted machinery owned by us increased from approximately 90.7% in FY2016 to approximately 94.0% for the four months ended 30 April 2019 in terms of SMT machine hours. For more details, please refer to the paragraph headed “Business — Production facilities and utilisation” in this prospectus.

Our results of operations are directly affected by our sales volume, which in turn is a function of our production capacity and market demand. Growth in our revenue and the diversification of our product mix, depends to a large extent on our ability to expand our production capacity and manage our production planning. We aim to maintain and increase our production capacity and efficiency by way of increasing the level of automation in our production lines to seize market opportunities. Details of our future plans are set forth in the section headed “Future Plans and Use of Proceeds” in this prospectus.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of our Group has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The significant accounting policies adopted by our Group are set forth in detail in note 2 to the Accountant’s Report set out in Appendix I to this prospectus.

Some of the accounting policies involve judgements, estimates and assumptions made by our management. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Further information regarding the key judgements made in applying our accounting policies are set forth in note 4 to the Accountant’s Report set out in Appendix I to this prospectus.

Adoption of HKFRS 9 and HKFRS 15

Our historical financial information has been prepared based on the underlying financial statements, in which HKFRS 9, “Financial instruments” (“**HKFRS 9**”) and HKFRS 15, “Revenue from contracts with customers” (“**HKFRS 15**”) have been adopted using the full retrospective method and applied consistently since the beginning of, and throughout, the Track Record Period.

Given that the Track Record Period spans from 1 January 2016 to 30 April 2019 by which time HKFRS 9 and HKFRS 15 would be mandatorily applied, we have adopted HKFRS 9 and HKFRS 15 in lieu of HKAS 18 “Revenue” (“**HKAS 18**”) and HKAS 39 “Financial Instruments: Recognition and Measurement” (“**HKAS 39**”) in the preparation of our financial statements, such that our historical financial information prepared under HKFRS 9 and HKFRS 15 is comparable on a period-to-period basis.

Nonetheless, we have carried out internal assessments with our best effort based on the principles set out in HKAS 18 and HKAS 39, and set forth below certain estimated key impact on our financial position and performance if HKAS 18 and HKAS 39 were adopted instead:

- ***Adoption of new impairment model.*** HKFRS 9 requires the recognition of impairment provisions of financial assets measured at amortised cost based on expected credit losses while it is based on as-incurred model under HKAS 39. We have assessed that the adoption of these two different models would not result in significant difference on bad debt provision and the adoption of HKFRS 9 would not result in significant impact on the Group's financial position and performance as compared with HKAS 39.

- ***Revenue recognition.*** Under HKFRS 15, the Group's revenue from rendering of electronic manufacturing services ("**EMS**") is recognised over time using the input method with reference to the costs incurred for service. Under HKAS 18, the Group's revenue from EMS would be recognised at a point in time when goods are delivered and the risk and rewards of the goods are transferred to the customers. The timing differences between the transfer of control of service under HKFRS 15 and transfer of risk and reward of goods under HKAS 18 led to recognition of contract asset as a result of recognising revenue from services that the Group already transferred the control to customers but yet to have unconditional right to consideration. Concurrently, the Group also derecognised certain inventories as costs incurred by the Group to provide the services of which corresponding revenue was recognised. Furthermore, the adoption of HKFRS 15 resulted in reclassification in relation to advanced payments received from the customers for services that have not been transferred to the customers; contract liabilities amounting to approximately RMB0.5 million, RMB6.8 million, RMB6.5 million and RMB3.3 million as of 31 December 2016, 2017 and 2018 and as of 30 April 2019, respectively, would have been reclassified as receipt in advance if HKAS 18 has been applied throughout the Track Record Period. We consider that the aforementioned impact from the adoption of HKFRS 15 would not result in significant impact on our financial position and performance as compared with HKAS 18.

Save as disclosed in the paragraph headed "Adoption of HKFRS 9 and HKFRS 15" in this section, the adoption of HKFRS 9 and HKFRS 15 would not have material impact to other areas of the Group's financial statements, and we considered that the adoption of HKFRS 9 and HKFRS 15 would not result in significant impact on our financial position and performance as compared with HKAS 18 and HKAS 39.

Adoption of HKFRS 16

Our historical combined financial information has been prepared based on our underlying financial statements, in which HKFRS 16, "Leases" ("**HKFRS 16**") has been adopted and applied consistently since the beginning of, and throughout, the Track Record Period. Given that the Track Record Period spans from January 2016 to April 2019 by which time HKFRS 16 would be mandatorily applied, we have to adopt HKFRS 16, in lieu of HKAS 17, "Leases" ("**HKFRS 17**") in the preparation of our underlying financial statements, such that our historical combined financial information under HKFRS 16 is comparable on a period-to-period basis and allows the investors to better understand our financial performance and position. Accordingly, we have prepared and maintained only one set of combined financial statements adopting HKFRS 16 for the Track Record Period. Neither we had prepared, nor the reporting accountant had audited or reviewed, our combined financial statements for the Track Record Period prepared based on HKAS 17.

Nonetheless, in order to provide additional information to investors, we has carried out internal assessments with our best efforts based on the principles set out in HKAS 17, and set forth below certain estimated key impact on our financial position and performance if HKAS 17 was adopted instead.

Under HKAS 17, operating lease commitments are disclosed separately in a note to the combined financial statement and are recognised outside of the combined statement of financial position. Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognised in the form of assets (being the right-of-use assets classified under properties, plant and equipment in our financial statements) and financial liabilities (being the lease liabilities in our financial statements) on our combined statements of financial position at the commencement of respective leases.

The table set forth below summarises the impacts of the adoption of HKFRS 16 on certain key items of our combined financial statements and key ratios:

(in RMB'000)	**Currently reported under HKFRS 16 (a)**	**As if reported under HKAS 17 (b)**	**Difference (a)–(b)**
Profit after tax			
— For the year ended 31 December 2016	35,362	33,869	1,493
— For the year ended 31 December 2017	32,011	31,066	945
— For the year ended 31 December 2018	40,814	40,846	(32)
— For the four months ended 30 April 2019	3,942	4,184	(242)
Total assets			
— As at 31 December 2016	138,405	123,833	14,572
— As at 31 December 2017	186,685	170,891	15,794
— As at 31 December 2018	221,466	209,064	12,402
— As at 30 April 2019	226,244	214,343	11,901

(in RMB'000)	**Currently reported under HKFRS 16 (a)**	**As if reported under HKAS 17 (b)**	**Difference (a)–(b)**
Total liabilities			
— As at 31 December 2016	48,959	35,603	13,356
— As at 31 December 2017	70,085	56,452	13,633
— As at 31 December 2018	73,321	63,048	10,273
— As at 30 April 2019	71,396	61,382	10,014
Net assets			
— As at 31 December 2016	89,446	88,230	1,216
— As at 31 December 2017	116,600	114,439	2,161
— As at 31 December 2018	148,145	146,016	2,129
— As at 30 April 2019	154,848	152,961	1,887
Current ratio [(a)]			
— As at 31 December 2016	1.8	2.0	(0.2)
— As at 31 December 2017	1.6	1.7	(0.1)
— As at 31 December 2018	2.2	2.3	(0.1)
— As at 30 April 2019	2.5	2.7	(0.2)
Quick ratio [(b)]			
— As at 31 December 2016	1.7	2.0	(0.3)
— As at 31 December 2017	1.5	1.6	(0.1)
— As at 31 December 2018	1.6	1.7	(0.1)
— As at 30 April 2019	1.9	2.1	(0.2)
Gearing ratio [(c)]			
— As at 31 December 2016	31.3%	16.6%	14.7%
— As at 31 December 2017	37.4%	26.3%	11.1%
— As at 31 December 2018	24.0%	17.4%	6.6%
— As at 30 April 2019	17.0%	10.8%	6.2%

(a) Current ratio is calculated by dividing current assets by current liabilities.

(b) Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.

(c) Gearing ratio is calculated by dividing total debt by total equity multiplied by 100%. Total debt is defined as the sum of the borrowings, lease liabilities and contract liabilities.

The above-mentioned differences are primarily due to increases in our property, plant and equipment and lease liabilities in the combined statements of financial position; and net impact on increase in depreciation and decrease in rental expenses in the combined statements of combined statements of comprehensive income for the Track Record Period as a result of the adoption of HKFRS 16 would not result in significant impact on our net assets and net profit as compared with HKAS 17.

RESULTS OF OPERATIONS

The consolidated income statements during the Track Record Period are summarised below, which have been extracted from the Accountant's Report set out in Appendix I to this prospectus. As such, the following sections should be read in conjunction with the Accountant's Report set out in Appendix I to this prospectus.

				Four months ended 30 April 2019	
	FY2016	**FY2017**	**FY2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	174,140	208,634	236,210	58,972	85,447
Cost of sales	(111,527)	(144,773)	(161,946)	(40,016)	(56,554)
Gross profit	62,613	63,861	74,264	18,956	28,893
Other income	883	1,821	1,846	1,191	1,275
Other (losses)/gains, net	(357)	(149)	148	(12)	(763)
Selling and distribution expenses	(1,126)	(1,236)	(1,869)	440	(536)
Administrative expenses	(18,226)	(25,694)	(24,933)	(7,426)	(20,826)
Operating profit	43,787	38,603	49,456	12,269	8,043
Finance costs, net	(1,762)	(1,663)	(2,227)	(601)	(631)
Impairment loss of investment in an associate	(924)	—	—	—	—
Share of net loss of an associate accounted for using the equity method	(76)	—	—	—	—
Profit before income tax	41,025	36,940	47,229	11,668	7,412
Income tax expense	(5,663)	(4,929)	(6,415)	(1,428)	(3,470)
Profit for the year attributable to owners of the Company	35,362	32,011	40,814	10,240	3,942
Non-IFRS measures *(Note)*					
Profit for the year attributable to owners of the Company (excluding listing expenses)	35,362	32,011	41,345	10,240	14,126
Listing expenses	—	—	(531)	—	(10,184)
Profit for the year attributable to owners of the Company	35,362	32,011	40,814	10,240	3,942

Note: The profit for the year attributable to owners of the Company (excluding listing expenses) represents profit for the year attributable to owners of the Company excluding the effects of the listing expenses as it is non-recurring in nature. The profit for the year attributable to owners of the Company (excluding listing expenses) is not a measure of performance under IFRS. As a non-IFRS measure, the profit for the year attributable to owners of the Company (excluding listing expenses) is presented because our Directors believe such information will be helpful for investors in assessing the level of our net profit by eliminating the effects of certain one-off or non-recurring items, namely, listing expenses. There are no other significant non-recurring or one-off items during the Track Record Period. However, the use of the profit for the year attributable to owners of the Company (excluding listing expenses) has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year/period.

Revenue

During the Track Record Period, our revenue was generated by the sale of PCBAs, which can be generally incorporated in downstream electronic products of three principal types, namely, (i) telecommunication devices; (ii) industrial-use devices; and (iii) IoT products. For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, our revenue amounted to approximately RMB174.1 million, RMB208.6 million, RMB236.2 million and RMB85.4 million, respectively. In general, the growth of our revenue during FY2016, FY2017, and FY2018 was mainly attributable to (i) higher demand for our PCBAs for IoT products as a result of the rapid growth in global IoT connected devices which recorded a CAGR of approximately 33.0% for the period between 2014 and 2018, according to the CIC Report, (ii) increasing number of customers from 28 customers in FY2016 to 57 customers in FY2018, and (iii) our provision of more value-added services, such as raw materials selection and procurement services, to our customers. For the four months ended 30 April 2019, our Group's revenue recorded an increase of approximately 44.9% as compared to the four months ended 30 April 2018. The increase was mainly contributed by (i) increase in our sales of PCBAs for IoT products from RMB13.6 million for the four months ended 30 April 2018 to RMB36.8 million for the four months ended 30 April 2019; (ii) as confirmed by our Directors, Customer A was introduced by our existing customer in 2019 and provided revenue of approximately RMB4.6 million for the four months ended 30 April 2019; and (iii) our Group began to manufacture PCBAs for solar panel since late 2018 as evidenced by the revenue derived from sales of PCBAs for solar panel increased from nil for the four months ended 30 April 2018 to RMB3.9 million for the four months ended 30 April 2019. For further details of our revenue contributed by different product types, please see below.

By product type

The following table sets forth a breakdown of our revenue by the kind of electronic products that incorporated our PCBAs during the Track Record Period *(Note 1)*:

	FY2016		FY2017		FY2018		Four months ended 30 April 2018		Four months ended 30 April 2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000* (unaudited)	*% of total revenue*	*RMB'000*	*% of total revenue*
PCBAs for										
Telecommunication devices	135,396	77.8	143,007	68.6	127,203	53.9	35,677	60.5	38,052	44.5
Industrial-use devices	23,904	13.7	42,595	20.4	30,581	12.9	9,512	16.1	9,823	11.5
IoT products	14,622	8.4	22,775	10.9	75,183	31.8	13,639	23.1	36,838	43.1
Others *(Note 2)*	218	0.1	257	0.1	3,243	1.4	144	0.3	734	0.9
Total	174,140	100.0	208,634	100.0	236,210	100.0	58,972	100.0	85,447	100.0

Notes:

1. The breakdown is based on the communication between individual customers and us and our understanding on the applicability of our PCBAs.

2. Others mainly include (i) PCBAs for automotive related devices; and (ii) the revenue generated from the sale of auxiliary and other materials.

The growth in our revenue for FY2016, FY2017 and FY2018 was primarily due to the increase in our sales of PCBAs for IoT products which increased by approximately RMB60.6 million from approximately RMB14.6 million for FY2016 to approximately RMB75.2 million for FY2018. Such increase was mainly attributable to the increasing demand of IoT products. According to the CIC report, the number of global IoT connected devices has increased rapidly, expanding from about 3.0 billion units in 2014 to about 9.3 billion units in 2018, and representing a CAGR at 33.0%. Our Group recorded an increase in revenue derived from sales of PCBAs for IoT products from approximately RMB13.6 million for the four months ended 30 April 2018 to approximately RMB36.8 million for the four months ended 30 April 2019 mainly as a result of revenue derived from our major customers, namely Espressif Group and Info Safe, which increased from approximately RMB10.3 million for the four months ended 30 April 2018 to RMB17.5 million for the four months ended 30 April 2019, and increased from approximately RMB1,000 for the four months ended 30 April 2018 to approximately RMB8.5 million for the four months ended 30 April 2019, respectively.

Our Group is diversifying our customer base and product offerings during the Track Record Period. We refined our product mix in which the percentage of revenue derived from the sale of PCBAs for telecommunication devices decreased from approximately 77.8% of our total revenue for FY2016 to approximately 68.6% of our total revenue for FY2017 and further reduced to approximately 53.9% of our total revenue for FY2018. And the revenue derived from the sale of PCBAs for telecommunication devices decreased from approximately 60.5% to 44.5% of our total revenue for the four months ended 30 April 2018 and for the four months ended 30 April 2019 respectively.

We produce PCBAs for industrial-use devices such as industrial-use routers, solar panels and testing devices, which are electronic devices that generally connect to other electronic products or their individual components to test the functions and trace any faults in the process of manufacturing the electronic products in a factory. Revenue derived from the sale of PCBAs for industrial-use devices has increased from approximately RMB23.9 million for FY2016 to RMB42.6 million for FY2017. The increase was mainly attributable to the increase in purchase order from Sunway Group for the PCBAs for industrial-use testing devices. Revenue derived from the sale of PCBAs for industrial-use devices has decreased to RMB30.6 million for FY2018, which was mainly due to the decrease in the average selling price of our PCBAs for industrial-use devices as a result of the change in product specification. Our Group's revenue derived from sales of PCBAs for industrial-use devices slightly increased from approximately RMB9.5 million for the four months ended 30 April 2018 to approximately RMB9.8 million for the four months ended 30 April 2019.

By geographical regions

During the Track Record Period, our revenue was substantially derived in the PRC. The following table sets forth our revenue by geographical location of our customers for the periods indicated:

							Four months ended 30 April			
	FY2016		FY2017		FY2018		2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000* (unaudited)	*% of total revenue*	*RMB'000*	*% of total revenue*
The PRC	174,093	100.0	205,961	98.7	234,888	99.4	57,650	97.8	85,447	100.0
United States	47	— *(Note)*	2,673	1.3	1,322	0.6	1,322	2.2	—	0.0
	174,140	100.0	208,634	100.0	236,210	100.0	58,972	100.0	85,447	100.0

Note: Represents a percentage of less than 0.1%.

For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, our revenue generated from the PRC amounted to approximately RMB174.1 million, RMB206.0 million, RMB234.9 million and RMB85.4 million, respectively, which accounted for approximately 100.0%, 98.7%, 99.4% and 100.0% of our total revenue for the corresponding periods, respectively.

Cost of sales

Cost of sales represents costs and expenses directly attributable to our revenue generating activities. For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, our cost of sales were approximately RMB111.5 million, RMB144.8 million, RMB161.9 million and RMB56.6 million, respectively, representing approximately 64.0%, 69.4%, 68.6% and 66.2% of our total revenue, respectively.

Our cost of raw materials and consumables and direct labour cost represented the largest component of our cost of sales, accounting for approximately 62.0%, 71.3%, 73.9% and 75.9% of our total cost of sales for FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, respectively. Set out below is a breakdown of the cost of sales by nature of expense for the periods indicated:

	FY2016		FY2017		FY2018		Four months ended 30 April 2018		2019	
	RMB'000	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000* (unaudited)	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*
Cost of raw materials and consumables used	27,236	24.4	49,819	34.4	72,514	44.8	13,712	34.3	27,913	49.4
Direct labour	41,947	37.6	53,419	36.9	47,158	29.1	12,935	32.3	14,980	26.5
Depreciation	21,198	19.0	12,386	8.6	13,634	8.4	4,236	10.6	5,134	9.1
Rental costs	8,875	8.0	19,702	13.6	19,089	11.8	5,330	13.3	5,376	9.5
Subcontracting charges	4,604	4.1	605	0.4	1,872	1.2	1,608	4.0	295	0.5
Factory overhead	7,667	6.9	8,842	6.1	7,679	4.7	2,195	5.5	2,856	5.0
	111,527	100.0	144,773	100.0	161,946	100.0	40,016	100.0	56,554	100.0

Cost of raw materials and consumables used

The raw materials we use for the assembling and production of PCBAs can generally be divided into electronic components and ancillary materials (including ICs, PCBs, capacitors, resistors, crystal oscillators, diodes, triodes, nitrogen and other consumables). During the Track Record Period, we assembled and produced PCBAs with the raw materials supplied to us by our customers directly, or with the raw materials we purchased from suppliers designated by our customers or from suppliers selected by us from our list of approved suppliers. For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, the cost of raw materials and consumables accounted for approximately 24.4%, 34.4%, 44.8% and 49.4% of our total cost of sales, respectively. Such increase in the cost of raw materials and consumables as a percentage of our total cost of sales during the Track Record Period was mainly due to more customers requesting us to procure raw materials for them in our provision of integrated EMS solutions.

Direct labour

Direct labour cost included wages, social insurance contribution and staff welfare cost for personnel (including our employees and dispatched workers engaged by our Group) directly involved in our production activities. Our direct labour cost remained relatively stable at approximately RMB41.9 million, RMB53.4 million, RMB47.2 million and RMB15.0 million for FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, respectively. The increase in direct labor cost for FY2017 was mainly attributable to increase in number of our employees and dispatched workers engaged by our group during the year. While the decrease in direct labour cost for FY2018 was primary due to less dispatched workers we engaged over the period as we increased the level of automation. The increase in direct labour cost for the four months ended 30 April 2019 as compared with the four months ended 30 April 2018 was mainly attributable to the expansion of direct labour to cope with the increase in demand from our customers, as evidenced in increasing revenue during the corresponding period. However, our direct labour cost as a percentage to total cost of sales decreased from 32.3% for the four months ended 30 April 2018 to 26.5% for the four months ended 30 April 2019, resulted from additional automated testing lines implemented in the latter period.

Depreciation

Our depreciation expenses under cost of sales amounted to approximately RMB21.2 million, RMB12.4 million, RMB13.6 million and RMB5.1 million for FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, respectively, which are primarily related to our property, plant and equipment for production purpose. Our depreciation expenses under cost of sales decreased from approximately RMB21.2 million for FY2016 to approximately RMB12.4 million for FY2017 mainly because (i) some of our machinery have been fully depreciated in FY2016, (ii) some of our machinery were disposed in FY2017, partially offset by additional machinery in FY2017. Depreciation expenses increased from approximately RMB4.2 million for the four months ended 30 April 2018 to approximately RMB5.1 million for the four months ended 30 April 2019, which was primarily due to additional properties, plant and equipment in the corresponding periods.

Rental costs

Our rental costs accounted for approximately RMB8.9 million, RMB19.7 million, RMB19.1 million and RMB5.4 million for FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, respectively, which primarily related to our Group's rental expenses in respect of production machinery and equipment. Such leased production machinery and equipment mainly consists of SMT mounting machine and testing machine in respect of PCBAs for telecommunication devices. Our rental costs increased by approximately RMB10.8 million for FY2017 mainly attributable to the increase in our rental of production machinery and equipment to cope with the increasing demand for our PCBAs. Rental cost remained relatively stable at RMB5.3 million and RMB5.4 million for the four months ended 30 April 2018 and 2019, respectively.

Subcontracting charges

Our subcontracting charges amounted to approximately RMB4.6 million, RMB0.6 million, RMB1.9 million and RMB0.3 million for FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, respectively. Our subcontracting charges decreased from approximately RMB4.6 million for FY2016 to approximately RMB0.6 million for FY2017, which was primary attributable to increase in our production efficiency as we upgraded our production facilities during FY2017 by way of replacing older generation machineries. Our subcontracting charges increased to approximately RMB1.9 million for FY2018, which was mainly driven by the increase in our revenue by 13.2% from FY2017 to FY2018 and our high utilisation rate of machinery and equipment. For more details, please refer to "Business — Production facilities and utilisation" in this prospectus. We produced more of the products with our own production facilities and reduced subcontracting the production to third party subcontractors during the four months ended 30 April 2019. The subcontracting charges decreased from approximately RMB1.6 million (representing approximately 4.0% of total cost of sales) for the four months ended 30 April 2018 to approximately RMB0.3 million (representing approximately 0.5% of total cost of sales) for the four months ended 30 April 2019.

Factory overhead

Factory overhead cost primarily included utilities for electricity and water, and surcharges, transportation as well as repair and maintenance. Our factory overhead cost remained relatively stable for FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, which amounted to approximately RMB7.7 million, RMB8.8 million, RMB7.7 million and RMB2.9 million, respectively.

Gross profit and gross profit margin

For FY2016, FY2017 and FY2018 and for the four months ended 30 April 2019, we generated gross profits of approximately RMB62.6 million, RMB63.9 million, RMB74.3 million and RMB28.9 million, respectively, representing gross profit margins of approximately 36.0%, 30.6%, 31.4% and 33.8%. The gross profit margin fluctuated in this manner from FY2016 to FY2018 mainly due to the decrease in the gross profit margin in the largest product category, namely PCBAs for telecommunication devices, from approximately 37.4% in FY2016 to approximately 31.3% in FY2017 which thereafter increased to approximately 33.1% in FY2018. The increase in the gross profit margin for the four months ended 30 April 2019 was mainly attributable to (i) our decreasing subcontracting charges by approximately RMB1.3 million as we produced more of the products with our own production facilities and reduced the need to subcontract the production to third party subcontractors; and (ii) additional automated testing lines implemented in the latter period rendering our decreasing direct labour cost as a percentage of total cost of sales from approximately 32.3% for the four months ended 30 April 2018 to approximately 26.5% for the four months ended 30 April 2019.

The table below sets forth a breakdown of our gross profit and gross profit margin by product categories for the periods indicated *(Note)*:

	FY2016		FY2017		FY2018		For the four months ended 30 April 2018		2019	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
PCBAs for										
Telecommunication devices	50,676	37.4	44,709	31.3	42,110	33.1	11,925	33.4	13,656	35.9
Industrial-use devices	6,521	27.3	12,312	28.9	8,842	28.9	2,753	28.9	2,970	30.2
IoT products	5,356	36.6	6,769	29.7	22,745	30.3	4,233	31.0	12,027	32.6
Others	60	27.6	71	27.6	567	17.5	45	31.4	240	32.7
Total	62,613	36.0	63,861	30.6	74,264	31.4	18,956	32.1	28,893	33.8

Note: The breakdown is based on the communication between individual customers and us and our understanding on the applicability of our PCBAs.

The gross profit margin for PCBAs for telecommunication devices was approximately 37.4%, 31.3%, 33.1% and 35.9% for each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, respectively. The decrease of gross profit margin from approximately 37.4% for FY2016 to approximately 31.3% for FY2017 was mainly attributable to (i) our increasing direct labour cost as the number of our employees and dispatched workers engaged by our group during the year has increased; and (ii) the increase in our rental expenses in respect of production machinery and equipment during the year. Our gross profit margin has increased from approximately 31.3% for FY2017 to approximately 33.1% for FY2018, which was mainly driven by the decrease in direct labour cost for FY2018 as we engaged less dispatched workers and increased the level of automation in FY2018. As a result of (i) decrease in subcontracting charges; and (ii) additional automated testing lines implemented rendering our decreasing direct labour cost as a percentage of total cost of sales from approximately 32.3% for the four months ended 30 April 2018 to approximately 26.5% for the four months ended 30 April 2019, the gross profit margin of PCBAs of telecommunication devices increased from approximately 33.4% for the four month ended 30 April 2018 to approximately 35.9% for the four month ended 30 April 2019.

The gross profit margin for PCBAs for industrial-use devices remained relatively stable at approximately 27.3%, 28.9% and 28.9% for FY2016, FY2017 and FY2018 respectively. The gross profit margin of PCBAs for industrial-use devices increased from approximately 28.9% for the four months ended 30 April 2018 to approximately 30.2% for the four months ended 30 April 2019, primary due to change in product mix as our Group began to manufacture PCBAs for solar panels since late 2018 as evidenced by the revenue derived from sales of PCBAs for solar panels which had a higher gross profit margin.

The gross profit margin for PCBAs for IoT products decreased from approximately 36.6% for FY2016 to approximately 29.7%, 30.3% and 32.6% for FY2017, FY2018 and for the four months ended 30 April 2019 respectively, which was primary attributable to the change in product mix when most of our PCBAs for IoT products were applied in headsets for FY2016, and most of our PCBAs for IoT products were applied in IoT modules for FY2017 and FY2018. In general, the gross profit margin arising from PCBAs for headsets in FY2016 was higher than that of PCBAs for IoT modules in FY2017 and FY2018. This was mainly due to the cost of raw material for the production of PCBAs for headsets was less than that of PCBAs for IoT modules in the corresponding years. This rendered a decreasing gross profit margin of PCBAs for IoT products from approximately 36.6% in FY2016 to approximately 29.7% and 30.3% in FY2017 and FY2018 respectively. The higher gross profit margin for PCBAs for IoT products for the four months ended 30 April 2019 as compared to that for the four months ended 30 April 2018 was primarily due to (i) decrease in subcontracting charges; and (ii) additional automated testing lines implemented rendering our decreasing direct labour cost as a percentage of total cost of sales from approximately 32.3% for the four months ended 30 April 2018 to approximately 26.5% for the four months ended 30 April 2019.

Other income

Other income mainly represented government grants and rental income of equipment. Other income for FY2016, FY2017, FY2018 and the four months ended 30 April 2019 was approximately RMB0.9 million, RMB1.8 million, RMB1.8 million and RMB1.3 million, respectively.

Government grant incomes recognised during the Track Record Period, which were one-off in nature, were either resulted from grants relating to costs incurred or relating to the purchase of equipments, both of which have been accounted for under the Group's accounting policies as set out in Note 2.24 of the Accountant's Report contained in Appendix I.

Government grants received in FY2018 and the four months ended 30 April 2019 were related to the purchase of equipments, and the amounts were accounted as deferred income under HKAS 20 and included in current and non-current liabilities and credited to profit or loss on a straight-line basis over the expected useful lives of the related assets. As at 30 April 2019, these deferred government grants amounted to approximately RMB11.2 million and they will continue to be credited to profit or loss over the remaining useful lives of the related assets after the Track Record Period.

Other losses/gains

Other losses mainly comprised of loss on disposal of properties, plant and equipment and exchange differences. We recorded exchange gains for FY2018 while exchange losses were recorded for FY2016, FY2017 and the four months ended 30 April 2019.

Selling and distribution expenses

For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, we recorded selling and distribution expenses of approximately RMB1.1 million, RMB1.2 million, RMB1.9 million and RMB0.5 million, respectively, representing approximately 0.6%, 0.6%, 0.8% and 0.6% of our revenue for the corresponding periods. Selling and distribution expenses mainly comprised (i) relevant employee benefit expenses; (ii) transportation costs; (iii) depreciation; (iv) legal and professional fee; and (v) entertainment expenses.

The table below is an analysis of the major components of our selling and distribution expenses during the Track Record Period:

	FY2016		FY2017		FY2018		For the four months ended 30 April 2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Employee benefit expenses	276	24.5	237	19.2	434	23.2	119	27.0	171	31.9
Transportation costs	197	17.5	284	23.0	468	25.1	105	23.9	145	27.0
Depreciation	145	12.9	206	16.7	206	11.0	69	15.7	68	12.7
Legal and professional fee	103	9.1	18	1.5	170	9.1	6	1.3	—	—
Advertising expenses	10	0.9	14	1.1	6	0.3	—	—	19	3.5
Entertainment	395	35.1	473	38.2	582	31.1	141	32.1	130	24.3
Other expenses	—	—	4	0.3	3	0.2	—	—	3	0.6
Total	1,126	100.0	1,236	100.0	1,869	100.0	440	100.0	536	100.0

During the Track Record Period, transportation costs included expenses incurred for delivery of our products to our customers by independent third-party logistics service providers. Transportation costs under selling and distribution expenses increased from approximately RMB0.2 million for FY2016 to approximately RMB0.3 million for FY2017 and further increased to approximately RMB0.5 million for FY2018. Our Group's transportation costs under selling and distribution expenses remained stable at approximately RMB0.1 million for the four months ended 30 April 2018 and 30 April 2019. The increase in transportation costs under selling and distribution expenses was mainly due to more sales arising from customers from different location.

Administrative expenses

For each of FY2016, FY2017 and FY2018, we recorded administrative expenses of approximately RMB18.2 million, RMB25.7 million, RMB24.9 million and RMB20.8 million, respectively, representing approximately 10.5%, 12.3%, 10.6% and 24.4% of our revenue, respectively.

The table below is an analysis of the major components of our administrative expenses during the Track Record Period:

	FY2016		FY2017		FY2018		For the four months ended 30 April 2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Employee benefit expenses	8,754	48.0	15,182	59.1	15,492	62.1	5,118	68.9	6,545	31.5
Depreciation	2,176	11.9	3,217	12.5	3,473	13.9	1,159	15.6	1,251	6.0
Professional fees	2,155	11.8	2,389	9.3	2,330	9.4	308	4.1	1,730	8.3
Listing expenses	—	—	—	—	531	2.1	—	—	10,184	48.9
Rental expenses	1,852	10.2	1,598	6.2	491	2.0	191	2.6	75	0.4
Travelling expenses	599	3.3	446	1.7	467	1.9	163	2.2	254	1.2
Utilities	467	2.6	390	1.6	266	1.1	68	0.9	236	1.1
Telecommunication	325	1.8	552	2.1	580	2.3	211	2.9	208	1.0
Office expenses	1,201	6.6	946	3.7	503	2.0	67	0.9	128	0.6
Other expenses	697	3.8	974	3.8	800	3.2	141	1.9	215	1.0
Total	18,226	100.0	25,694	100.0	24,933	100.0	7,426	100.0	20,826	100.0

Administrative expenses primarily consist of employment benefit expenses, depreciation, professional fee, listing expenses, rental expenses, travelling expenses, utilities, telecommunication and office expenses.

The Group's total administrative expenses were approximately RMB18.2 million, RMB25.7 million, RMB24.9 million and RMB20.8 million for FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, respectively. The Group's administrative expenses as a percentage of total revenue increased from approximately 10.5% for FY2016 to approximately 12.3% for FY2017, which is mainly attributable to an increase in employee benefit expenses due to increase in number of staff during FY2017. The Group's administrative expenses as a percentage of total revenue decreased to approximately 10.6% for FY2018 as we recorded increase in revenue while maintaining our administrative expenses at similar level as previous year. The Group's administrative expenses as a percentage of total revenue increased from approximately 12.6% for the four months ended 30 April 2018 to approximately 24.4% for the four months ended 30 April 2019, which was primarily due to (i) listing expenses in relation to the Listing of approximately RMB10.2 million incurred during the four months ended 30 April 2019; and (ii) increased professional fees by approximately RMB1.4 million for the four months ended 30 April 2019.

Professional fees under administrative expenses for FY2016 and FY2017 mainly represents expenses related to audit and other professional fee incurred for maintaining the listing status in NEEQ. Professional fees for FY2018 mainly represents expenses related to audit and other professional fee incurred for maintaining the listing status in NEEQ and consultation fee in relation to the application of government grant relating to the purchase of equipment. Professional fees for the four months ended 30 April 2019 mainly represents consultation fee in relation to the application of government grant relating to the purchase of equipment.

Rental expenses under administrative expenses mainly represents rental in respect of office, staff quarter and equipment. Rental expenses decreased from approximately RMB1.9 million for FY2016 to approximately RMB0.5 million for FY2018, which was mainly due to we acquiring more equipment instead of renting. Our rental expenses remained relatively the stable at RMB0.2 million and RMB0.1 million for the four months ended 30 April 2018 and 2019 respectively.

Finance costs, net

For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, we incurred net finance costs of approximately RMB1.8 million, RMB1.7 million, RMB2.2 million and RMB0.6 million, respectively. Our finance costs mainly comprised interest expenses on bank and other borrowings and leases, while our finance income mainly represented interest income on our cash and cash equivalents.

The table below is an analysis of the major components of our net finance costs during the Track Record Period:

				For the four months ended 30 April	
	FY2016	**FY2017**	**FY2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Finance income					
Interest income on cash at bank	52	205	232	145	14
Finance costs					
Interest expenses on loans from shareholders	(845)	—	—	—	—
Interest expenses on bank and other borrowings	(864)	(1,271)	(1,893)	(550)	(477)
Interest expenses on leases	(105)	(597)	(566)	(196)	(168)
Finance costs, net	(1,762)	(1,663)	(2,227)	(601)	(631)

Income tax expenses

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

	FY2016	FY2017	FY2018	For the four months ended 30 April 2018	For the four months ended 30 April 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current income tax					
— PRC corporate income tax	6,810	4,716	7,131	1,720	2,818
— Over provision in prior year	—	—	—	—	(67)
Deferred income tax	(1,147)	213	(716)	(292)	719
Income tax expenses	5,663	4,929	6,415	1,428	3,470

During FY2016, FY2017 and FY2018, Shenzhen Confidence, our Group's subsidiary in the PRC, has qualified for new/high-tech technology enterprises status and is therefore subject to a preferential income tax rate of 15%. Shenzhen Confidence's status of "High and New Technology Enterprise* (高新技術企業)" was renewed and extended in November 2016 which was effective during FY2016 to FY2018. Given Shenzhen Confidence is in the process of renewal application as at the Latest Practicable Date and expects to receive the assessment result by December 2019 as advised by our PRC legal adviser, the income tax expenses of Shenzhen Confidence for the four months ended 30 April 2019 is calculated at a standard tax rate of 25%. In the event that Shenzhen Confidence succeeds in the renewal application by December 2019, Shenzhen Confidence would be subject to preferential income tax rate of 15% for the year ending 31 December 2019, and the income tax expenses of Shenzhen Confidence for the four months ended 30 April 2019 would be re-measured retrospectively at the tax rate of 15%, the effect of which would be reflected in the current tax balances.

Saved for the PRC, our Group had no tax payable in other jurisdictions during the Track Record Period. Our Group's effective income tax rates for each of FY2016, FY2017 and FY2018 were approximately 13.8%, 13.3% and 13.6%, respectively, which is slightly lower than the 15% PRC preferential income rate which was mainly resulting from tax exemption and rebate. For the four months ended 30 April 2019, our Group's effective income tax rate was 46.8%. The increase in effective income tax rate was mainly due to (i) the income tax expenses of Shenzhen Confidence for the four months ended 30 April 2019, which was calculated at a standard tax rate of 25% because Shenzhen Confidence's status of "High and New Technology Enterprise* (高新技術企業)" was effective during FY2016 to FY2018; and (ii) the non-tax deductible listing expenses incurred during the period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATION

Four months ended 30 April 2019 compared with four months ended 30 April 2018

Revenue

Our revenue increased by approximately 44.9% from approximately RMB58.9 million for the four months ended 30 April 2018 to approximately RMB85.4 million for the four months ended 30 April 2019 with the combined effect of the followings:

(i) increase in the sales of PCBAs for IoT products from RMB13.6 million for the four months ended 30 April 2018 to RMB36.8 million for the four months ended 30 April 2019 as a result of revenue derived from our major customers, namely Espressif Group and Info Safe, which increased from RMB10.3 million for the four months ended 30 April 2018 to RMB17.5 million for the four months ended 30 April 2019, and increased from approximately RMB1,000 for the four months ended 30 April 2018 to approximately RMB8.5 million for the four months ended 30 April 2019, respectively;

(ii) as confirmed by our Directors, Customer A was introduced by our existing customer in 2019 and generated revenue of approximately RMB4.6 million for the four months ended 30 April 2019; and

(iii) our Group began to manufacture PCBAs for solar panel since late 2018 and the revenue derived from the sales of PCBAs for solar panels increased from nil for the four months ended 30 April 2018 to RMB3.9 million for the four months ended 30 April 2019.

Cost of sales

Our cost of sales increased by approximately 41.3% from approximately RMB40.0 million for the four months ended 30 April 2018 to approximately RMB56.6 million for the four months ended 30 April 2019. The increase was in line with increase in our revenue.

Gross profit and gross profit margin

As a result of the above, our gross profit increased by approximately 52.4% from approximately RMB19.0 million for the four months ended 30 April 2018 to approximately RMB28.9 million for the four months ended 30 April 2019, and our gross profit margin increased from approximately 32.1% for the four months ended 30 April 2018 to approximately 33.8% for the four months ended 30 April 2019. The increase in the gross profit margin for the four months ended 30 April 2019 was mainly attributable to the fact that (i) we produced more products with our own production facilities and reduced subcontracting the production to third party subcontractors; and (ii) additional automated testing lines implemented throughout the period between 2018 and 2019 rendered our decreasing direct labour cost as a percentage of total cost of sales from 32.3% for the four months ended 30 April 2018 to 26.5% for the four months ended 30 April 2019.

Other income

Our other income mainly comprised of government grants received, and our other income remained relatively stable at RMB1.2 million and RMB1.3 million for the four months ended 30 April 2018 and 2019 respectively.

Other losses/gains, net

Other losses increased from approximately RMB12,000 for the four months ended 30 April 2018 to approximately RMB0.8 million for the four months ended 30 April 2019. Our other losses mainly comprised loss on disposal of properties, plant and equipment and loss from exchange differences.

Selling and distribution expenses

Selling and distribution expenses remained relatively stable at RMB0.4 million and RMB0.5 million for the four months ended 30 April 2018 and 2019 respectively.

Administrative expenses

Administrative expenses increased by approximately 180.4% from approximately RMB7.4 million for the four months ended 30 April 2018 to approximately RMB20.8 million for the four months ended 30 April 2019, which was primarily due to (i) listing expenses in relation to the Listing of approximately RMB10.2 million incurred during the period; and (ii) increased professional fees by approximately RMB1.4 million for the four months ended 30 April 2019 as a result of consultation fee on application of government grant in relation to the purchase of equipment.

Finance costs, net

Net finance costs remained stable at approximately RMB0.6 million for the four months ended 30 April 2018 and 2019.

Income tax expense

Income tax expense increased from approximately RMB1.4 million for the four months ended 30 April 2018 to approximately RMB3.5 million for the four months ended 30 April 2019. Our effective income tax rate, which is calculated based on income tax expenses divided by profit before income tax, was approximately 12.2% and 46.8% for the four months ended 30 April 2018 and 2019, respectively, primarily due to (i) the income tax expenses of Shenzhen Confidence for the four months ended 30 April 2019, which was calculated at a standard tax rate of 25% because Shenzhen Confidence's status of "High and New Technology Enterprise* (高新技術企業)" was effective during FY2016 to FY2018; and (ii) increase in our taxable profit where listing expenses incurred during the period was not tax deductible.

Profit for the period and net profit margin

As a result of the above, our net profit decreased by approximately 61.5% from approximately RMB10.2 million for the four months ended 30 April 2018 to approximately RMB3.9 million for the four months ended 30 April 2019. Our net profit margin decreased from approximately 17.4% for the four months ended 30 April 2018 to approximately 4.6% for the four months ended 30 April 2019.

FY2018 compared with FY2017

Revenue

Our revenue increased by approximately 13.2% from approximately RMB208.6 million for FY2017 to approximately RMB236.2 million for FY2018. Such increase was primarily attributable to Espressif Group, which increased demand for our PCBAs for IoT modules. During FY2018, our revenue generated from Espressif Group increased by approximately RMB24.3 million from approximately RMB15.6 million for FY2017 to approximately RMB39.9 million for FY2018, as a result of (i) the increasing demand from Espressif Group, which was in line with rapid revenue growth of Espressif Group; and (ii) rapid growth in the number of global IoT connected devices, as per the CIC Report.

Cost of sales

While our revenue increased by approximately 13.2%, our cost of sales increased by approximately 11.9% from approximately RMB144.8 million for FY2017 to approximately RMB161.9 million for FY2018. The increase was mainly due to the increase in cost of raw materials and consumables from approximately RMB49.8 million for FY2017 to approximately RMB72.5 million for FY2018. Such increase in cost of raw materials and consumables was mainly due to the increase in our purchase of raw materials for assembling and production of PCBAs which was in line with our increase in sales for FY2018.

Gross profit and gross profit margin

As a result of the above, our gross profit increased by approximately 16.3% from approximately RMB63.9 million for FY2017 to approximately RMB74.3 million for FY2018. The increase in gross profit was in line with the increase in revenue. While our gross profit margin remain relatively stable at approximately 30.6% and 31.4% for FY2017 and FY2018, respectively.

Other income

Our other income remained stable at approximately RMB1.8 million for FY2017 and FY2018.

Other losses/gains

Other gains amounted to approximately RMB0.1 million for FY2018 as compared to other losses of approximately RMB0.1 million for FY2017. Our other losses for FY2017 mainly comprised loss on disposal of properties, plant and equipment and loss of exchange differences, while our other gains for FY2018 was mainly due to the exchange differences.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 51.2% from approximately RMB1.2 million for FY2017 to approximately RMB1.9 million for FY2018, which was primarily due to (i) an increase in our transportation costs by approximately RMB0.2 million resulted from more sales orders received from customers from different location; and (ii) the increase in our employee benefit expenses for our sales and marketing staff by approximately RMB0.2 million as a result of an increase in total salary package of sales and marketing staff and a higher average number of sales and marketing staff in FY2018 when compared to that in FY2017.

Administrative expenses

Administrative expenses slightly decreased by approximately 3.0% from approximately RMB25.7 million for FY2017 to approximately RMB24.9 million for FY2018, which was primarily due to the decrease in our rental expenses by approximately RMB1.1 million. Such decrease was mainly due to we acquiring more equipment instead of renting through leases.

Finance costs, net

Net finance costs increased by approximately 33.9% from approximately RMB1.7 million for FY2017 to approximately RMB2.2 million for FY2018. Such increase was mainly due to the increase in interest expenses on bank and other borrowings by approximately RMB0.6 million as a result of the increase in interest rates of bank and other borrowings. The interest rates of bank and other borrowings for FY2017 ranged from 5.6% to 9.3%, while the interest rates of bank and other borrowings for FY2018 ranged from 6.6% to 9.6%.

Income tax expense

Income tax expense increased by approximately 30.1% from approximately RMB4.9 million for FY2017 to approximately RMB6.4 million for FY2018, primarily due to the increase in profit before income tax by approximately 27.9%. Our effective tax rate, which is calculated based on income tax expenses divided by profit before income tax, was approximately 13.3% and 13.6% for FY2017 and FY2018, respectively.

Profit for the year and net profit margin

As a result of the above, our net profit increased by approximately 27.5% from approximately RMB32.0 million for FY2017 to approximately RMB40.8 million for FY2018. Excluding the listing expenses, our net profit would have been approximately RMB41.3 million for FY2018. Our net profit margin increased from approximately 15.3% for FY2017 to approximately 17.3% for FY2018.

FY2017 compared to FY2016

Revenue

Our revenue increased by approximately 19.8% from approximately RMB174.1 million for FY2016 to approximately RMB208.6 million for FY2017. Such increase was primarily due to the increase in our sales of PCBAs for telecommunication devices and industrial-use devices by approximately RMB26.3 million for FY2017. Increase in revenue from our sales of PCBAs for telecommunication device was mainly attributable to the increase in demand from OPPO Group which was in line with the increasing market share of OPPO Group in the global smartphone market during the period, while the increase in revenue from our sales of PCBAs for industrial-use devices was mainly due to the increase in demand from Sunway Group whereby Sunway Group was gradually becoming a major supplier of its customers and recorded growth in revenue.

Cost of sales

While our revenue increased by approximately 19.8%, our cost of sales increased by approximately 29.8% from approximately RMB111.5 million for FY2016 to approximately RMB144.8 million for FY2017. The increase was mainly due to the increase in cost of raw materials and consumables from approximately RMB27.2 million for FY2016 to approximately RMB49.8 million for FY2017. Such increase in cost of raw materials and consumables was mainly due to more customers requesting us to procure raw materials for them in our provision of integrated EMS solutions.

Gross profit and gross profit margin

As a result of the above, our gross profit increased by approximately 2.0% from approximately RMB62.6 million for FY2016 to approximately RMB63.9 million for FY2017 and our gross profit margin decreased from approximately 36.0% for FY2016 to approximately 30.6% for FY2017. The decrease in the gross profit margin for FY2017 was mainly attributable to more customers requesting us to procure raw materials for them in our provision of integrated EMS solutions, which led to the cost of raw materials and consumables increasing by approximately 82.9% rendering higher cost of sales.

Other income

Our other income increased from approximately RMB0.9 million for FY2016 to approximately RMB1.8 million for FY2017. The increase was primarily due to the increase in government grants by approximately RMB1.5 million as a result of Shenzhen Confidence having been granted the subsidy under several government support programmes.

Other losses

Other losses amounted to approximately RMB0.1 million for FY2017 as compared to approximately RMB0.4 million for FY2016. Other losses mainly comprised loss on disposal of properties, plant and equipment and exchange differences.

Selling and distribution expenses

Selling and distribution expenses remained relatively stable at approximately RMB1.1 million for FY2016 and approximately RMB1.2 million for FY2017.

Administrative expenses

Administrative expenses increased by approximately 41.0% from approximately RMB18.2 million for FY2016 to approximately RMB25.7 million for FY2017, which was primarily due to the increase in employee benefit expenses by approximately RMB6.4 million as a result of increase in number of staff employed by our Group during FY2017.

Finance costs, net

Net finance costs remained relatively stable at approximately RMB1.8 million for FY2016 and approximately RMB1.7 million for FY2017.

Income tax expense

Income tax expense decreased by approximately 13.0% from approximately RMB5.7 million for FY2016 to approximately RMB4.9 million for FY2017, primarily due to the decrease in profit before income tax by approximately 10.0%. Our effective tax rate, which is calculated based on income tax expenses divided by profit before income tax, was approximately 13.8% and 13.3% for FY2016 and FY2017, respectively.

Profit for the year and net profit margin

As a result of the above, our net profit decreased by approximately 9.6% from approximately RMB35.4 million for FY2016 to approximately RMB32.0 million for FY2017. Our net profit margin decreased from approximately 20.3% for FY2016 to approximately 15.3% for FY2017.

ANALYSIS ON MAJOR COMPONENTS OF THE CONSOLIDATED BALANCE SHEETS

The table below presents the summary of consolidated balance sheets of our Group as at 31 December 2016, 2017, 2018 and 30 April 2019 extracted from the Accountant's Report in Appendix I to this prospectus.

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Properties, plant and equipment	77,373	91,990	102,858	98,242
Investment in an associate	—	—	—	—
Prepayments and deposits	3,523	2,844	2,814	4,606
Deferred tax assets	—	—	68	—
	80,896	94,834	105,740	102,848
Current assets				
Inventories	2,440	6,908	30,553	27,976
Contract assets	21,466	20,581	31,671	40,812
Trade and bills receivables	19,795	18,308	27,214	13,029
Prepayments, deposits and other receivables	1,252	10,903	11,309	6,201
Amounts due from shareholders	—	—	—	—
Current income tax recoverable	2,405	—	—	—
Pledged bank deposits	—	1,314	—	—
Cash and cash equivalents	10,151	33,837	14,979	35,378
	57,509	91,851	115,726	123,396
Total assets	138,405	186,685	221,466	226,244
EQUITY				
Equity attributable to owners of the Company				
Share capital	—	—	—	—
Reserves	89,446	116,600	148,145	154,848
Total equity	89,446	116,600	148,145	154,848

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Bank and other borrowings	6,959	1,964	8,204	5,909
Lease liabilities	9,726	10,163	7,280	6,686
Deferred government grants	—	—	5,456	9,120
Deferred tax liabilities	435	648	—	651
	17,120	12,775	20,940	22,366
Current liabilities				
Trade and bills payables	2,940	9,374	10,130	14,287
Other payables and accruals	17,612	16,299	18,806	17,106
Lease liabilities	3,603	3,294	2,883	3,176
Contract liabilities	500	6,796	6,539	3,254
Current income tax liabilities	—	187	2,386	1,729
Deferred government grants	—	—	1,040	2,121
Bank and other borrowings	7,184	21,360	10,597	7,357
	31,839	57,310	52,381	49,030
Total liabilities	48,959	70,085	73,321	71,396
Total equity and liabilities	138,405	186,685	221,466	226,244

Properties, plant and equipment

Our Group's properties, plant and equipment comprised right-of-use assets, i.e. leases of properties and plant and machinery, furniture and fixtures, office equipment, plant and machinery, motor vehicles and leasehold improvements. As at 31 December 2016, 2017, 2018 and 30 April 2019, our Group's properties, plant and equipment were approximately RMB77.4 million, RMB92.0 million, RMB102.9 million and RMB98.2 million, respectively, representing approximately 55.9%, 49.3%, 46.4% and 43.4% of our Group's total assets as at the respective dates.

The carrying amount of our properties, plant and equipment increased by approximately RMB14.6 million to approximately RMB92.0 million as at 31 December 2017 which was primarily due to additions of plant and machinery of approximately RMB37.1 million, partially offset by depreciation charges of approximately RMB15.8 million and disposals of plant and machinery of approximately RMB6.7 million for FY2017. The carrying amount of our properties, plant and equipment increased by approximately RMB10.9 million from approximately RMB92.0 million as at

31 December 2017 to approximately RMB102.9 million as at 31 December 2018 which was primarily due to additions of plant and machinery of approximately RMB30.9 million, partially offset by depreciation charges of approximately RMB17.3 million and disposals of plant and machinery of approximately RMB2.7 million. The carrying amount of our properties, plant and equipment decreased by approximately RMB4.6 million from approximately RMB102.9 million as at 31 December 2018 to approximately RMB98.2 million as at 30 April 2019 which was primarily due to depreciation of approximately RMB6.5 million and disposals of plant and machinery of approximately RMB0.6 million, partially offset by additions of office equipment, and plant and machinery of approximately RMB2.4 million.

Inventories

Our Group's inventories comprised raw materials. As at 31 December 2016, 2017, 2018 and 30 April 2019, our Group's inventory levels accounted for approximately 4.2%, 7.5%, 26.4% and 22.7% of our total current assets for the respective dates. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories recognised as expense and included in cost of sales during FY2016, FY2017, FY2018 and the four months ended 30 April 2019 amounted to approximately RMB22.4 million, RMB42.2 million, RMB70.9 million and RMB27.9 million respectively, which included provision for inventories amounting to approximately RMB4.5 million during FY2016 and approximately RMB1.0 million during FY2018. The incurrence of provision for inventories during FY2016 was mainly due to one overseas customer did not complete the sales transaction after production of the relevant products. As a result, we did not recognize revenue and made provision for inventories amounting to RMB4.5 million taking into account the value of raw materials used to produce the relevant products, net off the deposit received from that customer. Our management team has been trying to liaise with that customer to understand its reason for not completing the sales transaction and to settle the rights and obligations under the relevant agreements, however there was no progress made up to the Latest Practicable Date. For FY2018, we recorded RMB1.0 million of provision for inventories in accordance with our accounting policies as the balances of these inventories may not be realised based on our estimate of their net realisable value.

The following table sets out the details of our Group's inventories as at the dates indicated:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	2,440	6,908	30,553	27,976

The following table sets out a summary of our Group's average inventory turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
Average inventory turnover days *(Note)*	12.8 days	11.8 days	42.2 days	62.1 days

Note: Average inventory turnover days is calculated based on the average balance of inventory divided by cost of sales for the relevant year/period and multiplied by 365 days in the relevant year and 120 days in the relevant period. Average balance of inventory is calculated by dividing the sum of inventory at the beginning and the end of the year/period by two.

As at 31 December 2017, our Group recorded a slight decrease in average inventory turnover days from approximately 12.8 days for FY2016 to approximately 11.8 days for FY2017. As at 31 December 2018, our Group recorded an increase in average inventory turnover days from approximately 11.8 days for FY2017 to approximately 42.2 days for FY2018. Such increase was mainly attributable to more customers requested us to procure raw materials for them in our provision of integrated EMS solutions, in particular we were informed by Espressif Group of its procurement plan for our PCBAs, thus, we procured buffer raw materials required to meet the expected sales order from Espressif Group. The inventory turnover days increased from approximately 42.2 days in FY2018 to approximately 62.1 days for the four months ended 30 April 2019 due to the preparation of raw materials to meet the expected demand according to the procurement plan for our PCBAs as informed by our customers during the four months ended 30 April 2019.

As at the Latest Practicable Date, approximately RMB17.0 million which represented approximately 60.8% of the inventories balance as at 30 April 2019 has been utilised, which are used to produce PCBAs to fulfill the sales order placed by our customers, including those customers who have informed us of the procurement plan for our PCBAs (the sales order are in general placed by them in accordance with such procurement plan).

Contract assets

As at 31 December 2016, 2017 and 2018 and 30 April 2019, our Group recorded contract assets of approximately RMB21.5 million, RMB20.6 million, RMB31.7 million and RMB40.8 million, respectively. The contract assets remained relatively stable at approximately RMB21.5 million and RMB20.6 million as at 31 December 2016 and 31 December 2017 respectively, which was primarily attributable to revenue generated from the fourth quarter of FY2017 was similar to that of FY2016. As at 31 December 2018, the contract assets increased by approximately RMB11.1 million to approximately RMB31.7 million, which was mainly due to increase in our revenue for the fourth quarter of FY2018. As at 30 April 2019, the contract assets increased by approximately RMB9.1 million to approximately RMB40.8 million, which was primarily attributable to increase in our revenue for March and April 2019 as compared with November and December 2018. Our Group's contract assets represent our Group's rights to consideration for work completed but unbilled for our EMS business at each of the reporting period ends. Due to short period of assembling and production process, almost all of the contract assets as at each reporting period end relate to the services substantially completed by our Group on finished PCBA products in a batch delivered or to be delivered to customers. Our contract assets are transferred to trade receivables when the rights become unconditional upon the completion of the inspection procedures by the customers and the monthly/periodic sales reconciliation procedures between us and the customers to verify the amounts of products delivered. Our balances of contract assets fluctuated from year-to-year during the Track Record Period as our Group provided varying amount of services that were unbilled before the year-end. RMB33.0 million out of our Group's contract assets of RMB40.8 million as at 30 April 2019 was attributable to finished PCBA products delivered to customers but pending their inspection confirmation, whereas RMB7.8 million was attributable to finished PCBA products not yet delivered to customers as at 30 April 2019 but subsequently delivered. As at the Latest Practicable Date, 100% of the contract assets as at 30 April 2019 have been subsequently billed. Subsequent settlement of the billed contract assets as at 30 April 2019 amounted to approximately RMB38.5 million, representing approximately 94.4% of the contract assets as at 30 April 2019.

Trade and bills receivables

As at 31 December 2016, 2017 and 2018 and 30 April 2019, our Group's trade and bills receivables were approximately RMB19.8 million, RMB18.3 million, RMB27.2 million and RMB13.0 million, respectively, representing approximately 34.4%, 19.9%, 23.5% and 10.6% of our Group's total current assets as at the respective dates.

The following table sets out the details of our Group's trade and bill receivables as at the dates indicated:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	19,541	17,808	26,034	11,579
Bills receivables	254	500	1,180	1,450
Trade and bill receivables	19,795	18,308	27,214	13,029

Our Group's trade and bills receivables represented the receivables from our customers. Save for new customers who are required to make full payment to us before we deliver the products to them, we generally grant credit periods to our customers primarily ranging from 30 to 90 days, depending on the creditworthiness of individual customers, which is determined on a case-by-case basis with reference to the customers' scale of operation and length of business relationship with us. Our customers usually settle payment by way of bank transfer, telegraph transfer or bank acceptance bills. The trade and other receivables decreased from approximately RMB19.8 million as at 31 December 2016 to approximately RMB18.3 million as at 31 December 2017, which was mainly due to shifting in composition of our top five customers. Credit terms for our top five customers for FY2016 ranged from 30 days to 90 days, while credit terms for our top five customers for FY2017 ranged from 30 days to 45 days. The trade and bills receivables as at 30 April 2019 was approximately RMB13.0 million.

The trade and other receivables increased from approximately RMB18.3 million for FY2017 to approximately RMB27.2 million for FY2018. The increase was mainly attributable to the increase of revenue by RMB27.6 million to RMB236.2 million for FY2018.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, trade receivables of approximately RMB49,000, RMB2.9 million, RMB7.0 million and RMB5.9 million, respectively, were past due but not impaired.

The following table sets out the aging analysis of trade and bills receivables based on invoice date, as at the dates indicated:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 to 3 months	19,754	15,666	25,415	10,211
Over 3 months	41	2,642	1,799	2,818
	19,795	18,308	27,214	13,029

The following table sets out the turnover days of our Group's trade and bills receivables for the periods indicated:

	FY2016	**FY2017**	**FY2018**	**For the four months ended 30 April 2019**
Average trade and bills receivables turnover days *(Note 1)*	43.1 days	33.3 days	35.2 days	28.3 days
Average trade and bills receivables, and contract assets turnover days *(Note 2)*	85.1 days	70.1 days	75.5 days	79.2 days

Note 1: Average trade and bills receivable turnover days is calculated based on the average balance of trade and bills receivables divided by revenue for the relevant year/period and multiplied by 365 days in the relevant year and 120 days in the relevant period. Average balance of trade and bills receivables is calculated by dividing the sum of trade and bills receivables at the beginning and the end of the year/period by two.

Note 2: Average trade and bills receivable, and contract assets turnover days is calculated based on the average balance of trade and bills receivables, and contract assets divided by revenue for the relevant year/period and multiplied by 365 days in the relevant year and 120 days in the relevant period. Average balance of trade and bills receivables, and contract assets is calculated by dividing the sum of trade and bills receivable, and contract assets at the beginning and the end of the year/period by two.

For each of FY2016, FY2017 and FY2018, trade and bills receivables turnover days were approximately 43.1 days, 33.3 days and 35.2 days, respectively. The trade and bills receivables turnover days decreased from approximately 43.1 days for FY2016 to approximately 33.3 days for FY2017 which was mainly due to shifting in composition of our top five customers. Credit terms for our top five customers for FY2016 ranged from 30 days to 90 days, while credit terms for our top five customers for FY2017 ranged from 30 days to 45 days. Our trade and bills receivables turnover days slightly increased to approximately 35.2 days for FY2018. The trade and bills receivables turnover days decreased from approximately 35.2 days for FY2018 to approximately 28.3 days for four months ended 30 April 2019 which was mainly due to the fact that some of our major customers settled the trade receivables before the public holiday starting from 1 May 2019.

For each of FY2016, FY2017 and FY2018, and the four months ended 30 April 2019, our trade and bills receivables, and contract assets turnover days were approximately 85.1 days, 70.1 days, 75.5 days and 79.2 days, respectively. In addition to the factors that contributed to the fluctuation of trade and bills receivables turnover days during the Track Record Period as mentioned above, the fluctuation of trade and bills receivables, and contract assets turnover days during the Track Record Period was mainly due to the changes in our Group's contract assets which amounted to approximately RMB21.5 million, RMB20.6 million, RMB31.7 million and RMB40.8 million as at 31 December 2016, 2017 and 2018, and 30 April 2019 respectively. Please refer to the paragraph headed "Financial Information — Analysis on major components of the consolidated balance sheets — Contract assets" above for details on the changes in our Group's contract assets during the Track Record Period.

As at the Latest Practicable Date, subsequent settlement of the outstanding balance of trade and bills receivables as at 30 April 2019 amounted to approximately RMB11.1 million, representing approximately 85.6% of the outstanding balance as at 30 April 2019.

Prepayments, deposits and other receivables

Prepayments mainly represented prepayments for raw materials, and the acquisition of properties, plant and machinery. Deposits mainly represented rental deposits. The current portion of prepayments, deposits and other receivables increased from approximately RMB1.3 million as at 31 December 2016 to approximately RMB10.9 million as at 31 December 2017. The increase was mainly attributable to increase in prepayments to Guangdong Fingerchip for the purchase of fingerprint sensor. As mentioned in the paragraph headed "Business — Overlapping of customers and suppliers

— Partial back-to-back arrangement with Guangdong Fingerchip" in this prospectus, since the fingerprint sensors required by Shenzhen Fingerchip were in tight supply with unique specifications at that time, Guangdong Fingerchip, as a supplier thereof, demanded a prepayment, which amounted to approximately RMB12.8 million (the "**Prepayment**") to back up the purchase order of the fingerprint sensors to fulfill the forecasted sales orders to be placed by Shenzhen Fingerchip of approximately RMB21.3 million. Though we understood that such Prepayment or the unutilised part thereof would be refunded to us if we did not purchase sufficient amount of the fingerprint sensors to utilise the entire Prepayment amount from Guangdong Fingerchip in the end, we bargained with Shenzhen Fingerchip for an advance payment and Shenzhen Fingerchip agreed to pay an aggregate amount of approximately RMB6.4 million, representing approximately 30% of the forecasted sales amount, to us (the "**Advance Payment**"). The Advance Payment was made in the period of 29 December 2017 to 16 January 2018 by Shenzhen Fingerchip whereas the Prepayment was made in roughly the same period of 29 December 2017 to 17 January 2018. The current portion of prepayments, deposits and other receivables decreased from approximately RMB11.3 million as at 31 December 2018 to approximately RMB6.2 million as at 30 April 2019. The decrease was mainly attributable to above mentioned partial back-to-back arrangement was terminated in March 2019 and the prepayment to Guangdong Fingerchip were refunded, which partially offset the prepayment of listing expenses incurred during the four months ended 30 April 2019.

The increase in non-current portion of rental deposits increased from RMB0.4 million as of 31 December 2016 to RMB1.9 million as of 30 April 2019, mainly due to payment of deposits as securities for other borrowings arisen from sales and lease-back transactions which resulted in recognition of financial liabilities as "other borrowings" under HKFRS 16 since the transfer of assets did not satisfy the requirement of HKFRS 15 to be accounted for as sales of assets.

The following table sets out the balances of the prepayments, deposits and other receivables for the periods indicated:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current portion				
Prepayments of suppliers	170	10,835	11,261	2,367
Rental and other deposits	1,061	42	48	88
Other receivables	21	26	—	5
Prepayment of listing expenses	—	—	—	3,741
	1,252	10,903	11,309	6,201

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current portion				
Prepayments for acquisition of properties, plant and equipment	3,120	2,309	904	2,696
Rental deposits	403	535	1,910	1,910
	3,523	2,844	2,814	4,606

Trade and bills payables

As at 31 December 2016, 2017 and 2018 and 30 April 2019, our trade and bills payables were approximately RMB2.9 million, RMB9.4 million, RMB10.1 million and RMB14.3 million, respectively, representing approximately 9.2%, 16.4%, 19.3% and 29.1% of our Group's total current liabilities as at the respective dates.

Our Group's trade and bills payables mainly related to the purchases of raw materials and our receipt of subcontracting services by our suppliers and subcontractors. Our Group is generally required to pay for the raw materials upon their delivery to our warehouse or between 30 to 60 days after the date of invoices.

The increase in trade and bills payables by approximately RMB6.5 million from approximately RMB2.9 million as at 31 December 2016 to approximately RMB9.4 million as at 31 December 2017 was in line with the increase in our purchase of raw materials as more customers requested us to procure raw material for them in our provision of integrated EMS solutions during FY2017. The trade and bills payable slightly increased from approximately RMB9.4 million as at 31 December 2017 to approximately RMB10.1 million as at 31 December 2018 which was in line with the increasing trend of our cost of raw materials and consumables used. Our trade payables further increased to approximately RMB14.3 million as at 30 April 2019 which was in line with the increasing trend of our cost of raw materials and consumables used.

The following table sets out the ageing analysis of trade and bills payables based on invoice date, as at the date indicated:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	2,714	8,947	8,318	11,391
1 to 2 months	144	325	1,552	1,178
2 to 3 months	81	101	257	697
Over 3 months	1	1	3	1,021
	2,940	9,374	10,130	14,287

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

	FY2016	**FY2017**	**FY2018**	**As at 30 April 2019**
Trade and bills payables turnover days *(Note)*	9.0 days	15.5 days	22.0 days	25.9 days

Note: Average trade and bills payables turnover days is calculated based on the average balance of trade and bills payables divided by cost of sales for the relevant year/period and multiplied by 365 days in the relevant year and 120 days in the relevant period. Average balance of trade and bills payables is calculated by dividing the sum of trade and bills payables at the beginning and the end of the year/period by two.

For each of FY2016, FY2017, FY2018 and for the four months ended 30 April 2019, trade payables turnover days were approximately 9.0 days, 15.5 days, 22.0 days and 25.9 days, respectively. The increase in trade and bills payables turnover days from approximately 9.0 days for FY2016 to approximately 25.9 days for the four months ended 30 April 2019 was mainly due to more customers requesting us to procure raw materials for them in our provision of integrated EMS solutions, which led to a higher level of trade payables as at 30 April 2019.

As at the Latest Practicable Date, subsequent settlements of the outstanding balance of trade and bills payables as at 30 April 2019 amounted to approximately RMB13.2 million, representing 92.6% of the outstanding balance as at 30 April 2019.

Contract liabilities, other payables and accruals

As at 31 December 2016, 2017 and 2018 and 30 April 2019, our contract liabilities, other payables and accruals were approximately RMB18.1 million, RMB23.1 million, RMB25.3 million and RMB20.4 million, respectively. The following table sets out the balances of our contract liabilities, other payables and accruals as at the dates indicated:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payable for operating expenses	5,236	4,071	3,215	3,168
Payable for acquisition of properties, plant and equipment	939	1,175	124	641
Other tax payables	4,421	4,376	6,970	5,391
Other payables	70	96	118	95
Accruals	6,946	6,581	8,379	7,738
Accrued listing expenses	—	—	—	73
Contract liabilities	500	6,796	6,539	3,254
	18,112	23,095	25,345	20,360

Other payables mainly represented payables for motor vehicle expenses and repairs and maintenance expenses.

The decrease in payable for operating expenses by approximately RMB1.1 million from approximately RMB5.2 million as at 31 December 2016 to approximately RMB4.1 million as at 31 December 2017 was mainly due to decrease in payables in relation to rental expenses and utilities. As at 31 December 2018, payable for operating expenses further decreased by approximately RMB0.9 million to approximately RMB3.2 million as compared to that as at 31 December 2017, which was mainly due to decrease in payable in relation to utilities. As at 30 April 2019, payable for operating expenses remained stable at RMB3.2 million as compared to that as at 31 December 2018.

Other tax payables mainly represented VAT and VAT surcharges payables. The other tax payable remained relatively stable at approximately RMB4.4 million for FY2016 and FY2017 which was primarily attributable to revenue generated from the last month of FY2017 similar to that of FY2016. As at 31 December 2018, the other tax payables increased by approximately RMB2.6 million to approximately RMB7.0 million, which was mainly due to increase in VAT and VAT surcharges payables which was in line with the growth in our revenue for the last month of FY2018. As at 30 April 2019, other tax payables decreased by approximately RMB1.6 million to approximately RMB5.4 million, which was mainly due to decrease in VAT and VAT surcharges payables.

The accruals mainly represented accrued salaries and staff benefits, and accrued rental expenses. The decrease in accruals by approximately RMB0.3 million from approximately RMB6.9 million as at 31 December 2016 to approximately RMB6.6 million as at 31 December 2017 was mainly due to the decrease in accrued year-end discretionary bonus to our staff for FY2017. As at 31 December 2018, the accruals increased by approximately RMB1.8 million from approximately RMB6.6 million as at 31 December 2017 to approximately RMB8.4 million as at 31 December 2018. Such increase was mainly due to the increase in accrued salaries amounting to approximately RMB1.4 million as at 31 December 2018. The accruals decreased from approximately RMB8.4 million as at 31 December 2018 to approximately RMB7.7 million as at 30 April 2019, mainly due to decrease in accrued year-ended discretionary bonus salaries by approximately RMB1.5 million partially offset by increase in accrued professional expenses by approximately RMB1.0 million.

Contract liabilities represented advanced payments received from the customers for services that have not yet been transferred to the customers. As at 31 December 2016, 2017 and 2018 and 30 April 2019, the contract liabilities mainly included the advance payments received from customers for our PCBAs. The contract liabilities increased from approximately RMB0.5 million for FY2016 to approximately RMB6.8 million for FY2017. The increase was mainly attributable to the advance payment received from Shenzhen Fingerchip. The contract liabilities decreased from approximately RMB6.5 million as at 31 December 2018 to approximately RMB3.3 million as at 30 April 2019. The decrease was mainly attributable to the refund of the advance payment received from Shenzhen Fingerchip. For details, please refer to the paragraph headed ”Financial Information — Analysis on major components of the consolidated balance sheets — Prepayments, deposits and other receivables” above.

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditure mainly on addition of plant and machinery, right-of-use assets, motor vehicles, office equipment and leasehold improvement. Our capital expenditures amounted to approximately RMB50.0 million, RMB37.1 million and RMB30.9 million and RMB2.4 million for FY2016, FY2017, FY2018 and the four months ended 30 April 2019, respectively, and as at the Latest Practicable Date, we did not make any material capital expenditure.

We expect that our total capital expenditures for the year ending 31 December 2019 to be approximately RMB9.2 million, which will be used for acquisition of additional machinery and equipment to (i) expand our production capacity and enhance our production efficiency; and (ii) upgrade our existing warehouse to an intelligent warehouse.

Our Group’s projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further information.

We intend to fund our planned capital expenditures through a combination of the net proceeds from the Share Offer, bank borrowings and cash flow from operating activities. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our Group's operation and capital requirements were financed principally through a combination of internal resources and bank and other borrowings.

During the Track Record Period, we were able to repay our obligations under bank and other borrowings when they became due. We expect that there will not be any material change in the sources and uses of the cash of our Group upon completion of the Listing and in the future, except that we will have additional funds from the proceeds of the Listing for implementing our future plans as detailed in "Future Plans and Use of Proceeds" in this prospectus.

Cash flows of our Group

The following table sets out a condensed summary of our Group's consolidated statements of cash flows during the Track Record Period:

				Four months ended 30 April	
	FY2016	**FY2017**	**FY2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Operating cash flows before movements in working capital	71,932	55,267	67,164	17,462	14,631
Cash generated from operations	75,907	54,572	24,802	1,321	29,033
Income tax paid	(12,934)	(2,124)	(4,932)	(2,337)	(3,408)
Interest received	52	205	232	145	14
Net cash generated from/ used in operating activities	63,025	52,653	20,102	(871)	25,639
Net cash (used in)/generated from investing activities	(37,267)	(25,509)	(20,726)	(8,674)	2,187
Net cash used in financing activities	(19,600)	(3,426)	(18,322)	(4,520)	(7,361)
Net increase/(decrease) in cash and cash equivalents	6,158	23,718	(18,946)	(14,065)	20,465

	FY2016	FY2017	FY2018	Four months ended 30 April 2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash and cash equivalents at the beginning of the year/period	3,993	10,151	33,837	33,837	14,979
Currency translation differences	—	(32)	88	(81)	(66)
Cash and cash equivalents at the end of the year/period	10,151	33,837	14,979	19,691	35,378

Income tax paid

Income tax paid decreased from approximately RMB12.9 million during FY2016 to approximately RMB4.9 million during FY2018. The decrease arose mainly because Shenzhen Confidence was entitled to income tax refund. The income tax paid during FY2016 represented tax payment for the fourth quarter of FY2015, and first to third quarter of FY2016, all of which were made based on the then applicable tax rate of 25%. Shenzhen Confidence obtained the status of "High and New Technology Enterprise" in November 2016 and was therefore entitled to a preferential income tax rate of 15% for its taxable profit in FY2016, FY2017 and FY2018. Accordingly, the tax paid for the first to third quarter of FY2016 income tax was recalculated at the preferential income tax rate of 15%. As a result, our Group was entitled to a tax refund of RMB3.7 million for over-payments made in respect of the first to third quarter of FY2016 taxable income (being the differences between 25% and 15% applying to taxable profit before tax). Together with the tax provision made for the fourth quarter of FY2016 at the preferential tax rate of 15%, it resulted an income tax recoverable of RMB2.4 million as at 31 December 2016. Upon the Shenzhen Confidence's final tax filing in respect of FY2016 in May 2017, the income tax recoverable was fully settled.

The income tax paid increased from RMB2.3 million for the four months ended 30 April 2018 to RMB3.4 million for the four months ended 30 April 2019. Our income tax paid of approximately RMB3.4 million for the four months ended 30 April 2019 represented provisional income tax for the fourth quarter of FY2018 and the first quarter of FY2019.

Net cash generated from/(used in) operating activities

Our cash from operations was mainly generated from receipts of payments for the sales of our products. Our cash used in operations mainly comprised payment for our purchase of raw materials, employee benefit expenses, taxes and other operating expenses.

For the four months ended 30 April 2019, our Group's net cash generated from operating activities was approximately RMB25.6 million, which was mainly attributable to the cash generated from operations of approximately RMB29.0 million, partially offset by income tax paid of approximately RMB3.4 million. Our operating cash flows before working capital changes was approximately RMB14.6 million which was primarily attributable to profit before tax of approximately RMB7.4 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB6.5 million; and (ii) interest expenses of approximately RMB0.6 million. Our change in working capital was attributable to a cash inflow of approximately RMB14.4 million, which was primarily due to the decrease in contract assets, trade and bills receivables of approximately RMB5.0 million; decrease in prepayments, deposits and other receivables of approximately RMB8.1 million; decrease in inventories of approximately RMB2.6 million; and the increase in trade and bills payables of approximately RMB4.1 million, and partially offset by the decrease in contract liabilities, other payables and accruals of approximately RMB5.5 million.

For FY2018, our Group's net cash generated from operating activities was approximately RMB20.1 million, which was mainly attributable to the cash generated from operations of approximately RMB24.8 million, partially offset by income tax paid of approximately RMB4.9 million. Our operating cash flows before working capital changes was approximately RMB67.2 million, which was primarily attributable to profit before tax of approximately RMB47.2 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB17.3 million; (ii) provision for inventories of approximately RMB1.0 million; and (iii) interest expenses of approximately RMB2.5 million. Our change in working capital was attributable to a cash outflow of approximately RMB42.4 million, which was primarily due to the (i) increase in inventories of RMB24.6 million, and (ii) the increase in contract assets, trade and bills receivables.

For FY2017, our Group's net cash generated from operating activities was approximately RMB52.7 million, which was mainly attributable to the cash generated from operations of approximately RMB54.6 million, partially offset by income tax paid of approximately RMB2.1 million. Our operating cash flows before working capital changes was approximately RMB55.3 million, which was primarily attributable to profit before tax of approximately RMB36.9 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB15.8 million; and (ii) interest expenses of approximately RMB1.9 million. Our change in working capital was attributable to a cash outflow of approximately RMB0.7 million, which was primarily due to the decrease in contract assets, trade and bills receivables of RMB2.4 million, and the increase in inventories of RMB4.5 million.

For FY2016, our Group's net cash generated from operating activities was approximately RMB63.0 million, which was mainly attributable to the cash generated from operations of approximately RMB75.9 million, partially offset by income tax paid of approximately RMB12.9 million. Our operating cash flows before working capital changes was approximately RMB71.9 million, which was primarily attributable to profit before tax of approximately RMB41.0 million after adjustment for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB23.5 million; and (ii) provision for inventories of approximately RMB4.5 million. Our change in working capital was attributable to a cash inflow of approximately RMB4.0 million, which was primarily due to the decrease in prepayments, deposits and other receivables of RMB1.9 million, and increase in contract liabilities, other payables, and accruals of approximately RMB4.6 million, partially offset by the increase in inventories of approximately RMB1.6 million and the increase in trade and bills payables of approximately RMB0.4 million.

Net cash (used in)/generated from investing activities

During the Track Record Period, our Group derived cash outflow used in investing activities mainly attributable to purchases of properties, plant and equipment.

For the four months ended 30 April 2019, our net cash generated from investing activities was approximately RMB2.2 million, which was primarily due to receipt of government grants for purchase of equipment of approximately RMB5.2 million, partially offset by purchase of properties, plant and equipment of approximately RMB3.0 million.

For FY2018, our net cash used in investing activities was approximately RMB20.7 million, which was primarily due to purchase of properties, plant and equipment of approximately RMB30.6 million, which was partially offset by (i) proceeds from disposal of properties, plant and equipment of approximately RMB2.7 million; and (ii) receipt from government grant of approximately RMB7.2 million.

For FY2017, our net cash used in investing activities was approximately RMB25.5 million, which was primarily due to purchase of properties, plant and equipment of approximately RMB32.1 million, which was partially offset by proceeds from disposal of properties, plant and equipment of approximately RMB6.6 million.

For FY2016, our net cash used in investing activities was approximately RMB37.3 million, which was primarily due to purchase of properties, plant and equipment of approximately RMB36.4 million.

Net cash used in financing activities

During the Track Record Period, our cash inflow from financing activities was primarily attributable to proceeds from bank borrowings. Our cash outflow from financing activities was mainly attributable to repayments of bank borrowings and interest paid.

For the four months ended 30 April 2019, our net cash used in financing activities was approximately RMB7.4 million. The net cash generated from financing activities was primarily due to (i) consideration paid for the acquisition of a subsidiary in respect of reorganisation of approximately RMB6.0 million; (ii) repayments of bank and other borrowings of approximately RMB5.5 million; and (iii) payment of listing expenses of approximately RMB3.0 million, which was partially offset by capital injection from a pre-IPO investor of approximately RMB8.8 million.

For FY2018, our net cash used in financing activities was approximately RMB18.3 million. The net cash used in financing activities was primarily due to repayments of bank borrowings of approximately RMB24.9 million, dividend payment of approximately RMB9.4 million, interest paid of approximately of RMB2.5 million, which was partially offset by proceeds from bank and other borrowings of approximately RMB20.4 million.

For FY2017, our net cash used in financing activities was approximately RMB3.4 million. The net cash used in financing activities was primarily due to repayments of bank borrowings of approximately RMB9.1 million, dividends payment of approximately RMB15.6 million and payment of principal element of lease liabilities of approximately RMB3.8 million, partially offset by proceeds from issuance of ordinary shares of Shenzhen Confidence to the then shareholders of approximately RMB10.0 million, and proceeds from bank borrowings of approximately RMB18.3 million.

For FY2016, our net cash used in financing activities was approximately RMB19.6 million. The net cash used in financing activities was primarily due to repayments of bank borrowings of approximately RMB7.7 million, interest paid of approximately RMB1.8 million, repayment of loans from shareholder of approximately RMB20.8 million and payment of principal element of lease liabilities of approximately RMB3.0 million, partially offset by proceeds from bank borrowings of approximately RMB14.2 million.

NET CURRENT ASSETS

The following table sets forth our Group's current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 April	As at 31 July
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets					
Inventories	2,440	6,908	30,553	27,976	24,904
Contract assets, trade and bills receivables	41,261	38,889	58,885	53,841	83,424
Prepayments, deposits and other receivables	1,252	10,903	11,309	6,201	6,470
Current income tax recoverable	2,405	—	—	—	—
Pledged bank deposits	—	1,314	—	—	—
Cash and cash equivalents	10,151	33,837	14,979	35,378	30,035
Total current assets	57,509	91,851	115,726	123,396	144,833

	As at 31 December			As at 30 April	As at 31 July
	2016	2017	2018	2019	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current liabilities					
Trade and bills payables	2,940	9,374	10,130	14,287	11,933
Other payables and accruals	17,612	16,299	18,806	17,106	21,040
Lease liabilities	3,603	3,294	2,883	3,176	3,275
Contract liabilities	500	6,796	6,539	3,254	3,294
Current income tax liabilities	—	187	2,386	1,729	5,585
Deferred government grants	—	—	1,040	2,121	3,027
Bank and other borrowings	7,184	21,360	10,597	7,357	6,980
Total current liabilities	31,839	57,310	52,381	49,030	55,134
Net current assets	25,670	34,541	63,345	74,366	89,699

As at 31 July 2019, our net current assets increased by approximately RMB15.3 million to approximately RMB89.7 million as compared to that as at 30 April 2019, primarily due to (i) the increase in current assets of approximately RMB21.4 million, which was primarily driven by the increase in contract assets, trade and bills receivables of approximately RMB29.6 million and partially offset by decrease in cash and cash equivalents of approximately RMB5.3 million; and (ii) offset by increase in current liabilities of approximately RMB6.1 million, which was primarily driven by the increase in other payables and accrual of approximately RMB3.9 million, increase in current income tax liabilities of approximately RMB3.9 million, partially offset by decrease in trade and bills payables of approximately RMB2.4 million.

As at 30 April 2019, our net current assets increased by approximately RMB11.0 million to approximately RMB74.4 million as compared to that as at 31 December 2018, primarily due to (i) increase in current assets of approximately RMB7.7 million, which was primarily driven by increase in cash and cash equivalents of approximately RMB20.4 million, partly offset by decrease in contract assets, trade and bills receivables of approximately RMB5.0 million; decrease in prepayment, deposits and other receivables of approximately RMB5.1 million and decrease in inventories of approximately RMB2.6 million; and (ii) decrease in current liabilities of approximately RMB3.4 million, which was primarily driven by decrease in contract liabilities of approximately RMB3.3 million and decrease in bank and other borrowings of approximately RMB3.2 million, partially offset by increase in deferred government grants of approximately RMB1.1 million.

As at 31 December 2018, our net current assets increased by approximately RMB28.8 million to approximately RMB63.3 million as compared to that as at 31 December 2017, primarily due to (i) the increase in current assets of approximately RMB23.9 million, which was primarily driven by the increase in contract assets, trade and bills receivables of approximately RMB20.0 million and the increase in inventories of approximately RMB23.6 million, partly offset by the decrease in cash and cash equivalents of approximately RMB18.9 million; and (ii) the decrease in current liabilities of approximately RMB4.9 million, which was primarily driven by the decrease in bank and other borrowings of approximately RMB10.8 million.

As at 31 December 2017, our net current assets increased by approximately RMB8.9 million to approximately RMB34.5 million as compared to that as at 31 December 2016, primarily due to (i) the increase in current assets of approximately RMB34.3 million, which was primarily driven by the increase in prepayment, deposits and other receivables of approximately RMB9.7 million and the increase in cash and cash equivalents of approximately RMB23.7 million; and offset by (ii) the increase in current liabilities of approximately RMB25.5 million, which was primarily driven by the increase in trade and bills payables of approximately RMB6.4 million, increase in bank and other borrowings of approximately RMB14.2 million and the increase in contract liabilities, lease liabilities, other payables and accruals of approximately RMB4.7 million.

COMMITMENTS

Capital commitments

As at 31 December 2016, 2017 and 2018 and 30 April 2019, we had capital commitments of approximately RMB2.0 million, RMB4.0 million, RMB1.1 million and RMB2.4 million, respectively, in relation to the purchase of properties, plant and equipment.

INDEBTEDNESS

Bank and other borrowings

As at 31 December 2016, 2017 and 2018, 30 April 2019 and 31 July 2019, our Group's borrowings were approximately RMB14.1 million, RMB23.3 million, RMB18.8 million, RMB13.3 million and RMB11.0 million, respectively, representing approximately 28.9%, 33.3%, 25.6%, 18.6% and 14.3% of our Group's total liabilities as at the respective dates to finance our business operations and to fulfil working capital requirements.

The following table set out the maturity profile of our borrowings as at the dates indicated:

	As at 31 December			As at 30 April	As at 31 July
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Within one year and on demand	7,184	21,360	10,597	7,357	6,980
Between one and two years	6,959	1,964	6,604	5,534	3,992
Between two and five years	—	—	1,600	375	—
	14,143	23,324	18,801	13,266	10,972

As at 31 December 2016, 2017 and 2018, 30 April 2019 and 31 July 2019, our Group's bank and other borrowings were approximately RMB14.1 million, RMB23.3 million, RMB18.8 million, RMB13.3 million and RMB11.0 million, respectively. Our Group's bank and other borrowings were denominated in RMB. Our Group's bank and other borrowings were carried at floating rates ranged from 5.6% to 9.7% per annum as at 31 December 2016, and floating rates ranged from 5.6% to 9.3% per annum as at 31 December 2017. As at 31 December 2018 our Group's bank and other borrowings were carried at floating rates ranged from 6.6% to 9.6% per annum. As at 30 April 2019, our Group's bank and other borrowings were carried at floating rates ranged from 6.9% to 9.3% per annum. As at 31 July 2019, our Group's bank and other borrowings were carried at floating rates ranged from 9.0% to 9.2% per annum. We repaid our borrowings through our internally generated funds. Our borrowings during the Track Record Period are for our operating use.

As at 31 December 2016, 2017 and 2018 and 30 April 2019 and 31 July 2019, the carrying amounts of the bank and other borrowings approximated their fair values.

As at 31 December 2016, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB17.6 million and personal guarantee from Mr. Li, Du Rong, Mr. Yuan, Mr. Zhang, Mr. Ling Qing, and Mr. Xu.

As at 31 December 2017, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB10.8 million and personal guarantee from Mr. Li, Mr. Yuan, Mr. Zhang, Mr. Xu, and Ms. Zhang Juan.

As at 31 December 2018, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB25.0 million and personal guarantee from Mr. Li, Mr. Yuan, and Mr. Xu.

As at 30 April 2019, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB23.7 million and personal guarantee from Mr. Li, Mr. Yuan, and Mr. Zhang.

As at 31 July 2019, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB14.1 million and personal guarantee from Mr. Li, Mr. Yuan, and Mr. Zhang.

Our Directors confirm that the aforesaid personal guarantees will be repaid or released and replaced by corporate guarantee provided by our Company upon Listing and there had been no defaults by our Group in payment of its bank borrowings during the Track Record Period.

As at 31 December 2016, 2017 and 2018 and 30 April 2019 and 31 July 2019, our Group's total undrawn banking facilities amounted to approximately nil, RMB8.9 million, nil, nil and nil respectively, and our Group's total drawn banking facilities amounted to approximately RMB11.5 million, RMB23.3 million, RMB11.5 million, RMB7.6 million and RMB6.4 million respectively. As confirmed by our Directors, our Group had not defaulted or delayed any payment, and/or breached any of the finance covenants of our banking facilities during the Track Record Period and up to the Latest Practicable Date. For details of our borrowings, please see note 24 to the Accountant's Report in Appendix I to this prospectus.

Lease liabilities

	As at 31 December			As at 30 April	As at 31 July
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Lease liabilities in respect of rights-of-use assets of properties, plant and machinery					
Non-current	9,726	10,163	7,280	6,686	5,832
Current	3,603	3,294	2,883	3,176	3,275
	13,329	13,457	10,163	9,862	9,107

As at 31 December 2016, 2017 and 2018 and 30 April 2019 and 31 July 2019, our non-current portion of lease liabilities amounted to approximately RMB9.7 million, RMB10.2 million, RMB7.3 million, RMB6.7 million and RMB5.8 million respectively, and our current portion of lease liabilities was approximately RMB3.6 million, RMB3.3 million, RMB2.9 million, RMB3.2 million and RMB3.3 million respectively.

For details of our lease liabilities, please see note 20 of the Accountant's Report in Appendix I to this prospectus.

Contingent liabilities

As at 31 December 2016, 2017, 2018, 30 April 2019 and 31 July 2019 and the Latest Practicable Date, we had no significant contingent liabilities.

Save as disclosed in "Indebtedness" in this section, we did not have, at the close of business on 31 July 2019, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Our Group did not have any material off-balance sheet commitments and arrangements.

KEY FINANCIAL RATIOS

The table below sets forth our major financial ratios during the Track Record Period:

		As at/for		As at/for 30 April
	FY2016	**FY2017**	**FY2018**	**2019**
Current ratio (times) *(Note 1)*	1.8	1.6	2.2	2.5
Quick ratio (times) *(Note 2)*	1.7	1.5	1.6	1.9
Gearing ratio *(Note 3)*	31.3%	37.4%	24.0%	17.0%
Net debt to equity ratio *(Note 4)*	19.9%	8.4%	13.9%	Net Cash
Interest coverage (times) *(Note 5)*	23.6	20.8	20.2	12.5
Return on assets *(Note 6)*	25.5%	17.1%	18.4%	N/A(8)
Return on equity *(Note 7)*	39.5%	27.5%	27.6%	N/A(8)

Notes:

1. Current ratio is calculated by dividing current assets by current liabilities.

2. Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.

3. Gearing ratio is calculated by dividing total debt by total equity multiplied by 100%. Total debt is defined as the sum of the borrowings, lease liabilities and contract liabilities.

4. Net debt to equity ratio is calculated by dividing net debt by total equity. Net debt is defined to include total debt net of cash and cash equivalent.

5. Interest coverage is calculated by dividing profit before finance costs and income tax expenses by finance costs.

6. Return on assets is calculated by dividing net profit attributable to the owners of the Company with the closing balance of total assets.

7. Return on equity is calculated by dividing net profit attributable to the owners of the Company with the closing balance of total equity.

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

Current ratio

Our Group's current ratio were approximately 1.8 times, 1.6 times, 2.2 times and 2.5 times as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively. The decrease in our current ratio from approximately 1.8 times as at 31 December 2016 to approximately 1.6 times as at 31 December 2017 was mainly due to the increase in the current portion of our bank and other borrowings by approximately RMB14.2 million. The current ratio increased from approximately 1.6 times to approximately 2.2 times for FY2018 as a result of the increase in trade and bills receivables by approximately RMB8.9 million and increase in inventories by approximately RMB23.6 million. Our quick ratio was remain relatively stable at approximately 2.2 times and 2.5 times as at 31 December 2018 and 30 April 2019, respectively.

Quick ratio

Our Group's quick ratio remained relatively stable at approximately 1.7 times, 1.5 times and 1.6 times and 1.9 times as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively.

Gearing ratio

Our gearing ratio as at 31 December 2016, 2017 and 2018 and 30 April 2019 was approximately 31.3%, 37.4%, 24.0% and 17.0%, respectively. The gearing ratio increased from approximately 31.3% as at 31 December 2016 to approximately 37.4% as at 31 December 2017 which was primarily due to the new bank and other borrowings. The gearing ratio decreased from approximately 37.4% as at 31 December 2017 to approximately 24.0% as at 31 December 2018 which was primarily due to the repayment of bank and other borrowings. Our gearing ratio decreased from approximately 24.0% as at 31 December 2018 to approximately 17.0% as at 30 April 2019 as a result of decrease in bank and other borrowings from approximately RMB18.8 million as at 31 December 2018 to approximately RMB13.3 million as at 30 April 2019 due to repayment of bank and other borrowings of approximately RMB5.5 million.

Net debt to equity ratio

Our net debt to equity ratio as at 31 December 2016, 2017 and 2018 was approximately 19.9%, 8.4% and 13.9%, respectively. The net debt to equity ratio decreased from approximately 19.9% as at 31 December 2016 to approximately 8.4% as at 31 December 2017 which was primarily due to the increase in our cash and cash equivalent by approximately RMB23.7 million. The net debt to equity ratio increased from approximately 8.4% as at 31 December 2017 to approximately 13.9% as at 31 December 2018 which was primarily due to the decrease in our cash and cash equivalent by approximately RMB18.9 million. We recorded net cash as at 30 April 2019.

Interest coverage

Our interest coverage decreased from approximately 23.6 times for FY2016 to approximately 20.8 times for FY2017 and further decreased to approximately 20.2 times for FY2018. The decrease of interest coverage between FY2016 and FY2018 was primarily due to the increase in interest expense. The decrease in interest coverage ratio from approximately 20.2 times for the year ended 31 December 2018 to approximately 12.5 times for the four months ended 30 April 2019 was principally attributable to the decrease in profit before interest and tax by approximately 35.1% as compared with that of the four months ended 30 April 2018.

Return on assets

Return on assets was approximately 25.5%, 17.1% and 18.4% for each of FY2016, FY2017 and FY2018, respectively. The decrease in our return on assets for FY2017 was primarily due to decrease in net profit attributable to the owners of our Company and increase in our total assets. The increase in return on assets for FY2018 was primarily due to increase in our net profit attributable to the owner.

Return on equity

Return on equity was approximately 39.5%, 27.5% and 27.6% for each of FY2016, FY2017 and FY2018, respectively. The decrease in our return on equity for FY2017 was primarily due to the decrease in net profit attributable to the owners of our Company and increase in our total equity.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 28 of the Accountant's Report set out in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms that were no less favourable to us than terms available from independent third parties which are fair and reasonable and in the interest of the Shareholders as a whole.

SUFFICIENCY OF WORKING CAPITAL

Our Directors are of the opinion that after taking into account, the existing financial resources available to our Group including internally generated funds from operating activities, existing banking facilities and the estimated net proceeds from the Share Offer, our Group has sufficient working capital for its present requirements for the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation, save for investment holding and the transactions related to the Reorganisation. Accordingly, our Company has no reserve available for distribution to the Shareholders as at the Latest Practicable Date.

DIVIDENDS

Shenzhen Confidence declared and paid dividend of approximately nil, RMB15.6 million, RMB9.4 million and nil, respectively, for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2019. For each of the three years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2019, they were settled by our internal resources. The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operations and financial performance, profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our Shareholders, as well as any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio. Prospective investors should note that historical dividend distributions are not indicative of our future dividend distribution policy, and there is no guarantee that dividends will be paid in the future.

LISTING EXPENSES

Our estimated expenses in relation to the Listing, including underwriting commissions, are approximately RMB33.3 million, of which, approximately RMB14.9 million is directly attributable to the issue of the Shares to the public and will be accounted for as a deduction from equity upon completion of the Share Offer. The remaining estimated Listing expenses of approximately RMB18.4 million, was or will be charged to profit or loss, of which approximately RMB10.7 million had been recorded in the consolidated income statements and consolidated statements of comprehensive income during the Track Record Period, and approximately RMB17.9 million is expected to be charged to profit or loss for the year ending 31 December 2019. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2019 will be affected by the estimated expenses in relation to the Listing. This calculation is based on the Offer Price of HK$2.25 per Share (being the mid-point of the Offer Price range stated in this prospectus) and the assumption that 62,500,000 Shares are to be offered under the Share Offer and is subject to the adjustment based on the actual amount incurred or be incurred.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, save as disclosed in the paragraph headed "Listing expenses" in this section, as at the Latest Practicable Date, there are no circumstances that would give rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FINANCIAL RISK MANAGEMENT

Our Group is exposed to various financial risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk in the ordinary course of our business. For further details of our financial risk management, please refer to note 3 to the Accountant's Report in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to the section headed "Unaudited pro forma financial information" set out in Appendix II to this prospectus for details.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to be an EMS provider offering comprehensive PCBA assembling and production services in the PRC integrating research and design, selection and procurement of raw materials, assembly of PCBAs, quality control, testing, logistics and aftersales services, and our business model remained unchanged.

During 2018 and 2019, the United States and the PRC have been involved in various negotiations relating to the export and import of products and technology, and have implemented various tariffs and placed other restrictions on goods to be exported to each country. In particular, certain products manufactured in the PRC listed on the September 2018 Tariffs List including aerospace, information and communication technology, robotics and machinery, among other items, are currently subject to import tariffs of 25%, which the United States has indicated that it plans to raise the rates to 30% on 15 October 2019. Further, certain products manufactured in the PRC and listed on the September 2019 Tariffs List and the December 2019 Tariffs List would be subject to import tariffs of 15% starting from 1 September 2019 and 15 December 2019 respectively. The September 2019 Tariffs List and the December 2019 Tariffs List cover essentially all products not covered by the September 2018 Tariffs List, but excludes pharmaceuticals, certain pharmaceutical inputs, select medical goods, rare earth materials, and critical minerals, and certain products based on health, safety, national security and other factors. None of our Group's products sold to customers located in the United States during the Track Record Period and up to the Latest Practicable Date were named on the then effective tariffs lists. However, as advised by our U.S. Legal Advisers and based on the communication between individual customers and us and our understanding on the applicability of our PCBAs, certain ultimate electronic products sold by our Group's customers that incorporate our products were named on the tariffs lists (including the September 2018 Tariffs List, the September 2019 Tariffs List and the December 2019 Tariffs List) as at the Latest Practicable Date. For details, please refer to the paragraph headed "Business — Trade disputes between the United States and the PRC" in this prospectus. Given the uncertainties in the development of the trade disputes and their effects on the global economy, we cannot assure you that these disputes will not materially and adversely affect our business, financial condition and operations. For details, please refer to the paragraph headed "Risk Factors — Our financial performance and results of operations could be adversely affected by trade protection measures and trade disputes" in this prospectus.

There was no material adverse change in the general economic and market conditions in the PRC or the industry in which we operate that had affected or would affect our business operations or financial condition materially and adversely. Save as disclosed in the paragraph headed "Listing expenses" in this section, our Directors confirmed that, up to the date of this prospectus, there has been no material adverse change in our business, financial positions, operations and business prospects since 30 April 2019. There has been no event since 30 April 2019 which would materially affect the information shown in our financial statements included the Accountant's Report. Our Group intends to retain PricewaterhouseCoopers as our Group's auditor after the Listing.

BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the paragraph headed "Business — Business strategies" in this prospectus for our Group's business objectives and strategies.

REASONS FOR THE LISTING

Our Directors believe the Listing will enhance our Group's profile and the net proceeds from the Share Offer will strengthen our financial position and enable our Group to implement our business strategies set out in the sections headed "Business — Business strategies" in this prospectus and to capture the anticipated growth of the EMS industry in the PRC. The reasons of the Listing are set out herein below:

(A) Enable us to respond to the corresponding growth in the downstream industries where our customers are engaged

Our PCBAs are embedded in downstream telecommunication devices, industrial-use devices, IoT products and other electronic products such as automotive devices etc. Any technological advancement or innovation of these downstream electronic products would directly affect our business and thus, we have to keep ourselves abreast of the advancement or innovation. In anticipation of the commercial launch of 5G smartphone in 2020, it is expected that there will be an upsurge of smartphone replacements and upgrading, which will lead to a high-volume production of 5G smartphones in the PRC and in turn, boosting the expansion of the smartphone PCBA manufacturers in the PRC. As stated in the CIC Report, compared with 4G, cell-towers equipped with 5G are expected to benefit from larger capacities, which will enable a greater number of devices to be connected at any given point in time. Thus, the development of 5G is expected to further promote the emerging IoT industry.

The commercial launch of 5G is expected to commence in 2020 with an anticipated market share in terms of the number of mobile phones shipment in China of approximately 0.3% in 2020, according to CIC Report. Such market share of 5G mobile phones is expected to increase to approximately 6.6% in 2021, 25.3% in 2022 and 28.4% in 2023. We expect that the contribution from the development of 5G network to our Group's revenue would be insignificant for the year ending 31 December 2019, and would follow the forecasted increasing trend of the market share of 5G mobile phones as aforementioned starting from 2020.

The CIC Report also points out that the competition in PCBA industry remains fierce, PCBA manufacturers with strong R&D capabilities, strong integrated management capacity (such as supply chain management ability) and those who upgrade their production lines to more automated ones with better efficiency and performance are projected to differentiate their models from those of competitors and stand out in the industry's competitive dynamics.

Hence, considering the technological advancement in the downstream telecommunication industry and IoT industry, particularly the commercial launch of 5G in 2020 and the fierce competition in the PCBA industry, as an EMS provider focusing on the assembling and production of PCBAs for telecommunication and IoT devices etc, we have to be well prepared for the forthcoming changes in the downstream industries by, among others, (i) enhancing our production capacity and efficiency by replacing our machinery of old models by the new ones; (ii) enhancing the level of automation in our quality control system and packaging system; (iii) strengthening our product design and enhancement capabilities in respect of our PCBAs applicable to telecommunication devices and IoT devices for the 5G products by setting up an RF shielding room for testing RF connectivity in a chamber (For more details, please refer to the paragraphs headed "Use of proceeds — Strengthen our product design and enhancement capabilities in respect of our PCBAs applicable to telecommunication devices and IoT devices" in this section); (iv) further strengthening our research and development capabilities; (v) strengthening our product testing capabilities for IoT products by setting up a cloud-based simulation platform; (vi) upgrading our MES system and enhancing our capabilities in information technology; and (vii) upgrading our intelligent warehouse. Our Directors believe that the Listing would enable us to have sufficient capital to implement our business strategies which are formulated in light of the foreseeable technological advancement and the growth in the EMS industry in the PRC.

(B) Facilitate the implementation of our business strategies

According to the CIC Report, the market size of EMS industry in the PRC has grown from RMB1,085.6 billion in 2014 to RMB1,457.6 billion in 2018 with a CAGR of 7.6%. On the other hand, the market size of the PCBA industry (which is a segment of the EMS industry) in the PRC increased from RMB282.3 billion in 2014 to RMB338.2 billion in 2018, representing a CAGR of 4.6% and it is anticipated to reach RMB406.1 billion in 2023, representing a CAGR of approximately 3.7%. In view of the overall industry growth and in order to capture the market opportunities in the PRC, we have formulated business strategies to develop our Group's sales channels for our PCBAs to customers in the PRC. Our Directors recognise the need for further capital to expand our business in order to maintain our position in the competitive EMS market in the PRC and capture more market share.

As such, our Directors believe that the Listing will allow us to capture more market share in the PCBA industry albeit intense competition within the industry by effective implementation of our business strategies. In respect of the use of proceeds from the Share Offer to implement our business strategies, please see the paragraphs headed "Use of proceeds" in this section.

(C) Need for equity financing

Our Group's significant cash outflow exposure: Although our business generated net operating cash inflow, it does not necessarily mean that our Group has no imminent needs to raise funds in order to implement our business strategies. Taking into account the fact that (i) our Group only had cash and cash equivalents of approximately RMB30.0 million as at 31 July

2019; (ii) our current trade and bills payables were approximately RMB11.9 million as at 31 July 2019; (iii) the amount of bank and other borrowings repayable within one year as at 31 July 2019 was approximately RMB7.0 million; and (iv) our Group's significant cash outflow exposure including the mismatch in the time between receipt of payments from our customers and payments to our suppliers, external logistics companies and staff costs, our Directors believe our Group may not have sufficient internal generated funds to finance our expansion plan while at the same time maintaining sufficient working capital for our Group's operation.

Being a private company, our financial resources rely largely on the financial strength of our Controlling Shareholders and bank facilities, which substantially restrict our Group's development and expansion plan. Our Directors therefore consider it beneficial for us to strengthen our capital base through raising funds under the Share Offer so that we would be able to tender for more projects with larger contract sums and in turn expand the scale of our business after the Listing.

(D) Commercial rationale for listing

i. Strengthening our Group's corporate profile, credibility and competitiveness

Our Directors believe that a listing status will enhance our credibility with suppliers and customers, and thus enhance our level of competitiveness in securing customers' contracts. The increased level of information transparency after the Listing will also give our existing and prospective customers and suppliers the public access to our Group's corporate and financial information, which could generate further confidence in our Group among them. The status of being a listed company on Main Board of the Stock Exchange will also raise our Group's reputation amongst our competitors, which will help implement our business strategies and expand our customer base and market share within the industry. With such status, our Group can be differentiated from other competitors during the contracting process and we can enhance our ability to attract and engage sizeable customers with sizeable operations.

ii. The listing status provides an equity fund-raising platform for our Group

Although our Group was able to successfully expand our business using internally generated funds and bank borrowings during the Track Record Period and has been able to repay bank loans as they fell due in the past, our Group still plans to seek equity fund raising instead of continuing to use the historical capital structure to fund our future growth as the latter will place undue financial burden on our Group in terms of cash flow if we are to apply all our internal capital resources or bank loans for growth purpose. Our Directors anticipated that additional bank borrowings to our Group would be needed for our expansion. The Share Offer, which allows us to access the capital market for fund raising, will assist our future business development and strengthen our competitiveness. Subsequent to the Listing, we will also have access to secondary market fund raising for our future expansion plans through the issuance of equity and/or debt securities.

By strengthening our financial position through fund-raising, we will also have more bargaining power when negotiating terms with our suppliers for manufacturing materials, and with other business partners, if any. Our Group will be able to maintain a lower level of gearing ratio.

iii. Diversification of shareholder base and enhance liquidity in trading of Shares

Our Directors take the view that the Listing will enhance the liquidity of the Shares which will be freely traded in the Stock Exchange when compared to the limited liquidity of shares that are privately held before the Listing. Hence, our Directors consider that the Share Offer will enlarge and diversify our shareholder base and potentially lead to a more liquid market in the trading of the Shares.

Although the amount of expenses for the Listing represents a significant proportion of the gross proceeds from the Listing, such expenses are non-recurring by nature for which we would not have to pay following the completion of the Listing.

USE OF PROCEEDS

In the event that the Over-allotment Option is not exercised, we estimate the net proceeds from the Share Offer which we will receive, assuming an Offer Price of HK$2.25 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK$102.3 million, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Share Offer.

In the event that the Over-allotment Option is exercised in full and assuming an Offer Price of HK$2.25 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds from the Share Offer of approximately HK$19.4 million.

If the Offer Price is fixed at HK$2.50 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we will receive (i) additional net proceeds from the Share Offer of approximately HK$14.4 million, assuming the Over-allotment Option is not exercised; and (ii) additional net proceeds from the Share Offer of approximately HK$35.9 million, assuming the Over-allotment Option is exercised in full.

If the Offer Price is fixed at HK$2.00 per Offer Share (being the low end of the Offer Price range stated in this prospectus), the net proceeds from the Share Offer we receive will be (i) reduced by approximately HK$14.4 million, assuming the Over-allotment Option is not exercised; and (ii) reduced by approximately HK$2.9 million, assuming the Over-allotment Option is exercised in full.

We intend to use the net proceeds from Share Offer for the following purposes assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK$2.25 per Offer Share, being the mid-point of the Offer Price range stated in this prospectus:

Our Directors intend to apply such net proceeds as follows:

- **Enhancing our production capacity and efficiency**

  — approximately HK$55.6 million, representing approximately 54.3% of the net proceeds, will be used for expanding our production capacity and enhancing our production efficiency; of which approximately HK$30.8 million will be allocated for acquiring 40 units of new-model SMT mounting machines to replace the existing old-model SMT mounting machines installed in two of our SMT assembly lines as these old-model SMT mounting machines had been used for more than seven years and are either near or past their respective estimated useful life, which would enable us to achieve a better performance and higher production efficiency; approximately HK$23.9 million will be allocated for acquiring 31 units of SMT mounting machines that will be deployed for setting up two additional SMT assembly lines whereas the remaining machinery and equipment of these two new SMT assembly lines such as the back-to-back configurable momentum printer, three-dimensional solder paste printing inspection machine (double track), AOI inspector and double track reflow oven will be funded by our internal resources. The utilisation rate of our SMT assembly lines in our Shenzhen Production Plant reached approximately 93.5% for the four months ended 30 April 2019. It is imperative for us to expand the production capacity of our Shenzhen Production Plant by (i) replacing those old-model SMT mounting machines in two of our existing SMT assembly lines with the new models; and (ii) setting up two additional SMT assembly lines in order to align with our business growth and capture the business opportunities arising from the growth of the EMS industry driven by, among others, the PRC's growing electronic information industry, development of 5G and the PRC government supporting policies and regulations.

  — When the two new SMT assembly lines operate in full swing, the production capacity of our SMT assembly lines will increase by approximately 7,077 machine hours for the year ended 31 December 2020 and 14,154 machine hours by 31 December 2021 (inclusive of the projected increase of approximately 7,077 machine hours in 2020) assuming each SMT assembly line operates for 21 hours a day for 337 days in a full year, whereas any period of less than a full year is calculated on a pro rata basis.

The table below sets out, by way of illustration only, a comparison of the production rate of SMT assembly lines with new-model SMT mounting machines and with old-model ones in producing the said PCBAs:

Type of PCBA	Estimated production rate of SMT assembly line (Note 1) using old-model SMT mounting machines	Estimated production rate of SMT assembly line (Note 1) using new-model SMT mounting machines	Percentage increase
	Pieces of PCBAs per machine hour		*%*
Smartphone mainboard (Note 2)	383	515	34.5%
IoT module (Note 2) (Note 3)	1,627	2,116	30.1%
Connector (Note 2) (Note 3)	1,195	1,555	30.1%

Notes:

1. Production rate is estimated on the basis that new-model SMT mounting machines are to replace the corresponding old-model SMT mounting machines and based on the assumptions that other machinery and parts of the SMT assembly line remain the same and for the purpose of calculation of production rate, wear and tear of machines used, machine down time or product failure are not taken into account as their respective implications are relatively minimal. Our Directors confirm that we did not record any material machine down time for SMT machines, decrease in production rate due to wear and tear or product failure during the Track Record Period.

2. A typical PCBA product of the type shown has been chosen for illustration purpose only.

3. Assembling and production of these PCBAs requires a SMT assembly line of a smaller scale (i.e. the SMT assembly lines with fewer SMT mounting machines) than that for producing smartphone mainboards, due to the relatively smaller size of the PCBAs for IoT modules and connectors as compared with the PCBAs for smartphone mainboard.

The following table sets out the details of the additional SMT mounting machines to be acquired to replace old machines having used for over seven years and to set up two additional SMT assembly line:

Additional machinery	Number of units	Estimated costs
		(HK$'000) (approximately)
(a) For replacing old machinery of our two of our existing SMT assembly lines		
SMT mounting machine	40	30,844

Additional machinery	Number of units	Estimated costs
		(HK$'000) (approximately)
(b) For setting up two additional SMT assembly lines		
SMT mounting machine	31	23,905
Total		54,749

The above estimated cost of approximately HK$54.7 million was based on the preliminary quotations obtained by us. Our Directors estimate that the depreciation charges for these additional machinery and equipment will be approximately HK$1.5 million and HK$3.0 million for the year ending 31 December 2020 and 2021, respectively.

The payback period of the additional machinery for the additional SMT assembly lines is expected to be approximately 4.5 years. Payback period refers to the period required for the net profit of our Group to recover the initial cost of these new machinery. The net profit is calculated by multiplying lowest our predicted increase in sales revenue (which is derived from multiplying the revenue for FY2018 by the predicted percentage increase in annual production volume of the new SMT assembly lines at 80% utilisation rate) by our lowest net profit margin from FY2016 to FY2018, i.e. 15.3%.

Based on our gross profit margin of approximately 33.8% for the four months ended 30 April 2019 and the expected growth in the electronic product industry in the PRC, we are confident that we can fully cover the aforesaid additional cost to be incurred.

We also plan to allocate a sum of approximately HK$0.9 million for the hiring of additional technicians for the operation of the additional SMT assembly lines.

- **Enhancing the level of automation in our quality control and packaging system**

  — approximately HK$8.5 million, representing approximately 8.3% of the net proceeds, will be allocated for acquisition of five additional automated testing and packaging lines. As at the Latest Practicable Date, we had only four automated testing lines equipped with robotic testing machines and two automated testing and packaging lines equipped with robotic inspection and packaging machines and other equipment and devices. Hence, our workers still have to conduct visual inspection on some of our finished PCBAs and carry out part of the packaging of our finished PCBAs. The robotic testing machines and robotic inspection and packaging machines are with a workcell that automated the handling and inspection routines of our PCBAs. The robot in the workcell of the machine performs functional test and automated vision inspection checking for defects created on our PCBAs during the assembly process. It will also proceed to package the finished PCBAs. We plan to enhance the quality control of our PCBAs and save labour cost by enhancing the level of automation in the quality control process, particularly in respect of (i) testing of finished PCBAs and (ii) packaging of the finished PCBAs, by setting up an additional of five automated testing and packaging lines with robotic inspection and packaging machines. By doing so, we can reduce our reliance on visual inspection of our PCBAs carried out by our workers and increase the accuracy of the inspection if it is undertaken by automated machinery. With its implementation, we believe we will improve the quality control of our PCBAs and save labour costs, thereby enabling us to achieve an effective management of human resources.

We expect a total cost saving of approximately HK$5.4 million per year, which is mainly attributable to the savings in labour costs from the replacement of our quality inspection staff with the five additional automated testing and packaging lines.

The following table sets out the details of the additional machinery and equipment to be acquired to set up five additional automated testing and packaging lines:

Additional machinery and equipment	**Number of units**	**Estimated costs**
		(HK$'000) (approximately)
For setting up five additional automated testing and packaging lines		
Depaneling machine	5	2,299
Automated feeder	5	746
Robotic inspection and packaging machine and ancillary devices	5	5,460
Total		8,505

- **Strengthen our product design and enhancement capabilities in respect of our PCBAs applicable to telecommunication devices and IoT devices**

  — Approximately HK$6.5 million, representing approximately 6.4% of the net proceeds, will be used for setting up an RF shielding room for testing RF connectivity in an anechoic chamber. With 4G and the emergence of next generation RF technologies such as 5G and new Wi-Fi standards, the design of smartphones and IoT products become more complex, mixing wireless RF signals of various frequency bands and using multiple antennas. As our PCBAs are used for onward production of smartphones and various kinds of IoT products, our Directors take the view that it is necessary for us to widen the scope of our EMS and supply the

PCBAs that can be applied to these electronic products to our customers. Our Directors believe that our customers, who are mainly manufacturers, OEMs and brand owners of electronic product, would prefer to engage EMS providers that have the product design capabilities to assess the performance of the PCBAs under the RF technologies.

— To respond to the foreseeable change in the EMS market in view of the next generation telecommunication devices and IoT products using 5G and new Wi-Fi standards, our Directors believe that it is essential for us to strengthen our product design capabilities in this respect. To this end, we plan to set up an RF shielding room so that we may perform highly sensitive RF connectivity tests, verify and measure more accurately the implementation of our wireless module PCBAs (such as Wi-Fi, Bluetooth, 4G and 5G modules) in our customers' end products as a whole in an anechoic chamber instead of just our PCBAs which we currently do while minimising error in measurement due to distortion caused by interference of environmental and external RF and reflection within the testing room. Such testing will allow us to fine-tune our PCBAs accurately, make adjustment and/or enhance the design of our PCBAs, as well as give suggestion to our customers regarding the design of the PCBAs, antennas (which may be provided by us or our customers) and overall product design.

— With such capabilities, we can become more involved in the product design and development stage of our customers by speeding up the feedback loop of design adjustment and verification, resulting in shorter development time and better integration of our PCBAs into our customers' end product.

The following table sets forth our Group's plan on the setting up of the RF shielding room and the estimated cost, which is based on:

Intended use of the proceeds	**Net proceeds from the Share Offer** *approximately HK$'000*
Setting up the anechoic chamber with antenna measurement system	2,574
Comprehensive test instruments	1,287
Vector network analyser	1,404
Multi-device controller	1,247
Total	6,512

- **Further strengthen our research and development capabilities**

  — approximately HK$3.4 million, representing approximately 3.4% of the net proceeds, will be used to expanding and strengthening our manpower to cater for the anticipated expansion plans by recruiting an addition of five additional engineers. Our research and development capabilities play a pivotal role in the success of our EMS business as (i) we are used to participate in the development stage of our customers' new products, for instance, providing PCBA design based on customers' conceptual ideas or requirements and draw up the schematic design of the PCBAs or verify the PCBA design of our customers; and (ii) offer trial production and verification services to the new products of our customers and potential customers. As such, we have to keep pace with the latest technological advancements and conduct new product development that can address the prevailing and expected changes in the EMS industry, improve our manufacturing techniques in order to enhance our production efficiency and to save cost; and expand the applicability of our PCBAs to other electronic products. To this end, it is necessary for us to strengthen our research and development team by, among others, recruitment of talent who possess substantial experience in the EMS industry in the PRC and product development of PCBAs.

The table below sets forth our Group's plan on the recruitment of talent:

Position	Number	Specific qualification and/or requirements to be imposed by our Group	Monthly salary per engineer *HK$'000* *(approximately)*
Engineers	5	Must have: 1. a university degree or diploma in automation, mechanical and electrical integration, computer and other related majors; and 2. at least three years working experience in automated equipment production management, enterprise network management and server management.	23.0

- **Strengthen our product testing capabilities for IoT products by setting up a cloud-based simulation platform**

  — approximately HK$2.4 million, representing approximately 2.3% of the net proceeds for the setting up of the cloud-based simulation platform. Our revenue generated from the assembling and production of PCBAs for IoT products increased from approximately RMB14.6 million for FY2016 to approximately RMB22.8 million for FY2017 and to approximately RMB75.2 million for FY2018, representing a CAGR of 72.6%. For the four months ended 30 April 2019, such revenue was RMB36.8 million which was almost equal to half of the relevant revenue for FY2018. In anticipation of the commercial launch of 5G in 2020, according to the CIC Report, cell-towers equipped with 5G are expected to benefit from larger capacities, which will enable a greater number of devices to be connected at any given point in time. Thus, the development of 5G is expected to further promote the emerging IoT industry. Our provision of EMS for assembling and production of PCBAs for IoT products is becoming more important to our business growth. It is therefore imperative for us to widen the scope of our EMS by offering product testing services for the PCBAs of our customers' IoT products by setting up a cloud-based simulation platform.

- **Upgrade our MES system and enhance our capabilities in information technology**

  — approximately HK$3.4 million, representing approximately 3.4% of the net proceeds, will be used for upgrading our MES system and enhancing our capabilities in information technology. An advanced MES system enables us to collect, store, manage and interpret data from our business activities. It can also track our business resources, including raw materials, production capacity and the status of business commitment such as our sales orders, purchase orders and payroll in a timely manner. These functions of the upgraded MES system are particularly useful for us to plan and iron out our expansion plan. For details, please see the paragraph head "Business — Business strategies — Upgrade our MES system and enhance our capabilities in information technology" in this prospectus.

- **Upgrade our existing intelligent warehouse**

  — approximately HK$2.8 million, representing approximately 2.7% of the net proceeds, will be used for upgrading our intelligent warehouse and enhancing our production capacity. Our raw materials are currently stored in our intelligent warehouse inside the Shenzhen Production Plant which is divided into different zones for the storage of different kinds of raw materials based on the sales orders on hand from time to time and the finished PCBAs before they are delivered to our customers. Furthermore, the raw materials supplied to us by our customers for the provision of EMS are also stored separately. Our intelligent warehouse can also keep track on the amount of inflows and outflows of different kinds of raw materials and finished PCBAs.

— We wish to upgrade our existing intelligent warehouse by installing 50 additional movable intelligent shelving units that can accommodate up to 70,000 trays that can effectively separate the raw materials by their nature and sources.

— During the Track Record Period, our Group recorded, an increase in average inventory turnover days from 12.8 days for FY2016 to 62.1 day for the four months ended 30 April 2019.

— Our Directors believe that it would be more cost-effective to introduce additional material shelving units to enable efficient stacking and flowing of inventory, which can help reduce our inventory level, avoid building up of obsolete stock and reduce our demand of warehouse labour.

— According to the suppliers of the intelligent warehouse system, they would require around one week to set up the additional material shelving units. The upgrade will commenced in December 2019 and our Directors believe that there will not be any material disruption to our production process.

- **Repayment of bank loans and working capital**

— approximately HK$9.5 million, representing approximately 9.3% of the net proceeds, will be used to repaying existing bank facilities acquired for our acquisition of machinery and equipment and general working capital with various interest rates with annual percentage rate ranging from approximately 9.0 to 9.2% maturing in September 2020 and June 2021; and

— approximately HK$10.2 million, representing approximately 9.9% of the net proceeds, will be used as general working capital of our Group.

The above allocation of the net proceeds from the Share Offer will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher level or a lower level compared to the midpoint of the indicative Offer Price range.

If the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds to be received by us from the Share Offer will increase or decrease by approximately HK$14.4 million, respectively. In such event, the net proceeds will be used in the same proportion as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest of the indicative Offer Price range.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks or authorised financial institutions for so long as it is in our best interests.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, our Group will issue an announcement in accordance with the Listing Rules.

IMPLEMENTATION PLANS

In pursuance of the above business objectives and strategies, the implementation plans of our Group are set forth below from Listing Date to 31 December 2019 and for each of the six-month periods until 31 December 2021. Investors should note that the following implementation plans are formulated on the bases and assumptions referred to the paragraph headed "Bases and assumptions" in this section below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed "Risk Factors" of this prospectus. Therefore, there is no assurance that our Group's business plan will materialize in accordance with the estimated time frame and that our future pans will be accomplished at all.

Based on the Offer Price of HK$2.25 per Offer Share, being the mid-point of the indicative Offer Price range of HK$2.00 per Offer Share to HK$2.50 per Offer Share, the net proceeds from the Share Offer to our Company (after deduction of underwriting fees and estimated expenses payable by us in relation to the Share Offer) are estimated to be approximately HK$102.3 million. It is estimated that the total Listing expenses of approximately HK$38.3 million will be incurred. Our Directors presently intend to apply such net proceeds as follows:

	From the Listing Date to 31 December 2019	From 1 January 2020 to 30 June 2020	From 1 July 2020 to 31 December 2020	From 1 January 2021 to 30 June 2021	From 1 July 2021 to 31 December 2021	Total	% of total net proceeds
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	
Enhance our production capacity and efficiency	7,876	14,046	14,046	14,046	5,563	55,577	54.3%
Enhance the level of automation in our quality control and packaging system	1,701	1,701	1,701	1,701	1,701	8,505	8.3%
Strengthen our product design and enhancement capabilities in respect of our PCBAs applicable to telecommunication devices and IoT devices	—	1,628	1,628	1,628	1,628	6,512	6.4%
Further strengthen our research and development capabilities	690	690	690	690	690	3,450	3.4%
Strengthen our product testing capabilities for IoT products by setting up a cloud-based simulation platform	—	595	595	595	595	2,380	2.3%
Upgrade our MES system and enhance our capabilities in information technology	690	690	690	690	690	3,450	3.4%
Upgrade our existing intelligent warehouse	460	575	575	575	575	2,760	2.7%
Repayment of bank loan	2,874	2,893	3,743	—	—	9,510	9.3%
Working capital	2,034	2,034	2,034	2,034	2,034	10,170	9.9%
	16,325	24,852	25,702	21,959	13,476	102,314	100.0%

BASES AND ASSUMPTIONS

Our Directors have adopted the following principal assumptions in the preparation of the implementation plan up to 31 December 2021:

(a) Our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate.

(b) There will be no material change in the funding requirement for each of our Group's future plans described in this prospectus from the amount as estimated by our Directors.

(c) There will be no material change in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates.

(d) There will be no material changes in the bases or rates of taxation in Hong Kong or in any other places in which any member of our Group operates or will operate or is incorporated.

(e) The Share Offer will be completed in accordance with and as described in the section headed "Structure and Conditions of the Share Offer" to this prospectus.

(f) There will be no change in the effectiveness of the licenses, permits and qualifications obtained by our Group.

(g) There will be no material changes in the bases or rates of taxation applicable to the activities of our Group.

(h) Our Group will be able to retain our customers and suppliers.

(i) Our Group will be able to retain key staff in the management and main operational departments.

(j) There will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group.

(k) Our Group will not be materially affected by the risk factors as set out under the section headed "Risk Factors" in this prospectus.

UNDERWRITERS

Public Offer Underwriters and Placing Underwriters

Head & Shoulders

Red Eagle

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to the satisfaction of certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for the Public Offer Shares are subject to termination. The Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriter(s)) shall have the absolute right and discretion to terminate the arrangements set out in the Public Offer Underwriting Agreement by notice in writing given to our Company at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (the "**Termination Time**"), if any of the following events shall occur prior to the Termination Time:

1. There comes to the notice of the Joint Bookrunners:

   (a) any matter or event showing any of the representations, warranties, agreements and undertakings given to the Public Offer Underwriters under the Public Offer Underwriting Agreement (the "**Warranties**") to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of the Warranties or any other provisions of the Public Offer Underwriting Agreement by any party to the Public Offer Underwriting Agreement other than the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters which, in any such cases, is considered, in the reasonable opinion of the Joint Bookrunners, to be material in the context of the Public Offer; or

(b) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect which is considered, in the reasonable opinion of the Joint Bookrunners, to be material in the context of the Public Offer; or

(c) any event, series of events, matters or circumstances occurs or arises on or after the date of the Public Offer Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Public Offer Underwriting Agreement, would have rendered any of the Warranties untrue, incorrect or misleading in any material respect, and which is considered, in the reasonable opinion of the Joint Bookrunners to be material in the context of the Public Offer; or

(d) any matter which, had arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the reasonable opinion of the Joint Bookrunners, a material omission in the context of the Public Offer; or

(e) any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Company and any of the executive Directors and the Controlling Shareholders arising out of or in connection with the breach of any of the Warranties; or

(f) any breach by any party to the Public Offer Underwriting Agreement other than the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters of any provision of the Public Offer Underwriting Agreement which, in the reasonable opinion of the Joint Bookrunners, is material.

2. There shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Public Offer Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business of our Group; or

(b) any change in, or any event or series of events or development resulting or likely to result in any change in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions relevant to the business of our Group, the local, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or

(c) any adverse change in the conditions of Hong Kong or international equity securities or other financial markets; or

(d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or

(e) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to our Group's business; or

(f) any adverse change or prospective adverse change in the business, or in the financial or trading position, or prospects of any member of our Group; or

(g) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the U.S. or by the European Union (or any member thereof) on Hong Kong or the PRC; or

(h) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or

(i) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out;

which in the reasonable opinion of the Joint Bookrunners acting in good faith:

(a) is or will be, or is likely to be, adverse, in any material respect, to the business, financial or other condition or prospects of our Group taken as a whole; or

(b) has or will have or is reasonably likely to have a material adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted, or the distribution of the Offer Shares; or

(c) makes it impracticable, inadvisable or inexpedient for the Public Offer Underwriters to proceed with the Public Offer as a whole.

For the above purpose:

(a) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or a material devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and

(b) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

Undertakings to the Stock Exchange pursuant to the Listing Rules

By our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, we will not allot or issue any Shares or other securities convertible into equity securities of the Company (including warrants or other convertible securities), whether or not of a class already listed, or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except for the circumstances as prescribed under Rule 10.08(1) to (5) of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company respectively that, except pursuant to the Share Offer, it/he/she shall not and shall procure that the relevant registered shareholder(s) shall not:

(a) in the period commencing on the date by reference to which disclosure of its/his/her shareholding 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 those securities of the Company in respect of which it/he/she is shown by this prospectus to be the beneficial owners (within the meaning of Rule 10.07(2) of the Listing Rules) (whether direct or indirect); or

(b) in the period of 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 those securities of the Company referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, each of our Controlling Shareholders would cease to be controlling shareholders (as defined in the Listing Rules).

Each of the Controlling Shareholders has also undertaken to the Stock Exchange and our Company that, within the period commencing on the date by reference to which disclosure of its/his/her shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he/she will:

(a) when it/he/she (or through the relevant registered holder(s)) pledges or charges any securities of our Company beneficially owned by it/him/her (directly or indirectly) in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares or securities of the Company so pledged or charged; and

(b) when it/he/she receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform us in writing of such indications.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

Undertakings to our Group and the Sole Sponsor

Undertakings by Central Wealth, Realtime, Mr. Yuan and Mr. Zhang

Each of Central Wealth and Mr. Yuan is interested in 18.78% shareholding interest in our Company upon Listing whereas each of Realtime and Mr. Zhang is interested in 11.02% shareholding interest in our Company upon Listing. As their respective shareholding interest in our Company is below 30% upon Listing and shall not be regarded as the Controlling Shareholders, the lock-up under Rule 10.07(1) of the Listing Rules shall not be applicable. Nevertheless, Central Wealth, Realtime, Mr. Yuan and Mr. Zhang have unconditionally and irrevocably undertaken to our Group and the Sole Sponsor that, except pursuant to the Share Offer, they shall not directly or indirectly and procure their respective nominees, trustees and relevant registered holder(s) of the Shares not to at any time during the period commencing on the date by reference to which disclosure of their shareholding 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 the securities of our Company in respect of which it/he is shown by this prospectus to be the beneficial owner (within the meaning of Rule 10.07(2) of the Listing Rules) (whether direct or indirect).

Undertakings pursuant to the Public Offer Underwriting Agreement

By our Company

Except pursuant to the Capitalisation Issue, the grant of options under the Share Option Scheme, the Share Offer (including pursuant to the Over-allotment Option) and the issue of Shares on exercise thereof or as otherwise permitted under Listing Rules, we have undertaken to each of the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and the Sole Sponsor not to, and each of us, our Controlling Shareholders and executive Directors undertakes to procure each other member of our Group not to, unless with the prior written consent of the Joint Bookrunners (on behalf of the Public Offer Underwriters), in compliance with the requirements of the Listing Rules, *inter alia*:

(i) allot or issue, or agree to allot or issue, Shares or other securities of our Company (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants, or other rights to subscribe for or convertible or exchangeable into Shares or other securities of our Company; or

(ii) repurchase Shares or other securities of our Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so,

during the six months immediately following the Listing Date (the "**First Six-month Period**").

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-month Period (the "**Second Six-month Period**"), it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

By our Controlling Shareholders

Each of the Controlling Shareholders has jointly and severally undertaken to each of the Joint Bookrunners, us, the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters, save as pursuant to the Stock Borrowing Agreement and/or the Share Option Scheme, that during the First Six-month Period, it/he/she shall not, and shall procure that the relevant registered holder(s) and its/his/her associates and companies controlled by it/he/she and any nominee or trustee holding in trust for it/he/she shall not, without the prior written consent of the Joint Bookrunners unless otherwise in compliance with the requirements of the Listing Rules:

(i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares in respect of which it or he or she is shown in this prospectus to be directly or indirectly interested in (the "**Relevant Securities**"); or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Relevant Securities or such other securities, in cash or otherwise; or

(iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraph (i) or (ii) above; or

(iv) announce any intention to enter into or effect any of the transactions referred to in paragraph (i), (ii) or (iii) above.

Each of the Controlling Shareholders has jointly and severally undertaken to the Joint Bookrunners, us, the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters that it/he/she shall not, and shall procure that the relevant registered holder(s) and its/his/her associates or companies controlled by it/him/her and any nominee or trustee holding in trust for it or him or her shall not, without the prior written consent of the Stock Exchange in the Second Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Relevant Securities held by it/him/her or any of its or his or her associates or companies controlled by it or him or her or any nominee or trustee holding in trust for it or him or her if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it or he or she would cease to be a controlling shareholder (as defined in the Listing Rules) or would together with the other Controlling Shareholders cease to be, or be regarded as, our controlling shareholders (as defined in the Listing Rules) on a collective basis.

In the event of a disposal of any of the Shares or securities of our Company directly or indirectly beneficially owned by it or him or her or any interest therein within the Second Six-month Period, the relevant Controlling Shareholder shall take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any Shares or other securities of our Company. The relevant Controlling Shareholders shall, and shall procure that its/his/her associates and companies controlled by any nominees or trustees holding in trust for it/him/her shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/him/her or by the registered holder controlled by it/him/her of any Shares.

Each of the Controlling Shareholders has further undertaken to each of the Joint Bookrunners, us, the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters that within the first twelve months from the Listing Date, it or he or she will:

(i) when it or he or she pledges or charges any securities or interests in the securities of our Company beneficially owned by it or him or her directly or indirectly, immediately inform our Company and the Joint Bookrunners in writing of such pledges or charges together with the number of securities and nature of interests so pledged or charged; and

(ii) when it or he or she 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 us and the Joint Bookrunners in writing of such indications.

We will inform the Stock Exchange as soon as we have been informed of the matters above (if any) by the Controlling Shareholders and disclose such matters by way of a press announcement.

Placing Underwriting Agreement

In connection with the Placing, it is expected that we will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriter(s), on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriter(s) will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

It is expected that, pursuant to the Placing Underwriting Agreement, we, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed "Underwriting arrangements and expenses — Undertakings pursuant to the Public Offer Underwriting Agreement" in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriter(s) not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by him/her/it in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph "Underwriting arrangements and expenses — Undertakings pursuant to the Public Offer Underwriting Agreement" in this section.

We have granted to the Joint Bookrunners (for and on behalf of the Placing Underwriters) the Over-allotment Option, exercisable by the Joint Bookrunners at any time within 30 days after the last date for the lodging of applications under the Public Offer, to require our Company to allot and issue up to an aggregate of 9,375,000 additional Shares representing 15% of the number of Offer Shares initially offered under the Share Offer, at the Offer Price under the Placing to cover, among other things, over-allocations (if any) in the Placing, if any, and/or the obligations of the Joint Bookrunners (for and on behalf of the Placing Underwriters) to return Shares which they may have borrowed under the Stock Borrowing Agreement.

Commission and expenses

The Underwriters will receive a gross commission of 4.8% on the aggregate Offer Price of all the Offer Shares now being offered, out of which will, as the case may be, be applied to any sub-underwriting commissions and selling concession. The underwriting commission, documentation fee, Stock Exchange listing fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expense relating to the Share Offer are estimated to be approximately HK$38.3 million in aggregate (based on an Offer Price of HK$2.25 per Share, being the mid-point of Offer Price range of HK$2.00 and HK$2.50) and is paid or payable by our Company.

Underwriters' interests in our Company

Save for its interests and obligations under the Underwriting Agreements, none of the Underwriters or any of its associates is interested beneficially or non- beneficially in any shares in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of our Group.

Sole Sponsor's interest in our Company

Dakin Capital, being the Sole Sponsor, has declared its independence pursuant to Rule 3A.07 of the Listing Rules. Save for the advisory and documentation fees to be paid to Dakin Capital as the Sole Sponsor to the Share Offer, neither Dakin Capital nor any of its associates has or may, as a result of the Share Offer, have any interest in any class of securities of our Company or any other company in our Group (including options or rights to subscribe for such securities).

No director or employee of Dakin Capital who is involved in providing advice to our Company has or may, as a result of the Share Offer, have any interest in any class of securities of our Company or other company in our Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Share Offer).

No director or employee of Dakin Capital has a directorship in our Company or any other company in our Group.

Restrictions on Offer Shares

No action has been taken to permit a public offering of the Offer Shares other than in Public Offer, 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.

STRUCTURE OF THE SHARE OFFER

The Share Offer comprises:

(i) the Public Offer of an aggregate of 6,250,000 Public Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described under the paragraph headed "The Public Offer" below; and

(ii) the Placing of 56,250,000 Placing Shares (subject to reallocation as mentioned below and the Over-allotment Option) which will conditionally be placed with selected professional, institutional and other investors under the Placing.

Investors may apply for the Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for the Offer Shares under the Placing, but may not do both. The Offer Shares will represent approximately 25% of the enlarged issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and the Over-allotment Option). The number of Offer Shares to be offered under the Public Offer and the Placing, respectively, may be subject to reallocation as mentioned below.

CONDITIONS OF THE SHARE OFFER

The Share Offer is conditional upon, among other things:

(i) the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be allotted and issued as mentioned in this prospectus, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(ii) the Offer Price having been duly determined; and

(iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Bookrunners (for themselves and on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with its terms,

in each case, on or before the dates and times specified in the 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 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published by our Company on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.szxinken.com** on the next business day following such lapse.

THE PUBLIC OFFER

Number of Shares initially offered

We are initially offering 6,250,000 Public Offer Shares at the Offer Price, representing 10% of the Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to reallocation of Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Public Offer will represent approximately 2.5% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, and without taking into account Shares which may be issued upon exercise of options as may be granted under the Share Option Scheme and the Over-allotment Option. The Public Offer is open to members of the public in Hong Kong as well as to institutional professional and other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Public Offer is subject to the conditions as set out in the paragraph headed "Conditions of the Share Offer" in this section.

Allocation

For allocation purpose only, the Public Offer Shares initially being offered for subscription under the Public Offer (after taking into account any adjustment in the number of Offer Shares allocation between the Public Offer and the Placing) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 3,126,000 Public Offer Shares and Pool B will comprise 3,124,000 Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Public Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B will fall into Pool B.

Applicants should be aware that the applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. The allocation of Public 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 Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in Pool A or Pool B. In addition, multiple or suspected multiple applications with either pool or between pools will be rejected. No application will be accepted from applicants for more than 3,124,000 Public Offer Shares (being 100% of the initial number of Public Offer Shares available in Pool B).

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

Reallocation

Allocation of the Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

(a) Where the Placing Shares are fully subscribed or oversubscribed:

(i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners (for themselves and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares to the Placing in such amount as the Joint Bookrunners (for themselves and on behalf of the Underwriters) deem appropriate;

(ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times of the number of Offer Shares initially available under the Public Offer, then 6,250,000 Offer Shares may be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 12,500,000, representing 20% of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option);

(iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Offer Shares initially available under the Public Offer, then 12,500,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 18,750,000, representing 30% of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option);

(iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Offer Shares initially available under the Public Offer, then 18,750,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 25,000,000, representing 40% of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option); and

(v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more of the number of Offer Shares initially available under the Public Offer, then 25,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 31,250,000, representing 50% of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option).

(b) Where the Placing Shares are undersubscribed:

(i) if the Public Offer Shares are undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and Underwriting Agreements; and

(ii) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times the number of Offer Shares initially available under the Public Offer, then up to 6,250,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 12,500,000, representing 20% of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option).

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (xx) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are fully subscribed or oversubscribed by less than 15 times under paragraph (a)(ii) above or (yy) the Placing Shares are undersubscribed and the Public Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK$2.00 per Offer Share) stated in this prospectus.

In addition, the Joint Bookrunners may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 12,500,000 Offer Shares).

For reallocation of Offer Shares from the Placing to the Public Offer, the number of Offer Shares allocated to the Placing will correspondingly be reduced, and such additional Public Offer Shares will be reallocated to Pool A and Pool B in the Public Offer in such manner as the Joint Bookrunners deems appropriate.

If the Public Offer is not fully subscribed, the Joint Bookrunners will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares in such amount as the Joint Bookrunners deem appropriate.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

THE PLACING

Number of the Offer Shares initially offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the Placing will be 56,250,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer. Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Placing will represent approximately 22.5% of our Company's enlarged issue share capital immediately after the completion of the Share Offer and the Capitalisation Issue, but without taking into account Shares which may be upon exercise of options granted under the Share Option Scheme and the Over-allotment Option.

Allocation

Pursuant to the Placing, the Placing Shares will be conditionally placed by the Placing Underwriter(s). The Placing Shares will be selectively placed to certain professional and institutional and other investors anticipated to have a sizeable demand for such Placing Shares in Hong Kong. The Placing is subject to the Public Offer being unconditional.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the bookbuilding process described in the paragraph headed "Offer Price" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer 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.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

OVER-ALLOTMENT OPTION

The Company has granted to the Joint Bookrunners (for and on behalf of the Placing Underwriters) the Over-allotment Option, exercisable by the Joint Bookrunners at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging of Application Forms under the Public Offer. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to 9,375,000 Shares, representing 15% of the total number of Offer Shares initially available under the Share Offer, at the Offer Price.

STOCK BORROWING AGREEMENT

The Stabilising Manager, or any person acting for it may choose to borrow 9,375,000 Shares from Skyflying Company, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

— such stock borrowing arrangement with Skyflying Company will only be effected by the Stabilising Manager for settlement of over-allocations in the Placing and covering any short position prior to the exercise of the Over-allotment Option;

— the maximum number of Shares borrowed from Skyflying Company under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon the exercise of the Over-allotment Option;

— the same number of Shares so borrowed must be returned to Skyflying Company or its nominees 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 date on which the Over-allotment Option is exercised in full and the relevant over-allocation Shares have been allocated, and (iii) such earlier time as the parties may from time to time agree in writing;

— the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, the Listing Rules and regulatory requirements; and

— no payment will be made to Skyflying Company by the Stabilising Manager or its authorised agents in relation to such stock borrowing arrangement.

STABILISATION AND OVER-ALLOTMENT

In connection with the Share Offer, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely, 9,375,000 Shares, which is 15% of the total number of Offer Shares initially available under the Share Offer.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on the last business day falling within 30 days after the last date for lodging applications under the Public Offer. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares. Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period. Such stabilisation action, if commenced, may be

effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws, rules and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO.

In connection with the Share Offer, the Joint Bookrunners may over-allocate up to and not more than an aggregate of 9,375,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Placing, the Joint Bookrunners may borrow up to 9,375,000 Shares from Skyflying Company, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

UNDERWRITING

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement.

The Placing is fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement.

These underwriting arrangements, and the Underwriting Agreements, are summarised in the section headed "Underwriting" in this prospectus.

OFFER PRICE AND OFFER SIZE

Determination of the Offer Price

The Placing Underwriters will be soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective professional, institution and other investors will be required to specify the number of Offer Shares under the Placing which they would be prepared to acquire either at different price or at a particular price. This process, known as "bookbuilding", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

The Offer Price will be fixed by the Price Determination Agreement on the Price Determination Date, which is expected to be on or around Tuesday, 8 October 2019 and in any event, no later than Friday, 11 October 2019. If the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before Friday, 11 October 2019, the Share Offer will not become unconditional and will not proceed. The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range and/or the number of Offer Shares offered in the Share Offer below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company 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 Public Offer, cause to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.szxinken.com** notices of the reduction in the indicative Offer Price range and/or number of Offer Shares. Our Company will, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range, extend the period under which the Public Offer was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Public Offer Shares the right to withdraw their applications under the Public Offer. Upon issue of such a notice, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company will be fixed within such revised range.

If for any reason the Price Determination Date is changed, our Company will as soon as practicable cause to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.szxinken.com** a notice of the change and if applicable the revised date.

Offer Price range

The Offer Price will not be more than HK$2.50 per Offer Share and is expected to be not less than HK$2.00 per Offer Share. The Offer Price will fall within the indicative Offer Price range as stated in this prospectus unless otherwise announced. Prospective investors of the Offer Shares should be aware that the Offer Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

The Offer Price will not be more than HK$2.50 per Offer Share and is expected to be not less than HK$2.00 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum Offer Price of HK$2.50 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK$5,050.39 per board lot of 2,000 Offer Shares. If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK$2.50 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

ANNOUNCEMENT OF OFFER PRICE AND BASIS OF ALLOCATION

Announcement of the final Offer Price, together with the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares is expected to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.szxinken.com** on Thursday, 17 October 2019.

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Shares Offer becomes unconditional at or before 8:00 a.m. Hong Kong on Friday, 18 October 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 18 October 2019. The Shares will be traded in board lots of 2,000 Shares each. The stock code for the Shares will be 1967.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in the Shares and our Company complies 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 on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All necessary arrangements have been made for 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. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interest.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and its respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers may accept it at our/its discretion and on any conditions we/it think(s) fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk.**

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 28 September 2019 to 12:00 noon on Friday, 4 October 2019 from:

(i) the following office of the Public Offer Underwriters:

Head & Shoulders Securities Limited
Room 2511, 25/F., Cosco Tower,
183 Queen's Road Central, Hong Kong

Red Eagle Securities Limited
Room 1107, 11/F., Cosco Tower, Grand Millennium Plaza,
183 Queen's Road Central, Hong Kong

(ii) the following office of the Sole Sponsor:

Dakin Capital Limited
Suites 4505–06, 45/F
Tower 1, Lippo Centre
89 Queensway
Hong Kong

(iii) any of the following branches of Bank of China (Hong Kong) Limited:

District	Branch name	Address
Hong Kong Island	Central District (Wing On House) Branch	B/F-2/F, Wing On House, 71 Des Voeux Road Central, Hong Kong
Kowloon	Tsim Sha Tsui East Branch	Shop 3, LG/F, Hilton Towers, 96 Granville Road, Tsim Sha Tsui East, Kowloon
New Territories	Tseung Kwan O Plaza Branch	Shop 112–125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O, New Territories
	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 28 September 2019 until 12:00 noon on Friday, 4 October 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker who may have such Application Forms and this prospectus available.

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 CHINA (HONG KONG) NOMINEES LIMITED — CONFIDENCE INTELLIGENCE PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Saturday, 28 September 2019	—	9:00 a.m. to 1:00 p.m.
Monday, 30 September 2019	—	9:00 a.m. to 5:00 p.m.
Wednesday, 2 October 2019	—	9:00 a.m. to 5:00 p.m.
Thursday, 3 October 2019	—	9:00 a.m. to 5:00 p.m.
Friday, 4 October 2019	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 4 October 2019, 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.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and 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 Share Offer in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(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 Placing Shares under the Placing nor participated in the Placing;

(viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(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 Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(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 Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Public 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 Public Offer Shares allocated to you, and our Company and/or our agents deposit any share certificate(s) into CCASS or, to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;

(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, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(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 **HK eIPO White Form** 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.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in paragraphs headed "Who can apply" in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk.**

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Saturday, 28 September 2019 until 11:30 a.m. on Friday, 4 October 2019 and the latest time for completing full payment of application monies in respect of such applications will be at 12:00 noon on Friday, 4 October 2019 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 **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +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 Centre
1/F, One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and our Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Public Offer Shares applied for or any lesser number allocated;

- 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, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (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, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted 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 Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;

- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in making the application to be made and will not rely on any other information or representations, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, our/their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data or the information about person(s) for whose benefit you have made the application to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or our/their respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once your 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 we will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the 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 Public Offer Shares;

- agree with our Company, for ourselves and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association of our Company; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Public Offer Shares. Instructions for more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting electronic application instructions[1]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:[1]

Monday, 30 September 2019	—	9:00 a.m. to 8:30 p.m.
Wednesday, 2 October 2019	—	8:00 a.m. to 8:30 p.m.
Thursday, 3 October 2019	—	8:00 a.m. to 8:30 p.m.
Friday, 4 October 2019	—	8:00 a.m. to 12:00 noon

Note:

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Saturday, 28 September 2019 until 12:00 noon on Friday, 4 October 2019 (24 hours daily, except on the last application day). The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 4 October 2019, 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 Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) 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 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of our/their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/ CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 4 October 2019 or such later time under the paragraph "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form whether individually or jointly or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form or as otherwise specified on the designated website at **www.hkeipo.hk.**

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and Conditions of the Share Offer" of this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 October 2019.

Instead they will open between 9:00 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 4 October 2019 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" of 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 Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 17 October 2019 on our Company's website at **www.szxinken.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.szxinken.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Thursday, 17 October 2019;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** and **www.hkeipo.hk/iporesult** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 17 October 2019 to 12:00 midnight on Wednesday, 23 October 2019;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 17 October 2019 to Tuesday, 22 October 2019 (excluding Saturday, Sunday and Public Holidays in Hong Kong); and
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 17 October 2019 to Monday, 21 October 2019 at the designated receiving bank 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 Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer".

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 PUBLIC OFFER SHARES

You should note the following situations in which the Public 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 **HK eIPO White Form** 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 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies 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) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;

- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;

- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

- the Underwriting Agreements do not become unconditional or are terminated;

- our Company or the Joint Bookrunners believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 3,124,000 Shares (being 100% of Public Offer Shares initially offered under the Public Offer in Pool B).

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$2.50 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and Conditions of the Share Offer — Conditions of the Share Offer" of this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, 17 October 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Thursday, 17 October 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 18 October 2019 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" of 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 Public 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 Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 17 October 2019 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 Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, 17 October 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, 17 October 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 17 October 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

  For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "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, 17 October 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 17 October 2019, or such other date as notified by our Company as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, 17 October 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto 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.

(iv) If you apply via electronic application instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 17 October 2019, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the sub-paragraph headed "11. Publication of results" above in this section on Thursday, 17 October 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 17 October 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 17 October 2019. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 17 October 2019.

- No interest will be paid thereon.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CONFIDENCE INTELLIGENCE HOLDINGS LIMITED AND DAKIN CAPITAL LIMITED

Introduction

We report on the historical financial information of Confidence Intelligence Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-73, which comprises the consolidated balance sheets as at 31 December 2016, 2017 and 2018 and 30 April 2019, the balance sheets of the Company as at 31 December 2018 and 30 April 2019, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-73 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 September 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2018 and 30 April 2019 and the consolidated financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 April 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated income statement, the consolidated statement of comprehensive income, changes in equity and cash flows for the four months ended 30 April 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 29 to the Historical Financial Information which states that no dividends have been paid by Confidence Intelligence Holdings Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 September 2019

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Four months ended 30 April	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	5	174,140	208,634	236,210	58,972	85,447
Cost of sales	6	(111,527)	(144,773)	(161,946)	(40,016)	(56,554)
Gross profit		62,613	63,861	74,264	18,956	28,893
Other income	7	883	1,821	1,846	1,191	1,275
Other (losses)/gains, net	8	(357)	(149)	148	(12)	(763)
Selling and distribution expenses	6	(1,126)	(1,236)	(1,869)	(440)	(536)
Administrative expenses	6	(18,226)	(25,694)	(24,933)	(7,426)	(20,826)
Operating profit		43,787	38,603	49,456	12,269	8,043
Finance income	10	52	205	232	145	14
Finance costs	10	(1,814)	(1,868)	(2,459)	(746)	(645)
Finance costs, net		(1,762)	(1,663)	(2,227)	(601)	(631)
Impairment loss of investment in an associate	14	(924)	—	—	—	—
Share of net loss of an associate accounted for using the equity method	14	(76)	—	—	—	—
Profit before income tax		41,025	36,940	47,229	11,668	7,412
Income tax expense	11	(5,663)	(4,929)	(6,415)	(1,428)	(3,470)
Profit for the year/period attributable to owners of the Company		35,362	32,011	40,814	10,240	3,942
Earnings per share attributable to owners of the Company						
Basic and diluted *(RMB'000)*	12	3.54	3.20	4.08	1.02	0.38

The earnings per share has not taken into account the proposed capitalisation issue pursuant to the shareholders' resolution dated 20 September 2019 because the proposed capitalisation issue has not been effected as at the date of this report.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit for the year/period	35,362	32,011	40,814	10,240	3,942
Other comprehensive (losses)/income:					
Item that may be subsequently reclassified to profit or loss					
Currency translation differences	—	(29)	91	(79)	(59)
Total comprehensive income for the year/ period attributable to owners of the Company	35,362	31,982	40,905	10,161	3,883

CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at 30 April
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Properties, plant and equipment	13	77,373	91,990	102,858	98,242
Investment in an associate	14	—	—	—	—
Prepayments and deposits	16	3,523	2,844	2,814	4,606
Deferred tax assets	21	—	—	68	—
		80,896	94,834	105,740	102,848
Current assets					
Inventories	17	2,440	6,908	30,553	27,976
Contract assets	19	21,466	20,581	31,671	40,812
Trade and bills receivables	19	19,795	18,308	27,214	13,029
Prepayments, deposits and other receivables	16	1,252	10,903	11,309	6,201
Amounts due from shareholders	32(a)	—	—	—	—
Current income tax recoverable		2,405	—	—	—
Pledged bank deposits	18	—	1,314	—	—
Cash and cash equivalents	18	10,151	33,837	14,979	35,378
		57,509	91,851	115,726	123,396
Total assets		138,405	186,685	221,466	226,244
EQUITY					
Equity attributable to owners of the Company					
Share capital	32(b)	—	—	—	—
Reserves		89,446	116,600	148,145	154,848
Total equity		89,446	116,600	148,145	154,848

		As at 31 December			As at 30 April
		2016	**2017**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liabilities					
Bank and other borrowings	24	6,959	1,964	8,204	5,909
Lease liabilities	20	9,726	10,163	7,280	6,686
Deferred government grants	25	—	—	5,456	9,120
Deferred tax liabilities	21	435	648	—	651
		17,120	12,775	20,940	22,366
Current liabilities					
Trade and bills payables	22	2,940	9,374	10,130	14,287
Other payables and accruals	23	17,612	16,299	18,806	17,106
Lease liabilities	20	3,603	3,294	2,883	3,176
Contract liabilities	23	500	6,796	6,539	3,254
Current income tax liabilities		—	187	2,386	1,729
Deferred government grants	25	—	—	1,040	2,121
Bank and other borrowings	24	7,184	21,360	10,597	7,357
		31,839	57,310	52,381	49,030
Total liabilities		48,959	70,085	73,321	71,396
Total equity and liabilities		138,405	186,685	221,466	226,244

BALANCE SHEETS OF THE COMPANY

	Note	As at 31 December 2018 RMB'000	As at 30 April 2019 RMB'000
ASSETS			
Non-current asset			
Investment in a subsidiary		—	155,404
Current assets			
Prepayments	16	—	3,741
Amounts due from shareholders	32(a)	—	—
		—	3,741
Total assets		—	159,145
EQUITY			
Equity attributable to owners of the Company			
Share capital	32(b)	—	—
Capital reserve	32(d)	—	155,404
Accumulated losses	32(d)	—	(9,290)
Total equity		—	146,114
LIABILITIES			
Current liabilities			
Accruals	23	—	73
Amounts due to subsidiaries	32(c)	—	12,958
Total liabilities		—	13,031
Total equity and liabilities		—	159,145

* *The balances were rounded to the nearest thousand.*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Share capital *RMB'000*	Other reserve *RMB'000* *(Note a)*	Share-based payment reserve *RMB'000*	Statutory reserve *RMB'000*	Exchange reserve *RMB'000*	Retained earnings *RMB'000* *(Note b)*	Total equity *RMB'000*
Balance at 1 January 2016	—	40,363	—	1,372	—	12,349	54,084
Profit for the year	—	—	—	—	—	35,362	35,362
Total comprehensive income	—	—	—	—	—	35,362	35,362
Total transaction with owners							
Appropriation *(Note c)*	—	—	—	3,536	—	(3,536)	—
Balance at 31 December 2016	—	40,363	—	4,908	—	44,175	89,446
Balance at 1 January 2017	—	40,363	—	4,908	—	44,175	89,446
Profit for the year	—	—	—	—	—	32,011	32,011
Other comprehensive losses	—	—	—	—	(29)	—	(29)
Total comprehensive (losses)/ income	—	—	—	—	(29)	32,011	31,982
Transactions with owners							
Issuance of ordinary shares by Shenzhen Confidence Intelligence Electronic Co., Ltd.* (深圳信懇智能電子有限公司) ("Shenzhen Confidence")	—	10,020	—	—	—	—	10,020
Employee share award scheme: — value of services provided *(Note 9(c))*	—	—	752	—	—	—	752
Dividend paid *(Note 29)*	—	—	—	—	—	(15,600)	(15,600)
Appropriation *(Note c)*	—	—	—	3,203	—	(3,203)	—
Total transactions with owners	—	10,020	752	3,203	—	(18,803)	(4,828)
Balance at 31 December 2017	—	50,383	752	8,111	(29)	57,383	116,600

* *For identification purpose only*

	Attributable to owners of the Company						
	Share capital	**Other reserve**	**Share-based payment reserve**	**Statutory reserve**	**Exchange reserve**	**Retained earnings**	**Total equity**
	RMB'000	*RMB'000* *(Note a)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Note b)*	*RMB'000*
Balance at 1 January 2018	—	50,383	752	8,111	(29)	57,383	116,600
Profit for the year	—	—	—	—	—	40,814	40,814
Other comprehensive income	—	—	—	—	91	—	91
Total comprehensive income	—	—	—	—	91	40,814	40,905
Transactions with owners							
Issuance of bonus shares by Shenzhen Confidence *(Note d)*	—	58,032	—	—	—	(58,032)	—
Dividend paid *(Note 29)*	—	—	—	—	—	(9,360)	(9,360)
Appropriation *(Note c)*	—	—	—	4,174	—	(4,174)	—
Total transactions with owners	—	58,032	—	4,174	—	(71,566)	(9,360)
Balance at 31 December 2018	—	108,415	752	12,285	62	26,631	148,145
Balance at 1 January 2019	—	108,415	752	12,285	62	26,631	148,145
Profit for the period	—	—	—	—	—	3,942	3,942
Other comprehensive losses	—	—	—	—	(59)	—	(59)
Total comprehensive (losses)/ income	—	—	—	—	(59)	3,942	3,883
Transactions with owners							
Capital injection from a pre-IPO investor *(Note 1.2 (d))*	—	8,820	—	—	—	—	8,820
Effect of reorganisation in respect of the acquisition of a company comprising the Group *(Note 1.2 (i))*	—	(6,000)	—	—	—	—	(6,000)
Appropriation *(Note c)*	—	—	—	1,364	—	(1,364)	—
Total transactions with owners	—	2,820	—	1,364	—	(1,364)	2,820
Balance at 30 April 2019	—	111,235	752	13,649	3	29,209	154,848

	Attributable to owners of the Company						
	Share capital	Other reserve	Share-based payment reserve	Statutory reserve	Exchange reserve	Retained earnings	Total equity
	RMB'000	*RMB'000* *(Note a)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Note b)*	*RMB'000*
Balance at 1 January 2018	—	50,383	752	8,111	(29)	57,383	116,600
Profit for the period	—	—	—	—	—	10,240	10,240
Other comprehensive losses	—	—	—	—	(79)	—	(79)
Total comprehensive (losses)/ income	—	—	—	—	(79)	10,240	10,161
Total transaction with owners							
Appropriation *(Note c)*	—	—	—	1,030	—	(1,030)	—
Balance at 30 April 2018 (unaudited)	—	50,383	752	9,141	(108)	66,593	126,761

Notes:

(a) The balances represent the combined share capital and capital reserve of the companies comprising the Group, the companies now comprising the Group, after elimination of inter-company transactions and balances as at 31 December 2016, 2017 and 2018 before the completion of the reorganisation.

(b) The balances represent the combined retained earnings of the companies comprising the Group after elimination of intercompany transactions and balances as at 31 December 2016, 2017 and 2018 and 30 April 2019.

(c) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate an amount of not less than 10% of statutory profits after income tax to statutory surplus reserves, prior to distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations, or to increase the capital of the company. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

(d) Shenzhen Confidence issued 58,032,000 bonus shares on the basis of 12.4 bonus shares for every 10 then existing shares to the then existing shareholders of that subsidiary of the Company as at 28 September 2018.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Four months ended 30 April	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flows from operating activities						
Cash generated from operations	26(a)	75,907	54,572	24,802	1,321	29,033
Income tax paid		(12,934)	(2,124)	(4,932)	(2,337)	(3,408)
Interest received		52	205	232	145	14
Net cash generated from/(used in) operating activities		63,025	52,653	20,102	(871)	25,639
Cash flows from investing activities						
Investment in interest of an associate	14	(1,000)	—	—	—	—
Purchase of properties, plant and equipment		(36,417)	(32,078)	(30,572)	(16,011)	(2,999)
Proceeds from disposal of properties, plant and equipment	26(b)	150	6,569	2,696	2,307	—
Receipt of government grants for purchase of equipment	25	—	—	7,150	5,030	5,186
Net cash (used in)/generated from investing activities		(37,267)	(25,509)	(20,726)	(8,674)	2,187
Cash flows from financing activities						
Capital injection from a pre-IPO investor	1.2(d)	—	—	—	—	8,820
Consideration paid for the acquisition of a subsidiary in respect of reorganisation	1.2(i)	—	—	—	—	(6,000)
Proceeds from bank and other borrowings	26(c)	14,156	18,264	20,405	—	—
Repayments of bank and other borrowings	26(c)	(7,672)	(9,083)	(24,928)	(3,617)	(5,535)
Proceeds from issuance of ordinary shares by Shenzhen Confidence to the then shareholders		—	10,020	—	—	—
Interest paid	26(c)	(1,814)	(1,868)	(2,459)	(746)	(645)
Change in pledged bank deposits	18	—	(1,314)	1,314	1,314	—
Dividend paid by Shenzhen Confidence	29	—	(15,600)	(9,360)	—	—
Repayment to a related party	26(c)	(500)	—	—	—	—
Repayments of loans from shareholders	26(c)	(20,785)	—	—	—	—
Payment of principal element of lease liabilities	20(c)	(2,985)	(3,845)	(3,294)	(1,471)	(991)
Payment of listing expenses		—	—	—	—	(3,010)
Net cash used in financing activities		(19,600)	(3,426)	(18,322)	(4,520)	(7,361)
Net increase/(decrease) in cash and cash equivalents		6,158	23,718	(18,946)	(14,065)	20,465
Cash and cash equivalents at beginning of the year/period		3,993	10,151	33,837	33,837	14,979
Currency translation differences		—	(32)	88	(81)	(66)
Cash and cash equivalents at end of the year/period	18	10,151	33,837	14,979	19,691	35,378

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Confidence Intelligence Holdings Limited (the "Company") was incorporated in the Cayman Islands on 7 December 2018 as an exempted company with limited liability under the Companies Law Cap. 22, Law 3 of 1961 as consolidated and revised of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the provision of electronic manufacturing service (the "Listing Business"). The ultimate holding company of the Company is Skyflying Company Limited ("Skyflying Company"), a company incorporated in the British Virgin Islands ("BVI"). The ultimate controlling party of the Group is Mr. Li Hao ("Mr. Li").

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as described below, the Listing Business was carried out by Shenzhen Confidence and its subsidiaries (collectively the "Operating Companies"). The Operating Companies were controlled by Mr. Li throughout the Track Record Period.

In preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation which mainly involved the following steps:

(a) On 7 December 2018, the Company was incorporated in the Cayman Islands. 5,728 shares, 2,692 shares and 1,580 shares of the Company were allotted and issued at par to Skyflying Company, Central Wealth Limited ("Central Wealth") and Realtime Limited ("Realtime") held by Mr. Li, Mr. Yuan Shuntang ("Mr. Yuan") and Mr. Zhang Bizhong ("Mr. Zhang") respectively on the same date.

(b) On 24 December 2018, Mr. Li acquired, approximately in aggregate, 2.28% equity interest of Shenzhen Confidence from certain minority shareholders of Shenzhen Confidence at total cash consideration of RMB6,264,500 respectively.

(c) On 29 December 2018, Mr. Li and Mr. Zhang acquired approximately 1.51% and 6.18% equity interest of Shenzhen Confidence from Xin Ju Ding Fu Equity Investment Funds (Shenzhen) Enterprise (Limited Partnership)* (信聚鼎富股權投資基金(深圳)企業(有限合伙)) ("Xin Ju Ding Fu"), a limited partnership controlled by Mr. Li at cash consideration of RMB1,765,100 and RMB7,248,100 respectively. On the same date, Mr. Li further acquired approximately 6.74% equity interest of Shenzhen Confidence from certain minority shareholders of Shenzhen Confidence at total cash consideration of RMB7,886,600.

* *For identification purposes only*

(d) On 29 December 2018, Million Way Limited ("Million Way"), a pre-IPO investor held by Mr. Yuen Hoi Po ("Mr. Yuen"), subscribed for 7% of equity interest of Shenzhen Confidence at RMB8,819,400. The considerations were full settled on 11 February 2019.

(e) On 2 January 2019, New Trive Limited ("New Trive (BVI)") was incorporated in the BVI and held by the Company.

(f) On 7 January 2019, New Trive (HK) Limited ("New Trive (HK)") was incorporated in Hong Kong and held by New Trive (BVI).

(g) On 8 March 2019, Xinzhi (Shenzhen) Electronic Co., Ltd.* (信智(深圳)電子有限公司) ("Xinzhi (Shenzhen)") was incorporated in the People's Republic of China (the "PRC") and held by New Trive (HK).

(h) On 14 February 2019, the Company allotted and issued 753 shares for cash consideration of RMB7 to Bright Shine Investment Holdings Limited ("Bright Shine"), which is controlled by Mr. Yuen.

(i) On 12 March 2019, Xinzhi (Shenzhen) acquired the entire equity interest in Shenzhen Confidence from Mr. Li, Mr. Yuan, Mr. Zhang and Million Way, at total consideration of RMB6,000,000.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Principal activities and place of operation	Issued and paid up capital/ registered capital	Effective interest held by the Group					Name of statutory auditors		
				31 December 2016	31 December 2017	31 December 2018	30 April 2019	As at date of this report	2016	2017	2018
Direct Interests:											
New Trive Limited	BVI; 2 January 2019	Investment holding in BVI	1 United States dollar ("USD")	N/A	N/A	N/A	100%	100%	N/A	N/A	N/A
Indirect Interests:											
New Trive (HK) Limited	Hong Kong; 7 January 2019	Investment holding in Hong Kong	10,000 Hong Kong dollar ("HK$")	N/A	N/A	N/A	100%	100%	N/A	N/A	N/A
Xinzhi (Shenzhen) Electronic Co., Ltd.* (信智(深圳)電子有限公司)	The PRC; 8 March 2019	Investment holding in the PRC	RMB100,000	N/A	N/A	N/A	100%	100%	N/A	N/A	N/A
Shenzhen Confidence Intelligence Electronic Co., Ltd.* (深圳信懇智能電子有限公司)	The PRC; 23 March 2000	Electronic manufacturing services in the PRC	RMB115,238,710	100%	100%	100%	100%	100%	(a)	(a)	(a)
Confidence Intelligence (Hongkong) Limited	Hong Kong; 6 April 2017	Investment holding in Hong Kong	HK$3,000,000	N/A	100%	100%	100%	100%	N/A	(b)	(b)
Confidence Intelligence, Inc.	the United States of America (the "USA"); 17 April 2017	Dormant	US$10,000	N/A	100%	100%	100%	100%	N/A	(c)	(c)

* *For identification purposes only*

(a) The statutory auditor for the years ended 31 December 2016, 2017 and 2018 was Shenzhen Da Hua Certified Public Accountants (special general partnership).

(b) The statutory auditor for the period ended 31 December 2017 and the year ended 31 December 2018 was Tsui Shu Yan Certified Public Accountant (Practising).

(c) Financial statements for the period ended 31 December 2017 and the year ended 31 December 2018 are not statutorily required.

All companies now comprising the Group have adopted 31 December as their financial year end date.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business has been conducted through Shenzhen Confidence and its subsidiaries. Pursuant to the Reorganisation, the Listing Business is transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate controlling party of the Listing Business remains the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of Shenzhen Confidence and its subsidiaries, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business under the financial statements of Shenzhen Confidence and its subsidiaries for all periods presented.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Company has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the directors of the Group to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information, are disclosed in Note 4.

The Group has adopted HKFRS 9 "Financial Instruments" ("HKFRS 9"), HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") and HKFRS 16 "Leases" ("HKFRS 16") with which the relevant accounting policies have been consistently applied to the Group's consolidated financial statements throughout the Track Record Period.

New standards and amendments to existing standards not yet adopted

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

The Group will adopt the above new or revised standards and amendments to existing standards as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these standards, amendments and interpretations to existing HKFRS.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries now comprising the Group have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for by the Company at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Historical Financial Information of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. The Group's investment in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of its associate's post-acquisition profit or loss is recognised in the profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount as "Impairment loss of investment in an associate" in the profit or loss.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in an associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. A full gain or loss is recognised when a transaction involves a business whereas a partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are held by a subsidiary. Accounting policies of an associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in an associate are recognised in the profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

2.4 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the directors who make strategic decisions.

2.5 Foreign currency translation

2.5.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Historical Financial Information is presented in RMB, which is the Company's functional and the Group's presentation currency.

2.5.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in profit or loss.

All other foreign exchange gains and losses are presented in the income statement on a net basis within "Other (losses)/gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognised in other comprehensive income.

2.5.3 Group companies

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On combination, exchange differences arising from the translation of any net investment in foreign operations are taken to other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.6 Properties, plant and equipment

Properties, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation of properties, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual value, over their estimated useful lives, as follows:

Furniture and fixtures	5 years
Office equipment	3 to 5 years
Plant and machinery	3 to 10 years
Motor vehicles	3 to 5 years
Leasehold improvements	Shorter of estimated useful lives or remaining lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposal are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

Right-of-use assets included the rights to use certain properties, plant and machinery under leases which are measured at cost. The initial costs of right-of-use assets include the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date,
- any initial direct costs, and
- restoration costs.

If the lease transfers ownership of the underlying assets to the Group by the end of the lease term or if the cost of the right-of-use assets reflect that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date of the lease to the end of the useful life of the underlying assets. Otherwise, right-of-use assets are depreciated over the shorter of the assets' useful lives and their lease terms on a straight-line basis.

2.7 Financial assets

2.7.1 Classification

The Group classifies its financial assets as assets to be measured at amortised cost.

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

2.7.2 Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments to be measured at amortised cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

2.7.3 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and reward of ownership.

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.9 Impairment of financial assets

The Group's financial assets measured at amortised cost are subject to HKFRS 9's expected credit loss model. The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1.3 sets out the details on how the Group determines whether there has been a significant increase in credit risk.

For contract assets, trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets, trade and bills receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

For other receivables, the Group measures the impairment as either 12-month expected credit losses or life-time expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of the other receivables has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.10 Trade, bills and other receivables

Trade and bills receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.12 Cash and cash equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade, bills and other payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade, bills and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade, bills and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in interest expense over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance costs.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

*2.17.1 **Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*2.17.2 **Deferred income tax***

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.18 Employee benefits

*2.18.1 **Short-term obligations***

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheets.

2.18.2 Other long-term employee benefit obligations

The obligations are presented as current liabilities in the consolidated balance sheets if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

2.18.3 Defined contribution plans

The Group pays contributions to state-managed pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.18.4 Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.19 Share-based payments

During the Track Record Period, certain equity instruments of Xin Ju Ding Fu, which held equity interest in Shenzhen Confidence, were transferred by the controlling shareholder of the Group to certain employees at specified cash consideration and were vested immediately on the date of transfer. For these equity-settled share-based payment transactions, the fair value of the employee services received by the Group in exchange for the equity instruments granted were measured with reference to the fair value of the equity instruments granted which were measured on date of grant using the market approach. The difference between the fair value of the equity instruments granted and the cash consideration paid by the employees were recognised as employee benefit expenses in the consolidated income statements with a corresponding increase in the share-based payment reserve under equity.

Refer to Note 9 for the details of the aforementioned equity-settled share-based payment transactions.

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amount for the service rendered in the ordinary course of the Group's activity.

The Group does not expect to have any contracts where the period between the transfer of the promised services to the customers and the payment by the customers exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

When either party to a contract has performed, the Group presents the contract in the consolidated balance sheets as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for services that the Group has transferred to a customer. Incremental costs incurred to obtain a contract, if recoverable, are capitalised and presented as assets and subsequently amortised when the related revenue is recognised.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers the promised services to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer the promised services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for the Group's activity as described below:

2.20.1 Electronic manufacturing services

Rendering of electronic manufacturing service ("EMS") is recognised when or as the control of the services is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, control of the services may transfer over time or at a point in time. Control of the services is transferred over time if the Group's performance:

(i) provides all of the benefits received and consumed simultaneously by the customer; or

(ii) creates and enhances an asset that the customer controls as the Group performs; or

(iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue from EMS contracts are recognised over time using the input method with reference to the costs incurred for the service.

2.21 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.22 Leases

The Group leases various properties and plant and machinery. Rental contracts are typically made for fixed periods of one to five years. Lease terms are negotiated on an individual basis and contain various terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as right-of-use assets (included in properties, plant and equipment) and the corresponding liabilities at the date of which the respective leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the entity's incremental borrowing rate.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months. Low-value assets comprise machinery with value below RMB5,000.

2.23 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the years in which the dividend are approved by the Company's shareholders or directors, where appropriate.

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statements over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of equipment are included in current liabilities and non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1 Market risk

3.1.1 Foreign exchange risk

The Group operates mainly in the PRC with most of the transactions settled in RMB. Management considers that the Group is not exposed to any significant foreign exchange risk for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 as there are no significant financial assets or liabilities of the Group denominated in the currencies other than the respective functional currencies of the Group's entities.

During the Track Record Period, the Group has not entered into any derivative instruments to hedge its foreign exchange exposures.

3.1.2 Interest rate risk

The Group's interest rate risk is mainly attributable to its pledged bank deposits, cash at banks and bank and other borrowings with floating interest rates. Details of the Group's pledged bank deposits, cash at banks and bank and other borrowings have been disclosed in Notes 18 and 24 to the Historical Financial Information respectively.

Other than pledged bank deposits, cash at banks and bank and other borrowings, the Group does not have significant interest-bearing assets or liabilities.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, if interest rates on pledged bank deposits, cash at banks and bank and other borrowings had been 100 basis points higher/ lower with all variables held constant, profit before income tax for the years then ended would have been approximately RMB40,000 lower/higher, approximately RMB118,000 higher/lower, approximately RMB38,000 lower/higher and approximately RMB221,000 higher/lower, mainly as a result of higher/lower of interest income on the pledged bank deposits and cash at banks netted with higher/lower interest expenses on the bank and other borrowings respectively.

3.1.3 Credit risk

The credit risk of the Group mainly arises from pledged bank deposits, cash and cash equivalents, contract assets, trade and bills receivables, other receivables and deposits. The carrying amounts of each financial asset represent the Group's maximum exposure to credit risk in relation to financial assets.

Risk management

The Group has policies in place to ensure that credit terms are made to customers with an appropriate credit history and the Group's performs periodic credit evaluations of its customers.

The Group's pledged bank deposits and cash and cash equivalents were deposited with high quality financial institutions. Therefore, the Group does not expect any significant losses arising from non-performance by these counterparties.

For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, 99%, 98%, 90%, 96% and 81% of the Group's revenue was derived from its top five customers respectively. As at 31 December 2016, 2017 and 2018 and 30 April 2019, 100%, 90% and 78% and 13% of the total trade and bills receivables were due from the Group's top five customers respectively.

The credit risk on pledged bank deposits and cash and cash equivalents are limited because deposits are in banks with sound credit ratings and management does not expect any loss from non-performance by these counterparties.

(a) Impairment of assets

The Group has two types of assets that are subject to the expected credit loss models:

- contract assets, trade and bills receivables
- other financial assets carried at amortised cost

Contract assets, trade and bills receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all contract assets, trade and bills receivables.

To measure the expected credit losses, contract assets, trade and bills receivables have grouped bases on shared credit risk characteristics and the days past due. Future cash flows for each group of receivables are estimated on the basis of historical default rates, adjusted to reflect the effects of existing market conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivable.

Contract assets, trade and bills receivables with known insolvencies are assessed individually for impairment allowances and are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a prepayment plan with the Group, and a failure to make contractual payments.

Impairment losses on contract assets, trade and bills receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets carried at amortised cost

The Group's other financial assets carried at amortised cost include deposit and other receivables in the consolidated balance sheets. The impairment loss of other financial assets carried at amortised cost is measured based on the 12-month expected credit loss. The 12-month expected credit loss is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

3.1.4 Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the shorter and longer term.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the Group held cash and cash equivalents amounting to approximately RMB10,151,000, RMB33,837,000, RMB14,979,000 and RMB35,378,000 respectively, that are expected to be readily available to generate cash inflows for managing liquidity risk.

The Group maintains liquidity by a number of sources including orderly realisation of receivables that the Group considers appropriate and long term financing including long-term borrowings and lease liabilities are also considered by the Group in its capital structuring. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the Group's total undrawn banking facilities amounted to approximately nil, RMB8,936,000, nil and nil respectively, and the Group's total drawn banking facilities amounted to approximately RMB11,514,000, RMB23,324,000, RMB11,507,000 and RMB7,614,000 respectively.

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balances within twelve months equal their carrying balances as impact from discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2016				
Trade and bills payables	2,940	—	—	2,940
Other payables and accruals	6,370	—	—	6,370
Bank and other borrowings — principal portion	7,184	6,959	—	14,143
Bank and other borrowings — interest portion	856	442	—	1,298
Lease liabilities	4,165	3,227	7,433	14,825
	21,515	10,628	7,433	39,576

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017				
Trade and bills payables	9,374	—	—	9,374
Other payables and accruals	7,956	—	—	7,956
Bank and other borrowings — principal portion	21,360	1,964	—	23,324
Bank and other borrowings — interest portion	1,148	40	—	1,188
Lease liabilities	3,859	3,603	7,398	14,860
	43,697	5,607	7,398	56,702
At 31 December 2018				
Trade and bills payables	10,130	—	—	10,130
Other payables and accruals	5,428	—	—	5,428
Bank and other borrowings — principal portion	10,597	6,604	1,600	18,801
Bank and other borrowings — interest portion	1,120	404	34	1,558
Lease liabilities	3,309	3,544	4,148	11,001
	30,584	10,552	5,782	46,918
At 30 April 2019				
Trade and bills payables	14,287	—	—	14,287
Other payables and accruals	6,388	—	—	6,388
Bank and other borrowings — principal portion	7,357	5,534	375	13,266
Bank and other borrowings — interest portion	836	230	3	1,069
Lease liabilities	3,582	3,774	3,243	10,599
	32,450	9,538	3,621	45,609

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The Group monitors capital on the basis of the total debt to total capital ratio. Total debt and total capital represent total borrowings and total equity, as shown in the consolidated balance sheets. The total debt to total capital ratios at 31 December 2016, 2017 and 2018 and 30 April 2019 were as follows:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings (bank and other borrowings and lease liabilities)	27,472	36,781	28,964	23,128
Total equity	89,446	116,600	148,145	154,848
Total debt to total capital ratio	31%	32%	20%	15%

The increase in total debt to total capital ratio from 31% as at 31 December 2016 to 32% as at 31 December 2017 was mainly due to the increase in total borrowings from additional draw-down of bank and other borrowings. The decrease in total debt to total capital ratio from 32% as at 31 December 2017 to 20% as at 31 December 2018 was mainly due to increase in total equity as a result of profit for the year ended 31 December 2018 and decrease in total borrowings due to repayments of borrowings and lease liabilities. The decrease in total debt to total capital ratio from 20% as at 31 December 2018 to 15% as at 30 April 2019 was mainly due to the increase in total equity as a result of profit for the period then ended and from the group reorganisation and decrease in total borrowings as a result of repayments of borrowings.

3.3 Fair value estimation

The carrying values less impairment provision of trade, deposits and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Net realisable value of inventories

The Group's inventories comprise solely raw materials of which management primarily intends to utilise for EMS contracts. These raw materials are stated at the lower of cost and net realisable value.

The Group utilises these raw materials for the assembling and production of printed circuit board assembly ("PCBA"), their net realisable value is the estimated service contract price less estimated costs to completion and selling expenses. The estimates are based on the current market condition and the historical experience of provision of services using raw materials of similar nature. Write-downs of inventories are recognised where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed. Management reassesses these estimates at each balance sheet date.

4.2 Income taxes

The Group is subject to income taxes mainly in Hong Kong and the PRC. Significant judgement is required in determining provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and tax expense in the periods in which such estimate is changed.

4.3 Impairment of receivables and contract assets

The Group makes provision for impairment of receivables and contract assets based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical default rates, existing market conditions as well as forward-looking estimates at the end of each reporting period. The identification of impairment of receivables and contract assets requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and contract assets and loss for the impairment of receivables and contract assets recognised in the periods in which such estimates have been changed.

5 REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and its subsidiaries now comprising the Group are principally engaged in electronic manufacturing services.

The CODM has been identified as the directors of the Company. The directors review the Group's internal reporting in order to assess performance and allocate resources. The directors have determined the operating segment based on these reports.

The directors consider the Group's operation from a business perspective and determine that the Group has one reportable operating segment being EMS.

The directors assess the performance of the operating segment based on a measure of revenue and gross profit.

During the Track Record Period, all of the Group's revenues are from contracts with customers and are recognised over time. Please refer to Note 2.20 for details of the accounting policies on revenue recognition.

(a) Revenue from major customers who have individually contributed to 10% or more of the total revenue of the Group

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Customer A	134,390	142,192	126,969	35,644	33,244
Customer B	22,669	41,692	25,945	8,401	N/A*
Customer C	N/A*	N/A*	39,895	10,251	17,488

* *The corresponding customers did not contribute over 10% of the total revenue of the Group for the respective years and periods.*

(b) Segment revenue by customers' geographical location

The Group is domiciled in the PRC. The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
The PRC	174,093	205,961	234,888	57,650	85,447
The USA	47	2,673	1,322	1,322	—
	174,140	208,634	236,210	58,972	85,447

(c) Details of contract liabilities

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities *(Note 23)*	500	6,796	6,539	3,254

Notes:

(i) Contract liabilities represent advanced payments received from the customers for services that have not yet been transferred to the customers. The contract liabilities fluctuated during the Track Record Period due to fluctuation in sales orders with advanced payments.

(ii) During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018, all brought-forward contract liabilities at the beginning of the financial year/period were fully recognised as revenue.

(d) Unsatisfied performance obligations

As at 31 December 2016, 2017 and 2018 and 30 April 2019, all performance obligations not yet satisfied by the Group were from contracts with original expected duration of less than one year. Therefore, as permitted by the relevant practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied performance obligations were not disclosed.

(e) Non-current assets by geographical location

All of the Group's non-current assets other than deferred tax assets were located in the PRC.

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost of raw materials and consumables used	22,713	49,819	71,514	13,712	27,913
Subcontracting charges paid to:					
— a related party *(Note 28 (a)(ii))*	74	—	—	—	—
— third parties	4,530	605	1,872	1,608	295
Employee benefit expenses and manpower services expenses, including directors' emoluments *(Notes 9 and 30)*	50,977	68,838	63,084	18,172	21,696
Rental expenses of short-term leases in respect of:					
— machineries *(Note 20(c))*	10,121	19,908	19,180	5,388	5,369
— offices, warehouses, production plant and staff quarters *(Note 20(c))*	606	1,392	400	133	82
Utilities	4,071	4,754	3,580	1,221	1,311
Depreciation *(Note 13)*	23,519	15,809	17,313	5,464	6,454
Auditor's remuneration					
— Audit services (excluding listing expenses)	320	250	200	67	33
— Non-audit services	—	—	—	—	—
Listing expenses	—	—	531	—	10,184
Professional fees	1,938	2,157	2,300	247	1,731
Provision for inventories *(Note 17)*	4,523	—	1,000	—	—
Other tax and surcharges	2,347	2,093	2,207	356	711
Transportation	286	263	435	114	180
Travelling expenses	796	730	935	268	399
Others	4,058	5,085	4,197	1,132	1,558
Total cost of sales, selling and distribution expenses and administrative expenses	130,879	171,703	188,748	47,882	77,916

7 OTHER INCOME

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Government grants	66	1,536	1,630	1,081	1,243
Equipment rental income charged to:					
— a related party *(Note 28 (a)(ii))*	725	—	—	—	—
— third parties	92	285	216	110	32
	883	1,821	1,846	1,191	1,275

8 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
(Loss)/gain on disposal of properties, plant and equipment	(103)	(103)	(49)	65	(575)
Exchange differences	(254)	(46)	197	(77)	(188)
	(357)	(149)	148	(12)	(763)

9 EMPLOYEE BENEFIT EXPENSES AND MANPOWER SERVICE EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Wages and salaries	48,481	59,571	56,907	16,026	18,299
Pension costs — defined contribution plans *(Note a)*	1,664	1,350	1,289	405	1,143
Other staff welfares	765	646	1,205	634	359
Share-based payment *(Note c)*	—	752	—	—	—
Total employee benefit expenses (including directors' remunerations)	50,910	62,319	59,401	17,065	19,801
Manpower service expenses *(Note b)*	67	6,519	3,683	1,107	1,895
	50,977	68,838	63,084	18,172	21,696

Notes:

(a) Pensions costs — defined contribution plans

The PRC

As stipulated under the relevant rules and regulations in the PRC, the subsidiary operating in the PRC contributes to state-sponsored retirement plans for its employees. For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, depending on the provinces of the employees' registered residences and their current region of work, the subsidiary contributed certain percentages of the basic salaries of its employees and had no further obligations for the actual payment of pensions or postretirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees.

(b) Manpower service expenses

During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, the Group entered into certain manpower service arrangements with several external manpower service organisations in the PRC. Under these arrangements, certain of the Group's manpower requirements were fulfilled by these organisations at agreed service fees whereas the human resources provided were directly employed by the relevant service organisations. The individuals providing services to the Group did not have any employment relationship with the Group.

(c) Share-based payment

Equity instrument granted by the controlling shareholder of the Group

On 19 December 2017 (the "date of grant"), Mr. Li entered into share transfer agreements ("Share Transfer Agreement") with certain employees, pursuant to which he transferred 510,000 shares (the "Shares") of Xin Ju Ding Fu, a limited partnership controlled by Mr. Li, at a total cash consideration of approximately RMB1,250,000. The primary assets of Xin Ju Ding Fu comprise 7.69% equity interests in Shenzhen Confidence on the date of grant.

The Shares immediately vested on the date of grant.

Fair value of the Shares and assumptions:

The fair value of services received in return for the Shares granted were measured by reference to the fair value of the Shares which were largely attributable to the equity interests in Shenzhen Confidence owned by Xin Ju Ding Fu on the date of grant. In determining the fair value of the equity interests in Shenzhen Confidence, the following key assumptions were adopted:

Date of measurement	Total fair value at measurement dates	Valuation Multiple used[1]	Small size discount[2]	Concentration risk[3]	Discount for lack of marketability[4]
19 December 2017	Approximately RMB2,020,000	Enterprise value/Earnings before interest, tax, depreciation and amortisation ("EV/EBITDA")	15%	20%	25%

1 EV/EBITDA multiple is adopted based on the valuation indication from comparable companies.

2 Small size discount is based on certain empirical studies, as small size companies are subject to additional required return.

3 Concentration risk is based on the exposure of Shenzhen Confidence to the downside risks of the smartphone market compared to other comparable companies.

4 On the date of grant, Shenzhen Confidence was listed in National Equity Exchange and Quotations ("NEEQ"). However, there were no trading activity with the shares of Shenzhen Confidence on NEEQ. Therefore, the shares of Shenzhen Confidence was deemed illiquid, and a discount for lack of marketability has been estimated based on a put option model with maturity date of 3 years.

During the year ended 31 December 2017, share-based payment expenses of approximately RMB752,000, being the differences between the fair value of the Shares and the total cash consideration of approximately RMB1,250,000 paid by the employees, were recognised in the consolidated income statement in respect of the aforementioned equity-settled share-based payment transactions.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three directors for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, whose emoluments are reflected in the analysis presented in Note 30. The emoluments payable to the remaining two individuals for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 are as follows:

	Year ended 31 December			**Four months ended 30 April**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Wages and salaries	917	897	1,301	432	499
Pension costs — defined contribution plans	31	31	32	11	11
	948	928	1,333	443	510

The emoluments fell within the following bands:

	Number of individuals				
	Year ended 31 December			**Four months ended 30 April**	
	2016	**2017**	**2018**	**2018** (unaudited)	**2019**
Emolument bands					
Not more than HK$500,000	1	—	—	2	2
HK$500,001 – HK$1,000,000	1	2	2	—	—
	2	2	2	2	2

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 FINANCE COSTS, NET

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Finance income					
Interest income on cash at banks	52	205	232	145	14
Finance costs					
Interest expenses on					
— Loans from shareholders *(Note 28 (a)(ii))*	(845)	—	—	—	—
— Bank and other borrowings	(864)	(1,271)	(1,893)	(550)	(477)
— Leases *(Note 20(b))*	(105)	(597)	(566)	(196)	(168)
	(1,814)	(1,868)	(2,459)	(746)	(645)
Finance costs, net	(1,762)	(1,663)	(2,227)	(601)	(631)

11 INCOME TAX EXPENSE

During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018, Shenzhen Confidence, the Group's subsidiary in the PRC, has qualified for high and new technology enterprises status and is therefore subject to a preferential income tax rate of 15%.

During the four months ended 30 April 2019, Shenzhen Confidence, the Group's subsidiary is subject to PRC corporate income tax ("CIT") at a standard tax rate of 25%.

During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, no provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group had no assessable profit in Hong Kong.

During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, no provision for U.S. Federal or State Income Tax has been made in the consolidated financial statements as the Group had no assessable profit in U.S. Federal or State.

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current income tax					
— CIT	6,810	4,716	7,131	1,720	2,818
— Over-provision in prior year	—	—	—	—	(67)
	6,810	4,716	7,131	1,720	2,751
Deferred income tax *(Note 21)*	(1,147)	213	(716)	(292)	719
Income tax expense	5,663	4,929	6,415	1,428	3,470

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit before income tax	41,025	36,940	47,229	11,668	7,412
Tax calculated at tax rates applicable to profits of the respective subsidiaries	6,153	5,541	7,059	1,748	2,811
Tax effect of:					
Expenses not deductible for tax purpose	800	144	425	22	1,467
Over-provision in prior year	—	—	—	—	(67)
Re-measurement of deferred tax — change in the tax status of the PRC subsidiary	(633)	—	—	—	—
Tax exemption and rebate	(657)	(756)	(1,069)	(342)	(741)
Income tax expense	5,663	4,929	6,415	1,428	3,470

During the year ended 31 December 2016, Shenzhen Confidence qualified for high and new technology enterprises status and therefore had been subject to preferential tax rate of 15% since then. As a result, the relevant deferred tax balances had been re-measured. Deferred tax expected to reverse after the year ended 31 December 2016 had been measured using the tax rate of 15%. The Group's high and new technology enterprises status was effective for three years until 31 December 2018. During the four months ended 30 April 2019, Shenzhen Confidence is still in the process of renewal application and therefore has been subject to CIT at a standard tax rate of 25%.

As of the date of this report, Shenzhen Confidence is still in the process of renewal application.

12 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Track Record Period.

In determining the weighted average number of ordinary shares deemed to be in issue during the Track Record Period, 10,000 shares, being the number of ordinary shares issued by the Company on 7 December 2018 (date of incorporation), were deemed to have been issued and allocated on 1 January 2016 as if the Company has been incorporated by then, when computing the basic and diluted earnings per share for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019.

In addition, the 753 ordinary shares, which were issued by the Company to the pre-IPO investor on 14 February 2019 as stated in Note 1.2(h) of the Reorganisation, were taken into consideration since the date of capital injection by the pre-IPO investor to Shenzhen Confidence (i.e. 11 February 2019) when computing the basic and diluted earnings per share for the four months ended 30 April 2019.

	Year ended 31 December			**Four months ended 30 April**	
	2016	**2017**	**2018**	**2018**	**2019**
				(unaudited)	
Profit for the year/period attributable to owners of the Company *(RMB'000)*	35,362	32,011	40,814	10,240	3,942
Weighted average number of ordinary shares in issue	10,000	10,000	10,000	10,000	10,496
Basic and diluted earnings per share *(RMB'000)*	3.54	3.20	4.08	1.02	0.38

There were no differences between the basic and diluted earnings per share as there were no potential dilutive ordinary shares outstanding during the Track Record Period.

The earnings per share has not taken into account the proposed capitalisation issue pursuant to the shareholders' resolution dated 20 September 2019 because the proposed capitalisation issue has not been effected as at the date of this report.

13 PROPERTIES, PLANT AND EQUIPMENT

	Right-of-use assets *RMB'000*	Furniture and fixtures *RMB'000*	Office equipment *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
At 1 January 2016							
Cost	12,286	283	257	102,776	227	—	115,829
Accumulated depreciation	(11,160)	(143)	(158)	(53,033)	(196)	—	(64,690)
Net book amount	1,126	140	99	49,743	31	—	51,139
Year ended 31 December 2016							
Opening net book amount	1,126	140	99	49,743	31	—	51,139
Additions	14,819	—	7	33,466	1,714	—	50,006
Depreciation	(1,373)	(41)	(39)	(22,013)	(53)	—	(23,519)
Disposals	—	(99)	(54)	(90)	(10)	—	(253)
Closing net book amount	14,572	—	13	61,106	1,682	—	77,373
At 31 December 2016							
Cost	14,819	—	133	122,611	1,801	—	139,364
Accumulated depreciation	(247)	—	(120)	(61,505)	(119)	—	(61,991)
Net book amount	14,572	—	13	61,106	1,682	—	77,373
Year ended 31 December 2017							
Opening net book amount	14,572	—	13	61,106	1,682	—	77,373
Additions	3,973	530	908	29,871	—	1,816	37,098
Depreciation	(2,751)	(68)	(131)	(12,219)	(337)	(303)	(15,809)
Disposals	—	—	—	(6,668)	(4)	—	(6,672)
Closing net book amount	15,794	462	790	72,090	1,341	1,513	91,990
At 31 December 2017							
Cost	18,792	530	1,041	129,962	1,714	1,816	153,855
Accumulated depreciation	(2,998)	(68)	(251)	(57,872)	(373)	(303)	(61,865)
Net book amount	15,794	462	790	72,090	1,341	1,513	91,990
Year ended 31 December 2018							
Opening net book amount	15,794	462	790	72,090	1,341	1,513	91,990
Additions	—	235	179	29,780	—	732	30,926
Depreciation	(3.392)	(154)	(287)	(12,618)	(337)	(525)	(17,313)
Disposals	—	—	—	(2,745)	—	—	(2,745)
Closing net book amount	12,402	543	682	86,507	1,004	1,720	102,858
At 31 December 2018							
Cost	18,792	765	1,220	136,204	1,714	2,548	161,243
Accumulated depreciation	(6,390)	(222)	(538)	(49,697)	(710)	(828)	(58,385)
Net book amount	12,402	543	682	86,507	1,004	1,720	102,858
Four months ended 30 April 2019							
Opening net book amount	12,402	543	682	86,507	1,004	1,720	102,858
Additions	690	—	308	1,415	—	—	2,413
Depreciation	(1,191)	(60)	(115)	(4,789)	(112)	(187)	(6,454)
Disposals	—	—	—	(575)	—	—	(575)
Closing net book amount	11,901	483	875	82,558	892	1,533	98,242
At 30 April 2019							
Cost	19,482	765	1,528	136,751	1,714	2,548	162,788
Accumulated depreciation	(7,581)	(282)	(653)	(54,193)	(822)	(1,015)	(64,546)
Net book amount	11,901	483	875	82,558	892	1,533	98,242

During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, depreciation expenses of approximately RMB2,176,000, RMB3,217,000, RMB3,473,000, RMB1,159,000 and RMB1,251,000 have been charged in administrative expenses; approximately RMB145,000, RMB206,000, RMB206,000, RMB69,000, and RMB69,000 have been charged in selling and distribution expenses and approximately RMB21,198,000, RMB12,386,000, RMB13,634,000, RMB4,236,000 and RMB5,134,000 have been charged in cost of sales.

14 INVESTMENT IN AN ASSOCIATE

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted entity *(Note a)*	—	—	—	—
At the beginning of the year	—	—	—	—
Addition *(Note a)*	1,000	—	—	—
Share of net loss of an associate	(76)	—	—	—
Impairment loss of investment in an associate	(924)	—	—	—
At the end of the year/period	—	—	—	—

Notes:

(a) Particulars of the associate as at 31 December 2016, 2017 and 2018 and 30 April 2019 are as follows:

Name	**Place of incorporation**	**% of ownership interest**	**Principal activity**
Renxiao Technology (Shenzhen) Company Limited* (人曉科技(深圳)有限公司) ("Renxiao")	The PRC	8%	Production, research and development and sales of intelligent hardware and cloud platform products

* *For identification purpose only*

Renxiao is a private company and there is no quoted market price available for its shares.

During the year ended 31 December 2016, the Group acquired 8% equity interest in Renxiao at a consideration of RMB1,000,000.

Management has assessed the level of influence that the Group exercises on Renxiao during the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, and determined that it has significant influence thereon through a board representation and other arrangements made. Consequently, this investment has been classified as an investment in an associate.

During the year ended 31 December 2016, management assessed that the investment costs of Renxiao would not be recoverable. Therefore, management recognised full impairment for the investment costs.

(b) Set out below is the summarised financial information of Renxiao extracted from its financial statements for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 which are accounted for using the equity method:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Summarised income statements					
Other income	—	400	—	—	—
Administrative expenses	(956)	(211)	(39)	(8)	(1)
(Loss)/profit and total comprehensive (loss)/income for the year/period	(956)	189	(39)	(8)	(1)

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Summarised balance sheets				
Current assets	310	499	482	482
Non-current assets	32	23	1	—
Current liabilities	9	—	—	—
Shareholder's equity	333	522	483	482

15 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at amortised cost				
Trade and bills receivables *(Note 19)*	19,795	18,308	27,214	13,029
Deposits and other receivables *(Note 16)*	1,485	603	1,958	2,003
Pledged bank deposits *(Note 18)*	—	1,314	—	—
Cash and cash equivalents *(Note 18)*	10,151	33,837	14,979	35,378
	31,431	54,062	44,151	50,410

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities				
Financial liabilities at amortised cost				
Trade and bills payables *(Note 22)*	2,940	9,374	10,130	14,287
Other payables and accruals *(Note 23)*	6,370	7,956	5,428	6,388
Bank and other borrowings *(Note 24)*	14,143	23,324	18,801	13,266
Lease liabilities *(Note 20)*	13,329	13,457	10,163	9,862
	36,782	54,111	44,522	43,803

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current portion				
Prepayments to suppliers	170	10,835	11,261	2,367
Rental and other deposits *(Note a)*	1,061	42	48	88
Other receivables *(Note a)*	21	26	—	5
Prepaid listing expenses *(Note b)*	—	—	—	3,741
	1,252	10,903	11,309	6,201
Non-current portion				
Prepayments of acquisition of properties, plant and equipment	3,120	2,309	904	2,696
Rental deposits	403	535	1,910	1,910
	3,523	2,844	2,814	4,606

The Company

	As at 31 December 2018	As at 30 April 2019
	RMB'000	*RMB'000*
Current portion		
Prepaid listing expenses *(Note b)*	—	3,741
	—	3,741

Notes:

(a) As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of deposits and other receivables approximated their fair values. These balances were unsecured and interest free.

(b) The prepaid listing expenses as at 30 April 2019 were incurred in connection with the listing of the Group and will be deducted from equity upon listing.

The carrying amounts of the Group's prepayments, deposits and other receivables were denominated in the following currencies:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 April 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	4,775	13,747	14,123	7,490
USD	—	—	—	58
HK$	—	—	—	3,259
	4,775	13,747	14,123	10,807

The carrying amount of the Company's prepayments was denominated in the following currencies:

	As at 31 December 2018	As at 30 April 2019
	RMB'000	*RMB'000*
RMB	—	424
USD	—	58
HK$	—	3,259
	—	3,741

17 INVENTORIES

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	2,440	6,908	30,553	27,976

The cost of inventories recognised as expense and included in "cost of sales" during the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 amounted to approximately RMB22,421,000, RMB42,217,000, RMB70,906,000, RMB13,712,000 and RMB27,913,000 respectively, which included provision for inventories amounting to approximately RMB4,523,000 during the year ended 31 December 2016 and approximately RMB1,000,000 during the year ended 31 December 2018.

18 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks	10,133	35,119	14,952	35,344
Cash on hand	18	32	27	34
Less: pledged bank deposits	—	(1,314)	—	—
Cash and cash equivalents	10,151	33,837	14,979	35,378
Maximum exposure to credit risk	10,133	35,119	14,952	35,344

As at 31 December 2017, deposits amounted to approximately RMB1,314,000 was pledged for the settlement of bills payables, details of which are set out in Note 22.

Cash and cash equivalents include the following for the purposes of the consolidated statements of cash flows:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	10,151	33,837	14,979	35,378

The carrying amounts of the Group's cash and cash equivalents and pledged bank deposits were denominated in the following currencies:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	9,996	29,992	9,904	31,302
USD	155	2,717	3,746	3,531
HK$	—	2,442	1,329	545
	10,151	35,151	14,979	35,378

Cash at banks earned interest at floating rates based on daily bank deposits rate. As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of cash and cash equivalents and pledged bank deposits approximated their fair values.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, cash and cash equivalents and pledged bank deposits of the Group amounting to approximately RMB10,151,000, RMB32,587,000, RMB11,991,000 and RMB33,348,000, respectively, were deposited with the banks in the PRC where the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the Government of the PRC.

19 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract assets	21,466	20,581	31,671	40,812
Trade receivables	19,541	17,808	26,034	11,579
Bills receivables	254	500	1,180	1,450
Trade and bills receivables	19,795	18,308	27,214	13,029
	41,261	38,889	58,885	53,841

Contract assets represent the Group's rights to consideration for work completed but unbilled for its EMS business. The contract assets are transferred to trade receivables when the rights become unconditional which generally take one to three months. The balances of contract assets fluctuated from year-to-year during the Track Record Period as the Group provided varying amount of services that were unbilled before the year-ends.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

The Group's sales were generally on credit terms primarily from 30 to 90 days.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the aging analysis of trade and bills receivables, based on invoice date, was as follows:

	As at 31 December			**As at 30 April**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 to 3 months	19,754	15,666	25,415	10,211
Over 3 months	41	2,642	1,799	2,818
	19,795	18,308	27,214	13,029

As at 31 December 2016, 2017 and 2018 and 30 April 2019, trade receivables of approximately RMB49,000, RMB2,892,000, RMB6,958,000 and RMB5,856,000, respectively were past due but not impaired.

For these past due trade receivables, the Group has assessed the expected credit losses by considering historical default rates, existing market conditions and forward-looking information. Based on the assessment, expected credit loss rate of trade receivables is close to zero. Therefore, the loss allowance provision for these trade receivables balances was not material.

The carrying amounts of the Group's contract assets, trade and bills receivables were denominated in the following currencies:

	As at 31 December			**As at 30 April**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	41,254	38,889	58,885	53,803
USD	7	—	—	38
	41,261	38,889	58,885	53,841

The maximum exposure to credit risk as at 31 December 2016, 2017 and 2018 and 30 April 2019 was the carrying value of the receivables and contract assets mentioned above. The Group did not hold any collateral as security.

20 LEASES

(a) Amounts recognised in the consolidated balance sheets

The consolidated balance sheets show the following amounts relating to leases:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets*				
Properties	11,093	12,550	9,433	9,146
Plant and machinery	3,479	3,244	2,969	2,755
	14,572	15,794	12,402	11,901

* *The balances were included in Note 13 "Properties, plant and equipment".*

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities				
Non-current portion	9,726	10,163	7,280	6,686
Current portion	3,603	3,294	2,883	3,176
	13,329	13,457	10,163	9,862

Additions to the right-of-use assets amounted to approximately RMB14,819,000, RMB3,973,000, nil and RMB690,000 during the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019 respectively.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of the Group's lease liabilities were denominated in RMB.

(b) Amounts recognised in the consolidated income statements

The consolidated income statements show the following amounts relating to leases:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Depreciation charge of right-of-use assets					
Properties	1,314	2,384	3,117	916	977
Plant and machinery	59	367	275	214	214
	1,373	2,751	3,392	1,130	1,191
Finance costs on leases *(Note 10)*	105	597	566	196	168

(c) Amounts recognised in the consolidated statements of cash flows

During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, the total cash outflows for leases were analysed as below:

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Cash flows from operating activities					
Payments for short-term leases in respect of:					
— machineries* *(Note 6)*	10,121	19,908	19,180	5,388	5,369
— offices, warehouses, production plant and staff quarters* *(Note 6)*	606	1,392	400	133	82
Cash flows from financing activities					
Payment of interest element of lease liabilities *(Note 10)*	105	597	566	196	168
Payment of principal element of lease liabilities	2,985	3,845	3,294	1,471	991
	13,817	25,742	23,440	7,188	6,610

* *Payments for short-term leases were not shown separately, but included in the line of "profit before income tax" in respect of the net cash generated from operations which were presented in Note 26(a) using the indirect method.*

21 DEFERRED INCOME TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to the same tax authority.

The analysis of deferred tax assets/(liabilities) is as follows:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets to be recovered after more than 12 months	517	24	156	530
Deferred tax asset to be recovered within 12 months	263	272	1,376	2,878
	780	296	1,532	3,408
Deferred tax liabilities to be recovered after more than 12 months	—	(110)	(34)	(25)
Deferred tax liabilities to be recovered within 12 months	(1,215)	(834)	(1,430)	(4,034)
	(1,215)	(944)	(1,464)	(4,059)
Deferred income tax (liabilities)/assets, net	(435)	(648)	68	(651)

The gross movement on the deferred tax (liabilities)/assets is as follows:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of year/period	(1,582)	(435)	(648)	68
Credited/(charged) to the consolidated income statements *(Note 11)*	1,147	(213)	716	(719)
At the end of year/period	(435)	(648)	68	(651)

The movement in deferred tax (liabilities)/assets during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax (liabilities)/assets	Contracts assets	Rights-of-use assets and lease liabilities	Decelerated/ (accelerated) tax depreciation	Government grants	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	(1,557)	92	—	—	(117)	(1,582)
Credited/(charged) to the consolidated income statements	369	(119)	701	—	196	1,147
At 31 December 2016	(1,188)	(27)	701	—	79	(435)
Credited/(charged) to the consolidated income statements	420	(149)	(646)	—	162	(213)
At 31 December 2017	(768)	(176)	55	—	241	(648)
(Charged)/credited to the consolidated income statements	(358)	66	(283)	974	317	716
At 31 December 2018	(1,126)	(110)	(228)	974	558	68
(Charged)/credited to the consolidated income statements	(2,395)	(42)	(158)	1,836	40	(719)
At 30 April 2019	(3,521)	(152)	(386)	2,810	598	(651)

22 TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	2,940	8,060	10,130	14,287
Bills payables	—	1,314	—	—
Trade and bills payables	2,940	9,374	10,130	14,287

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the aging analysis of trade and bills payables, based on invoice date, was as follows:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	2,714	8,947	8,318	11,391
1 to 2 months	144	325	1,552	1,178
2 to 3 months	81	101	257	697
Over 3 months	1	1	3	1,021
	2,940	9,374	10,130	14,287

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of the Group's trade and bills payables were denominated in RMB and approximated their fair values.

23 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payable for operating expenses	5,236	4,071	3,215	3,168
Payable for acquisition of properties, plant and equipment	939	1,175	124	641
Other tax payables	4,421	4,376	6,970	5,391
Other payables	70	96	118	95
Accruals	6,946	6,581	8,379	7,738
Accrued listing expenses	—	—	—	73
Contract liabilities *(Note 5(c))*	500	6,796	6,539	3,254
	18,112	23,095	25,345	20,360

The Company

	As at 31 December 2018	As at 30 April 2019
	RMB'000	*RMB'000*
Accrued listing expenses	—	73

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of other payables, accruals and receipts in advance approximated their fair values. They were unsecured, interest free and repayable on demand.

The carrying amounts of the Group's contract liabilities, other payables and accruals were denominated in the following currencies:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	17,964	22,945	25,232	20,233
USD	148	150	113	77
HK$	—	—	—	50
	18,112	23,095	25,345	20,360

The carrying amounts of the Company's accruals were denominated in the following currencies:

	As at 31 December 2018	As at 30 April 2019
	RMB'000	*RMB'000*
RMB	—	9
USD	—	14
HK$	—	50
	—	73

24 BANK AND OTHER BORROWINGS

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current portion				
Bank borrowings — secured	6,959	1,964	5,073	3,949
Other borrowings — secured	—	—	3,131	1,960
	6,959	1,964	8,204	5,909
Current portion				
Bank borrowings — secured	4,555	21,360	6,434	3,665
Other borrowings — secured	2,629	—	4,163	3,692
	7,184	21,360	10,597	7,357
Total bank and other borrowings	14,143	23,324	18,801	13,266

As at 31 December 2016, the Group's bank and other borrowings were carried at floating rates ranged from 5.6% to 9.7% per annum. As at 31 December 2017, the Group's bank and other borrowings were carried at floating rates ranged from at 5.6% to 9.3% per annum. As at 31 December 2018, the Group's bank and other borrowings were carried at floating rates ranged from 6.6% to 9.6% per annum. As at 30 April 2019, the Group's bank and other borrowings were carried at floating rates ranged from 6.9% to 9.3% per annum.

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of the bank and other borrowings approximated their fair values.

As at 31 December 2016, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB17,647,000 and personal guarantee from Mr. Li, Du Rong, Mr. Yuan, Mr. Zhang, Ling Qing, and Xu Shizhen.

As at 31 December 2017, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB10,778,000 and personal guarantee from Mr. Li, Mr. Yuan, Mr. Zhang, Xu Shizhen, and Zhang Juan.

As at 31 December 2018, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB25,027,000 and personal guarantee from Mr. Li, Mr. Yuan, and Xu Shizhen.

As at 30 April 2019, the above bank and other borrowings were secured by properties, plant and equipment with carrying amounts of RMB23,697,000 and personal guarantee from Mr. Li, Mr. Yuan, and Mr. Zhang.

The personal guarantee provided by Mr. Li, Mr. Yuan and Mr. Zhang will be replaced by corporate guarantee provided by the Company upon listing.

At 31 December 2016, 2017 and 2018 and 30 April 2019, the Group's bank and other borrowings were repayable according to repayment schedule as follows:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	7,184	21,360	10,597	7,357
Between 1 and 2 years	6,959	1,964	6,604	5,534
Between 2 and 5 years	—	—	1,600	375
	14,143	23,324	18,801	13,266

The carrying amounts of the Group's bank and other borrowings were denominated in RMB.

25 DEFERRED GOVERNMENT GRANTS

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	—	—	—	6,496
Received during the year/period	—	—	7,150	5,186
Released to the consolidated income statements	—	—	(654)	(441)
At end of year/period	—	—	6,496	11,241
Non-current portion	—	—	5,456	9,120
Current portion	—	—	1,040	2,121
	—	—	6,496	11,241

During the year ended 31 December 2018 and four months ended 30 April 2019, government grants have been received for the purchase of certain equipment. There are no unfulfilled conditions or contingencies attached to these grants.

26 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax for the Track Record Period to net cash generated from operations

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit before income tax	41,025	36,940	47,229	11,668	7,412
Adjustments for:					
Interest income	(52)	(205)	(232)	(145)	(14)
Interest expenses	1,814	1,868	2,459	746	645
Depreciation	23,519	15,809	17,313	5,464	6,454
Provision for inventories	4,523	—	1,000		
Share of net loss of an associate	76	—	—	—	—
Impairment loss of investment in an associate	924	—	—	—	—
Loss/(gain) on disposal of properties, plant and equipment	103	103	49	(65)	575
Employee share-based compensation	—	752	—	—	—
Government grants	—	—	(654)	(206)	(441)
	71,932	55,267	67,164	17,462	14,631
Changes in working capital:					
— Contract assets, trade and bills receivables	(1,337)	2,372	(19,996)	(7,288)	5,044
— Prepayments, deposits and other receivables	1,902	(9,783)	(1,777)	(2,257)	8,126
— Inventories	(1,566)	(4,468)	(24,645)	(10,800)	2,577
— Trade and bills payables	401	6,434	756	6,546	4,157
— Contract liabilities, other payables and accruals	4,575	4,750	3,300	(2,342)	(5,502)
Net cash generated from operations	75,907	54,572	24,802	1,321	29,033

(b) In the consolidated statements of cash flows, proceeds from disposal of properties, plant and equipment comprise:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net book amount disposed	253	6,672	2,745	2,242	575
(Loss)/gain on disposal of properties, plant and equipment	(103)	(103)	(49)	65	(575)
Proceeds from disposal of properties, plant and equipment	150	6,569	2,696	2,307	—

(c) The reconciliations of liabilities arising from financing activities are as follows:

	Amount due to a related party	Bank and other borrowings	Lease liabilities	Loans from shareholders	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016	500	7,659	1,495	20,785	30,439
Cash flows					
— Proceeds from bank and other borrowings	—	14,156	—	—	14,156
— Repayments of bank and other borrowings	—	(7,672)	—	—	(7,672)
— Repayment to a related party	(500)	—	—	—	(500)
— Repayments of loans from shareholders	—	—	—	(20,785)	(20,785)
— Payment of principal element of lease liabilities	—	—	(2,985)	—	(2,985)
— Interest paid	—	(864)	(105)	(845)	(1,814)
Other non-cash movements					
— Additions of lease liabilities	—	—	14,819	—	14,819
— Interest expenses	—	864	105	845	1,814
As at 31 December 2016	—	14,143	13,329	—	27,472

	Amount due to a related party	Bank and other borrowings	Lease liabilities	Loans from shareholders	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	—	14,143	13,329	—	27,472
Cash flows					
— Proceeds from bank and other borrowings	—	18,264	—	—	18,264
— Repayments of bank and other borrowings	—	(9,083)	—	—	(9,083)
— Payment of principal element of lease liabilities	—	—	(3,845)	—	(3,845)
— Interest paid	—	(1,271)	(597)	—	(1,868)
Other non-cash movements					
— Additions of lease liabilities	—	—	3,973	—	3,973
— Interest expenses	—	1,271	597	—	1,868
As at 31 December 2017	—	23,324	13,457	—	36,781
As at 1 January 2018	—	23,324	13,457	—	36,781
Cash flows					
— Proceeds from bank and other borrowings	—	20,405	—	—	20,405
— Repayments of bank and other borrowings	—	(24,928)	—	—	(24,928)
— Payment of principal element of lease liabilities	—	—	(3,294)	—	(3,294)
— Interest paid	—	(1,893)	(566)	—	(2,459)
Other non-cash movement					
— Interest expenses	—	1,893	566	—	2,459
As at 31 December 2018	—	18,801	10,163	—	28,964

	Amount due to a related party	Bank and other borrowings	Lease liabilities	Loans from shareholders	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	—	18,801	10,163	—	28,964
— Repayments of bank and other borrowings	—	(5,535)	—	—	(5,535)
— Payment of principal element of lease liabilities	—	—	(991)	—	(991)
— Interest paid	—	(477)	(168)	—	(645)
Other non-cash movements					
— Additions of lease liabilities	—	—	690	—	690
— Interest expenses	—	477	168	—	645
As at 30 April 2019	—	13,266	9,862	—	23,128
As at 1 January 2018	—	23,324	13,457	—	36,781
— Repayments of bank and other borrowings	—	(3,617)	—	—	(3,617)
— Payment of principal element of lease liabilities	—	—	(1,471)	—	(1,471)
— Interest paid	—	(550)	(196)	—	(746)
Other non-cash movements					
— Interest expenses	—	550	196	—	746
As at 30 April 2018 (unaudited)	—	19,707	11,986	—	31,693

27 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the year/period but not yet incurred is as follows:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for	1,993	3,958	1,109	2,442

28 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

The ultimate holding company and controlling shareholder are disclosed in Note 1.1.

Major related parties that had transactions with the Group during the Track Record Period were as follows:

	Relationship with the Company			
	As at 31 December			As at 30 April
Related parties	**2016**	**2017**	**2018**	**2019**
Li Hao	Director and shareholder	Director and shareholder	Director and shareholder	Director and shareholder
Du Rong	Spouse of Li Hao	Spouse of Li Hao	Spouse of Li Hao	Spouse of Li Hao
Yuan Shuntang	Shareholder	Shareholder	Shareholder	Shareholder
Zhang Bizhong	Director and shareholder	Director and shareholder	Director and shareholder	Director and shareholder
Ling Qing	Shareholder	Shareholder	Shareholder	*Note*
Xu Shizhen	Director and shareholder	Director and shareholder	Director and shareholder	Director *(Note)*

	Relationship with the Company			
	As at 31 December			As at 30 April
Related parties	**2016**	**2017**	**2018**	**2019**
Shenzhen Highway Sender International Transport Co., Ltd.* (深圳市海威順達國際貨運代理有限公司)	Controlled by a shareholder	Controlled by a shareholder	Controlled by a shareholder	Controlled by a shareholder
Shenzhen City Penghaiwei Trading Limited* (深圳市鵬海威進出口有限公司)	Controlled by a shareholder	Controlled by a shareholder	Controlled by a shareholder	Controlled by a shareholder
Huizhou Deken Electronic Technology Company Limited* (惠州德懇電子科技有限公司)	Controlled by a shareholder	Controlled by a shareholder	Controlled by a shareholder	*Note*

Note: During the four months ended 30 April 2019, Mr. Li acquired the entire equity interest of Shenzhen Confidence from Ling Qing and Xu Shizhen pursuant to the Reorganisation as set out in Note 1.2. As a result, Huizhou Deken Electronic Technology Company Limited (惠州德懇電子科技有限公司), a company controlled by Ling Qing, is no longer a related party as at 30 April 2019.

* *For identification purpose only*

(a) Transactions with related parties

Save as disclosed in Notes 6, 7, 10 and 24 to the Historical Financial Information, during the Track Record Period, the following transactions were carried out with related parties at terms mutually agreed by both parties:

(i) Personal guarantee provided by directors

During the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019, certain of the Group's bank loans were secured by personal guarantee from Mr. Li, Du Rong, Mr. Yuan, Mr. Zhang, Ling Qing and Xu Shizhen as set out in Note 24.

(ii) Discontinued transactions

	Year ended 31 December			Four months ended 30 April	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Sales of goods to an associate *(Note a)*					
— Renxiao	18	—	—	—	—
Rental income received from a related company *(Note a)*					
— Huizhou Deken Electronic Technology Company Limited* (惠州德懇電子科技有限公司)	725	—	—	—	—
Subcontracting charges paid to a related company *(Note a)*					
— Huizhou Deken Electronic Technology Company Limited* (惠州德懇電子科技有限公司)	(74)	—	—	—	—
Interests paid to shareholders *(Note b)*					
— Mr. Li	(438)	—	—	—	—
— Xu Shizhen	(127)	—	—	—	—
— Mr. Yuan	(280)	—	—	—	—

* *For identification purpose only*

Notes:

(a) Sales of goods, rental income and subcontracting charges were based on terms mutually agreed with related parties and in the ordinary course of business. The balances with these related parties were unsecured, interest-free and repayable on demand, and were fully settled during the year ended 31 December 2016.

(b) Interest was charged in accordance with the loan agreements entered into between the relevant parties. Loans from shareholders were unsecured and interest-bearing at floating rates from 5.2% to 6.1% per annum with no fixed repayment terms. These loans were fully settled during the year ended 31 December 2016.

(b) Key management compensation

Compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Wages and salaries	2,936	2,771	3,409	1,133	1,179
Pension costs — defined contribution plan	72	73	74	26	23
	3,008	2,844	3,483	1,159	1,202

29 DIVIDEND

Dividends during the years ended 31 December 2017 and 2018 and the four months ended 30 April 2018 and 2019 represented dividends declared and paid by the companies now comprising the Group to the then equity holders of the companies, after elimination of intra-group dividends. No dividends had been paid by the Company during the Track Record Period.

30 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

Name of Director	Fees	Salary	Discretionary bonus	Allowances and benefits in kind	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2016						
Executive directors:						
— Li Hao	—	556	100	—	14	670
— Zhang Bizhong	—	478	250	—	13	741
— Xu Shizhen	—	385	250	—	14	649
Non-executive director:						
— Yuan Shuntang	—	—	—	—	—	—
	—	1,419	600	—	41	2,060

Name of Director	Fees	Salary	Discretionary bonus	Allowances and benefits in kind	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2017						
Executive directors:						
— Li Hao	—	659	—	—	14	673
— Zhang Bizhong	—	613	50	—	14	677
— Xu Shizhen	—	502	50	—	14	566
Non-executive director:						
— Yuan Shuntang	—	—	—	—	—	—
	—	1,774	100	—	42	1,916
For the year ended 31 December 2018						
Executive directors:						
— Li Hao	—	695	—	—	14	709
— Zhang Bizhong	—	604	—	—	14	618
— Xu Shizhen	—	479	330	—	14	823
Non-executive director:						
— Yuan Shuntang	—	—	—	—	—	—
	—	1,778	330	—	42	2,150
For the four months ended 30 April 2019						
Executive directors:						
— Li Hao	—	201	—	—	4	205
— Zhang Bizhong	—	172	—	—	4	176
— Xu Shizhen	—	197	110	—	4	311
Non-executive director:						
— Yuan Shuntang	—	—	—	—	—	—
	—	570	110	—	12	692

Name of Director	Fees	Salary	Discretionary bonus	Allowances and benefits in kind	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the four months ended 30 April 2018 (unaudited)						
Executive directors:						
— Li Hao	—	233	—	—	5	238
— Zhang Bizhong	—	200	—	—	5	205
— Xu Shizhen	—	158	110	—	5	273
Non-executive director:						
— Yuan Shuntang	—	—	—	—	—	—
	—	591	110	—	15	716

Mr. Li, Mr. Zhang and Xu Shizhen were appointed as executive directors of the Company on 7 December 2018. They were also directors of certain subsidiaries of the Company and/or employees of the Group during the Track Record Period and the Group paid emoluments to them in their capacity as the directors of these subsidiaries and/or employees of the Group before their appointment as executive directors of the Company.

Mr. Yuan was appointed as non-executive directors of the Company on 7 December 2018. During the Track Record Period, the non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of directors.

Mr. Wong Chun Sek Edmund, Mr. Wu Tai Cheung and Mr. Chen Zhong were appointed as independent non-executive directors of the Company on 20 September 2019. During the Track Record Period, the independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of directors.

During the Track Record Period, none of the directors of the Company (i) received or paid any remuneration in respect of accepting office; (ii) received or paid emoluments in respect of services in connection with the management of the affairs of the Company or its subsidiaries undertaking; or (iii) waived or has agreed to waive any emolument.

(b) Directors' retirement benefits and termination benefits

During the Track Record Period, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(c) Consideration provided to third parties for making available directors' services

During the Track Record Period, no consideration was provided to third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2016, 2017 and 2018 and 30 April 2019, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors.

(e) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in Note 28 to the Historical Financial Information, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Track Record Period or at any time during the Track Record Period.

31 ASSETS PLEDGED AS SECURITIES

The carrying amounts of assets pledged as securities for current bank and other borrowings and bills payables are:

	As at 31 December			As at 30 April
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current portion				
Charge at floating rate				
Pledged bank deposits *(Note 18)*	—	1,314	—	—
Total current assets pledged as securities for bills payables	—	1,314	—	—
Non-current portion				
Charge at floating rate				
Properties, plant and equipment *(Note 24)*	17,647	10,778	25,027	23,697
Total non-current assets pledged as securities for bank and other borrowings	17,647	10,778	25,027	23,697
Total assets pledged as securities	17,647	12,092	25,027	23,697

32 NOTES TO THE BALANCE SHEETS OF THE COMPANY

(a) Amounts due from shareholders

Amounts due from shareholders were unsecured, interest free and repayable on demand. Their carrying amounts approximated their fair values and were denominated in HK$.

(b) Share capital

	Number of shares	Nominal value *HK$*
Share capital		
Authorised:		
Ordinary shares of HK$0.01	39,000,000	390,000

	Number of shares	Nominal value *HK$*
Share capital		
Issued:		
Issue of ordinary shares on 7 December 2018 (date of incorporation) *(Note 1.2(a))*	10,000	100
As at 31 December 2018	10,000	100
Issue of ordinary shares on 14 February 2019	753	8
As at 30 April 2019 *(Note 1.2(h))*	10,753	108

On 7 December 2018, 10,000 ordinary shares were issued for approximately HK$100. During the four months ended 30 April 2019, 753 additional ordinary shares were issued at HK$0.01 pursuant to the Group's Reorganisation as detailed in Note 1.2. As at 31 December 2018 and 30 April 2019, total issued number and nominal value of ordinary shares of the Company amounted to 10,000 and 10,753 shares and approximately HK$100 and HK$108 respectively.

(c) Amounts due to subsidiaries

Amounts due to subsidiaries were unsecured, interest free and repayable on demand.

Their carrying amounts approximated their fair values and were denominated in RMB.

(d) Reserve movement of the Company

	Capital reserve	Accumulated losses	Total equity
	RMB'000	*RMB'000*	*RMB'000*
Balance at 31 December 2018 and 1 January 2019	—	—	—
Loss and comprehensive loss for the period	—	(9,290)	(9,290)
Transaction with owner			
Contribution surplus *(Note)*	155,404	—	155,404
Balance at 30 April 2019	**155,404**	**(9,290)**	**146,114**

Note:

The capital reserve of the Company represents the aggregated net asset values of the subsidiaries acquired by the Company pursuant to the Reorganisation as set out in Note 1.2.

33 CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the Group did not have any material contingent liabilities.

34 SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, the following significant subsequent event took place subsequent to 30 April 2019: Pursuant to the written resolutions passed by the shareholders on 20 September 2019, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the share offer, the directors were authorised to capitalise an amount of HK$1,874,892.47 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 187,489,247 shares, such shares to be allotted and issued to the shareholders whose names appear on the register of numbers of the Company at the close of business on 20 September 2019 (or as they may direct) in proportion to their then existing shareholdings in the Company, each ranking equally in all respects with the then existing issued shares.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of subsidiaries now comprising the Group in respect of any period subsequent to 30 April 2019. No dividend or distribution has been declared, made or paid by the Company or any of subsidiaries now comprising the Group in respect of any period subsequent to 30 April 2019.

The information set out in this Appendix II does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Share Offer on the net tangible assets of the Group attributable to the owners of the Company as of 30 April 2019 as if the Share Offer had taken place on 30 April 2019.

The unaudited pro forma statement of adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 April 2019 or at any future dates following the Share Offer. The unaudited pro forma statement of adjusted net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2019 as set out in the Accountant's Report of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2019 (1)	**Estimated net proceeds from the Share Offer** (2)	**Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company as at 30 April 2019**	**Unaudited pro forma adjusted net tangible assets per Share** (3), (5)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an Offer Price of HK$2.00 per Share	154,848	87,233	242,081	0.97	1.11
Based on an Offer Price of HK$2.50 per Share	154,848	112,244	267,092	1.07	1.23

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019 is extracted from the Accountant's Report of the Company as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 30 April 2019 of approximately RMB154,848,000.

(2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK$2.00 per Share and HK$2.50 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB10,715,000 which have been accounted for in the Group's consolidated income statement prior to 30 April 2019) payable by the Company and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 250,000,000 Shares were in issue assuming that the Share Offer and the Capitalisation Issue had been completed on 30 April 2019 but takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 April 2019.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted to Hong Kong dollars at a rate of RMB0.87 to HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Confidence Intelligence Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Confidence Intelligence Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 April 2019, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages II-1 to II-2 of the Company's prospectus dated 28 September 2019, in connection with the proposed share offer of the shares of the Company. 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.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed share offer on the Group's financial position as at 30 April 2019 as if the proposed share offer had taken place at 30 April 2019. 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 period ended 30 April 2019, on which an accountant's report has been published.

Directors' Responsibility 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 ("**HKICPA**").

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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 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 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 accountant plans and performs 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 a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity 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 proposed share offer at 30 April 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company 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.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 28 September 2019

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 December 2018 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association ("**Memorandum**") and its Amended and Restated Articles of Association ("**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 20 September 2019 with effect from the Listing Date. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date 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; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resign;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) he is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board 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 among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. 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.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(aa) the giving of any security or indemnity to the Director or his close associate(s) 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;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any 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 his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates 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 his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. 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.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are 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.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is 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 members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is 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. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that 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.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 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 must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) 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, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix III.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 7 December 2018 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the 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, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, 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.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

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.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 14 December 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right 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.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are 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 member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) 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 that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents 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 is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 7 December 2018. Our Company has established a principal place of business in Hong Kong at Room A, 12/F Granville House, 41C Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 11 March 2019. Our Company has appointed Ms. Jian Xuegen as our authorised representative for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution documents comprising the Memorandum of Association and the Articles of Association. A summary of various parts of the constitution documents and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

(a) Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 7 December 2018 with an authorised share capital of HK$390,000 divided into 39,000,000 Shares of par value HK$0.01 each, of which one subscriber Share was allotted and issued fully paid to the initial subscriber at par. On the same date, the one subscriber Share was transferred to Skyflying Company and additional 5,727 new Shares, 2,692 new Shares and 1,580 new Shares were allotted and issued as fully paid to Skyflying Company, Central Wealth and Realtime at par respectively.

(b) On 14 February 2019, our Company allotted and issued 753 new Shares credited as fully paid to Bright Shine at par which represented approximately 7% of the shareholding interest of our Company.

(c) On 20 September 2019, the authorised share capital of our Company was increased from HK$390,000 divided into 39,000,000 Shares of par value HK$0.01 each to HK$1,000,000,000 divided into 100,000,000,000 Shares of par value HK$0.01 each by the creation of an additional 99,961,000,000 new Shares of par value HK$0.01 each pursuant to a resolution in writing passed by its Shareholders referred to in the paragraph headed "Written resolutions of the Shareholders" below.

(d) Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), the issued share capital of our Company will be HK$2,500,000 divided into 250,000,000 Shares, all fully paid or credited as fully paid, with 99,750,000,000 Shares remaining unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of the Shareholders" below and the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholder at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

(e) Save as disclosed in this Appendix IV and the sections headed "History, development and Reorganisation" and "Share Capital" in this prospectus, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Changes in share capital of the subsidiaries of our Company

Our Company's subsidiaries are referred to in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, Development and Reorganisation" of this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Written resolutions of the Shareholders

Pursuant to the written resolutions of our Shareholders passed on 20 September 2019, among other things:

(a) our Company approved and adopted the Memorandum and the Articles with effect from the Listing Date, the terms of which are summarised in Appendix III to this prospectus;

(b) the authorised share capital of our Company was increased from HK$390,000 divided into 39,000,000 Shares of par value HK$0.01 each to HK$1,000,000,000 divided into 100,000,000,000 Shares of par value HK$0.01 each by the creation of additional 99,961,000,000 Shares of par value HK$0.01 each, such shares shall rank *pari passu* in all respects with the existing issued Shares;

(c) conditional on (i) the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus including any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise (collectively the "**Conditions**"):

(i) the Share Offer and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer and such number of Shares as may be allotted and issued pursuant to the exercise of the Over-allotment Option;

(ii) the Share Option Scheme was approved and adopted and our Directors were authorised subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares thereunder and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme; and

(iii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise HK$1,874,892.47 standing to the credit of our Company's share premium account towards paying up in full at par 187,489,247 Shares for allotment and issue to holders of Shares whose names appeared on the register of members of our Company at the close of business on 20 September 2019 (or as they may direct) in proportion as nearly as may be without involving fractions to their then existing shareholdings in our Company and the Shares to be allotted and issued pursuant to the resolution shall rank *pari passu* in all respects with the existing issued Shares (other than the Capitalisation Issue) and our Directors or any committee of the Board were authorised to give effect to the Capitalisation Issue;

(d) conditional upon the fulfilment of the Conditions:

(i) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangement providing for the allotment and issue of the Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, or the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or the exercise of the Over-allotment Option or an issue of Shares pursuant to the exercise of options which may be granted under the Share Option Scheme, Shares of an aggregate number not exceeding 20% of the aggregate number of Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of our Company; or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first;

(ii) a general unconditional mandate was given to our Directors authorising the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules (or of such other stock exchange), of such number of Shares not exceeding 10% of the number of the Shares of our Company in issue and to be issued immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of our Company; or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first; and

(iii) the general unconditional mandate as mentioned in sub-paragraph (d)(i) above was extended by the addition to the aggregate number of Shares of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (d)(ii) above, provided that such extended amount shall not exceed 10% of the aggregate number of Shares of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

5. Corporate reorganisation

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. For information with regard to the Reorganisation, please see the paragraph headed "History, development and Reorganisation — Reorganisation".

6. Repurchase by our Company of our own securities

This paragraph contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of the Shareholders passed on 20 September 2019, the Repurchase Mandate was given to our Directors authorising our Directors to exercise all powers of our Company to purchase the Shares as described above in the paragraph headed "Written resolutions of the Shareholders" in this Appendix IV to this prospectus.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. Our Company may not repurchase our own shares 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.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or substantial Shareholder of our Company or any of the subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders for the Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 250,000,000 Shares in issue after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), could accordingly result in up to 25,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

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.

If as a result of a repurchase of Shares 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 purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified us that he/it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within two years immediately preceding the date of this prospectus and are or may be material in relation to the business of our Company taken as a whole:

(a) the equity transfer agreement dated 24 December 2018 entered into between Mr. Deng Su and Mr. Li for the transfer of RMB858,750 of the registered capital of Shenzhen Confidence from Mr. Deng Su to Mr. Li at the consideration of RMB2,204,900;

(b) the equity transfer agreement dated 24 December 2018 entered into between Mr. Wu Wentai and Mr. Li for the transfer of RMB790,050 of the registered capital of Shenzhen Confidence from Mr. Wu Wentai to Mr. Li at the consideration of RMB2,029,700;

(c) the equity transfer agreement dated 24 December 2018 entered into between Mr. Lan Jianbo and Mr. Li for the transfer of RMB790,050 of the registered capital of Shenzhen Confidence from Mr. Lan Jianbo to Mr. Li at the consideration of RMB2,029,900;

(d) the equity transfer agreement dated 29 December 2018 entered into between Xin Ju Ding Fu and Mr. Li for the transfer of RMB1,614,450 of the registered capital of Shenzhen Confidence from Xin Ju Ding Fu to Mr. Li at the consideration of RMB1,765,100;

(e) the equity transfer agreement dated 29 December 2018 entered into between Xin Ju Ding Fu and Mr. Zhang for the transfer of RMB6,629,550 of the registered capital of Shenzhen Confidence from Xin Ju Ding Fu to Mr. Zhang at the consideration of RMB7,248,100;

(f) the equity transfer agreement dated 29 December 2018 entered into between Mr. Xu and Mr. Li for the transfer of RMB3,606,751 of the registered capital of Shenzhen Confidence from Mr. Xu to Mr. Li at the consideration of RMB3,943,300;

(g) the equity transfer agreement dated 29 December 2018 entered into between Mr. Ling Qing and Mr. Li for the transfer of RMB3,606,750 of the registered capital of Shenzhen Confidence from Mr. Ling Qing to Mr. Li at the consideration of RMB3,943,300;

(h) the increase of registered capital agreement dated 29 December 2018 entered into between Shenzhen Confidence, Mr. Li, Mr. Yuan, Mr. Zhang and Million Way in relation to, *inter alia*, the increase of registered capital of Shenzhen Confidence from RMB107,172,000 to RMB115,238,710;

(i) the equity transfer agreement dated 9 March 2019 entered into between Mr. Li and Xinzhi (Shenzhen) for the transfer of RMB61,383,450 of the registered capital of Shenzhen Confidence from Mr. Li to Xinzhi (Shenzhen) at the consideration of RMB3,200,000;

(j) the equity transfer agreement dated 9 March 2019 entered into between Mr. Yuan and Xinzhi (Shenzhen) for the transfer of RMB28,854,000 of the registered capital of Shenzhen Confidence from Mr. Yuan to Xinzhi (Shenzhen) at the consideration of RMB1,500,000;

(k) the equity transfer agreement dated 9 March 2019 entered into between Mr. Zhang and Xinzhi (Shenzhen) for the transfer of RMB16,934,550 of the registered capital of Shenzhen Confidence from Mr. Zhang to Xinzhi (Shenzhen) at the consideration of RMB880,000;

(l) the equity transfer agreement dated 9 March 2019 entered into between Million Way and Xinzhi (Shenzhen) for the transfer of RMB8,066,710 of the registered capital of Shenzhen Confidence from Million Way to Xinzhi (Shenzhen) at the consideration of RMB420,000;

(m) the Deed of Indemnity; and

(n) the Public Offer Underwriting Agreement.

C. INTELLECTUAL PROPERTY RIGHTS OF OUR GROUP

1. Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks in the PRC which we believe are material to our business:

Trademark	Registration number	Class	Registered owner	Date of registration	Expiry date
CONFIDENCE INTELLIGENCE	27209046	9 *(Note 1)*	Shenzhen Confidence	28 October 2018	27 October 2028
CONFIDENCE INTERNATIONAL	28101477	9 *(Note 1)*	Shenzhen Confidence	7 February 2019	6 February 2029

Note:

1. Class 9 — Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus.

2. Patents

As at the Latest Practicable Date, we were the registered owner of the following patents in the PRC which we believe are material to our business:

	Name of patent	Type of patent	Patent number	Registered owner	Duration of validity
1.	A type of mobile phone with night shooting and lighting functions* (一種適於夜間拍照及照明功能的手機)	Utility model (實用新型)	ZL201220047866.4	Shenzhen Confidence	15 February 2012 to 14 February 2022
2.	A type of mobile phone with learning remote control functions* (帶學習型遙控器功能的手機)	Utility model (實用新型)	ZL201420581614.9	Shenzhen Confidence	9 October 2014 to 8 October 2024
3.	A type of audio testing device for smart mobile terminal device* (一種用於智能移動終端設備的音頻測試裝置)	Utility model (實用新型)	ZL201620662268.6	Shenzhen Confidence	28 June 2016 to 27 June 2026
4.	A type of audio frequency detecting system based on control of NI integrated circuit board serial ports* (一種基於NI板卡串口控制的音頻檢測系統)	Utility model (實用新型)	ZL201621374890.3	Shenzhen Confidence	14 December 2016 to 13 December 2026
5.	A type of audio frequency detecting device based on flat mouthful earphone* (一種基於扁口耳機的音頻檢測裝置)	Utility model (實用新型)	ZL201621376641.8	Shenzhen Confidence	14 December 2016 to 13 December 2026
6.	A type of mobile phone MIC detecting device based on flat mouthful output* (一種基於扁口輸出的手機MIC檢測裝置)	Utility model (實用新型)	ZL201720065714.X	Shenzhen Confidence	18 January 2017 to 17 January 2027
7.	A type of wireless microphone audio frequency detecting device* (一種無線話筒的音頻檢測裝置)	Utility model (實用新型)	ZL201720065724.3	Shenzhen Confidence	18 January 2017 to 17 January 2027

	Name of patent	Type of patent	Patent number	Registered owner	Duration of validity
8.	A type of Bluetooth-based temperature display and control system* (一種基於藍牙的溫度顯示及控制系統)	Utility model (實用新型)	ZL201720656156.4	Shenzhen Confidence	7 June 2017 to 6 June 2027
9.	A type of combined mobile phone board* (一種組合式手機板卡)	Utility model (實用新型)	ZL201820530665.7	Shenzhen Confidence	12 April 2018 to 11 April 2028
10.	A type of flexible embedded Bluetooth circuit board* (一種靈活嵌入式藍牙板卡)	Utility model (實用新型)	ZL201820518527.7	Shenzhen Confidence	12 April 2018 to 11 April 2028
11.	A type of vehicle-mounted network physical layer test board* (一種車載網絡物理層測試板卡)	Utility model (實用新型)	ZL201820518536.6	Shenzhen Confidence	12 April 2018 to 11 April 2028
12.	A type of instrument test board with multiple communication protocols* (一種多種通信協議的儀器測試板卡)	Utility model (實用新型)	ZL201820518530.9	Shenzhen Confidence	12 April 2018 to 11 April 2028
13.	A type of plug-in Bluetooth circuit board* (一種插接式藍牙板卡)	Utility model (實用新型)	ZL201820518520.5	Shenzhen Confidence	12 April 2018 to 11 April 2028
14.	A type of automated test device for circuit board* (一種板卡的自動化測試裝置)	Utility model (實用新型)	ZL201820519167.2	Shenzhen Confidence	12 April 2018 to 11 April 2028
15.	A type of automatic test device of a circuit board* (一種板卡自動測試裝置)	Utility model (實用新型)	ZL201820519180.8	Shenzhen Confidence	12 April 2018 to 11 April 2028
16.	A type of auxiliary positioning structure of mobile phone board* (一種手機板卡輔助定位結構)	Utility model (實用新型)	ZL201820521130.3	Shenzhen Confidence	12 April 2018 to 11 April 2028

	Name of patent	Type of patent	Patent number	Registered owner	Duration of validity
17.	A type of mobile phone board fault-detecting device* (一種用於檢測手機板卡故障的裝置)	Utility model (實用新型)	ZL201820521163.8	Shenzhen Confidence	12 April 2018 to 11 April 2028
18.	A type of test board for high-speed signals of large server* (一種用於大型服務器高速信號的測試板卡)	Utility model (實用新型)	ZL201820518621.2	Shenzhen Confidence	12 April 2018 to 11 April 2028
19.	A type of high-precision height measuring instrument for testing PCBA* (一種用於PCBA的高精度高度測量儀器)	Utility model (實用新型)	ZL201820788585.1	Shenzhen Confidence	25 May 2018 to 24 May 2028

* *English translation of its Chinese counterpart is for reference only*

As at the Latest Practicable Date, we have applied for registration of the following patents in the PRC which we believe are material to our business:

	Name of patent	Type of patent	Application number	Name of applicant	Application Date
1.	A type of audio frequency testing device for smart mobile terminal device* (一種用於智能移動終端設備的音頻測試裝置)	Invention (發明專利)	201610490706.X	Shenzhen Confidence	28 June 2016
2.	A type of finger vein information input and processing method for a mobile terminal* (一種用於移動終端的指靜脈信息輸入和處理方法)	Invention (發明專利)	201710641189.6	Shenzhen Confidence	31 July 2017
3.	A type of magnetic carrier fixture-based mass processing method of a printed circuit board* (一種基於磁性載體夾具的印刷電路板批量加工處理方法)	Invention (發明專利)	201711104779.1	Shenzhen Confidence	10 November 2017

	Name of patent	Type of patent	Application number	Name of applicant	Application Date
4.	A type of broadband antenna and module suitable for 5G communication* (一種適用於5G通信的寬頻帶天線及模塊)	Invention (發明專利)	201810328408.X	Shenzhen Confidence	12 April 2018
5.	A type of online management system and module based on 5G base station of IoT* (基於物聯網的5G基站的在線管理系統及模塊)	Invention (發明專利)	201810330155.X	Shenzhen Confidence	12 April 2018
6.	A type of smart home control system and module* (一種智能家居控制系統及模塊)	Invention (發明專利)	201810325465.2	Shenzhen Confidence	12 April 2018
7.	A type of energy information collecting system and module based on IoT* (一種基於物聯網的能源信息採集系統及模塊)	Invention (發明專利)	201810325341.4	Shenzhen Confidence	12 April 2018
8.	A type of antenna error correction optimisation method for detecting orthogonal magnetic ring lightning signals* (一種用於正交磁環雷電信號探測天線的誤差修正優化方法)	Invention (發明專利)	201810856580.2	Shenzhen Confidence	31 July 2018
9.	WeChat applet wireless gyroscope software method* (基於微信小程序的無線陀螺儀軟件實現方法)	Invention (發明專利)	201810856583.6	Shenzhen Confidence	31 July 2018
10.	A type of portable intelligent mobile terminal for general optical lighting accessories* (一種用於便携式智能移動終端的通用光學照明配件)	Invention (發明專利)	201910047313.5	Shenzhen Confidence	18 January 2019

* *English translation of its Chinese counterpart is for reference only*

3. Computer software copyrights

As at the Latest Practicable Date, we were the registered owner of the following computer software copyrights in the PRC which we believe are material to our business:

	Name of software	Registration number	Registered owner	Date of registration
1.	Confidence Intelligence mobile phone board face detection module design software V1.0* (信懇智能手機板卡人臉檢測模塊設計軟件V1.0)	2015SR284547	Shenzhen Confidence	28 December 2015
2.	Confidence Intelligence mobile phone board firewall module design software V1.0* (信懇智能手機板卡防火牆模塊設計軟件V1.0)	2015SR284879	Shenzhen Confidence	28 December 2015
3.	Confidence Intelligence mobile phone board interface management system design software V1.0* (信懇智能手機板卡界面管理系統設計軟件V1.0)	2015SR283136	Shenzhen Confidence	26 December 2015
4.	Confidence Intelligence mobile phone board power management system design software V1.0* (信懇智能手機板卡電源管理系統設計軟件V1.0)	2015SR281062	Shenzhen Confidence	25 December 2015
5.	Confidence Intelligence mobile phone board online function automatic testing software V1.0* (信懇智能手機板卡在線功能自動測試軟件V1.0)	2015SR281047	Shenzhen Confidence	25 December 2015
6.	Confidence Intelligence mobile phone board music player software V1.0* (信懇智能手機板卡音樂播放器軟件V1.0)	2015SR281057	Shenzhen Confidence	25 December 2015

	Name of software	Registration number	Registered owner	Date of registration
7.	SMT vehicle real-time quality monitoring alarm software V1.0* (SMT車間品質實時監控報警軟件V1.0)	2013SR004117	Shenzhen Confidence	14 January 2013
8.	SMT assembly inspection software V1.0* (SMT上料檢查軟件V1.0)	2013SR004102	Shenzhen Confidence	14 January 2013
9.	Vehicle humidity automatic control software V1.0* (製造車間濕度自動控制軟件V1.0)	2013SR003478	Shenzhen Confidence	11 January 2013
10.	SMT steel mesh plugging automatic inspection software V1.0* (SMT鋼網堵孔自動檢查軟件V1.0)	2013SR003840	Shenzhen Confidence	11 January 2013
11.	Smart deodorisation system software V1.0* (智能除臭系統軟件V1.0)	2011SR077487	Shenzhen Confidence	27 October 2011
12.	Mobile phone system software with printing function V1.0* (帶打印功能的手機系統軟件V1.0)	2011SR014284	Shenzhen Confidence	22 March 2011
13.	The convertor of engineering BOM to feeder list V1.0* (BOM表轉換成站位表軟件V1.0)	2011SR014282	Shenzhen Confidence	22 March 2011

* *English translation of its Chinese counterpart is for reference only*

4. Domain name

As at the Latest Practicable Date, our Group had registered the following domain name which we believe is material to our business:

Domain Name	Registrant	Registration date	Expiry date
www.szxinken.com	Shenzhen Confidence	31 March 2010	31 March 2023

Save as disclosed in this Appendix IV, there are no other trade or service marks, patents, copyrights, other intellectual or industrial property rights which are or may be material to the business of our Group.

D. DISCLOSURE OF INTERESTS

1. Interests and short positions of our Directors and chief executive in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Share Offer and the Capitalisation Issue, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or will be required, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange, will be as follows:

(a) Long position in Shares

Name of Director	Capacity/ nature of interest	Number of Shares	Approximate percentage of shareholding interests of our Company
Mr. Li *(Note 1)*	Interest in a controlled corporation	99,881,250	39.95%
Mr. Yuan *(Note 2)*	Interest in a controlled corporation	46,950,000	18.78%
Mr. Zhang *(Note 3)*	Interest in a controlled corporation	27,543,750	11.02%

Note:

1. These Shares are registered in the name of Skyflying Company, a company which is wholly-owned by Mr. Li. Under the SFO, Mr. Li is deemed to be interested in all the Shares registered in Skyflying Company.

2. These Shares are registered in the name of Central Wealth, a company which is wholly-owned by Mr. Yuan. Under the SFO, Mr. Yuan is deemed to be interested in all the Shares registered in Central Wealth.

3. These Shares are registered in the name of Realtime, a company which is wholly-owned by Mr. Zhang. Under the SFO, Mr. Zhang is deemed to be interested in all the Shares registered in Realtime.

(b) Long position in the ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity/nature	No. of share(s) held	Percentage of interest in the associated corporation
Mr. Li	Skyflying Company	Beneficial owner	1	100%
Mr. Yuan	Central Wealth	Beneficial owner	1	100%
Mr. Zhang	Realtime	Beneficial owner	1	100%

2. Interests and short positions of Substantial Shareholders in the Shares, and underlying Shares of our Company

So far as it is known to our Directors and save as disclosed in this Appendix IV and the section headed "Substantial Shareholders" in this prospectus, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons (not being a Director or chief executive of our Company) will have interests or short positions in the Shares or 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 any other member of our Group:

Long position in Shares

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interests in our Company
Skyflying Company *(Note 1)*	Beneficial owner	99,881,250 ordinary Shares	39.95%
Central Wealth *(Note 2)*	Beneficial owner	46,950,000 ordinary Shares	18.78%
Ms. Zhang Juan *(Note 3)*	Interest of spouse	46,950,000 ordinary Shares	18.78%
Realtime *(Note 4)*	Beneficial owner	27,543,750 ordinary Shares	11.02%
Ms. Chen Juan *(Note 5)*	Interest of spouse	27,543,750 ordinary Shares	11.02%
Bright Shine	Beneficial owner	13,125,000 ordinary Shares	5.25%
Mr. Yuen Hoi Po *(Note 6)*	Interest in a controlled corporation	13,125,000 ordinary Shares	5.25%
Ms. Chen Jun Man, Sophie *(Note 7)*	Interest of spouse	13,125,000 ordinary Shares	5.25%

Notes:

1. Skyflying Company is a company incorporated in the BVI and is wholly-owned by Mr. Li. Mr. Li is deemed to be interested in all the Shares held by Skyflying Company for the purpose of the SFO.

2. Central Wealth is a company incorporated in the BVI and is wholly-owned by Mr. Yuan. Mr. Yuan is deemed to be interested in all Shares held by Central Wealth for the purpose of the SFO.

3. Ms. Zhang Juan is the spouse of Mr. Yuan, a Substantial Shareholder and a Director. Accordingly, Ms. Zhang Juan is deemed to be interested in all the Shares held by Mr. Yuan under the SFO.

4. Realtime is a company incorporated in the BVI and is wholly-owned by Mr. Zhang. Mr. Zhang is deemed to be interested in all the Shares held by Realtime for the purpose of the SFO.

5. Ms. Chen Juan is the spouse of Mr. Zhang, a Substantial Shareholder and a Director. Accordingly, Ms. Chen Juan is deemed to be interested in all the Shares held by Mr. Zhang under the SFO.

6. Bright Shine is a company incorporated in the BVI and is wholly-owned by Mr. Yuen Hoi Po. Mr. Yuen Hoi Po is deemed to be interested in all the Shares held by Bright Shine for the purpose of the SFO.

7. Ms. Chen Jun Man, Sophie is the spouse of Mr. Yuen Hoi Po. Accordingly, Ms. Chen Jun Man, Sophie is deemed to be interested in all the Shares held by Mr. Yuen Hoi Po under the SFO.

3. Particulars of service agreements

Each of the executive Directors has entered into a service agreement with our Company. The terms and conditions of each of such service agreements are similar in all material aspects and are briefly described as follows:

(a) Each service agreement is for an initial fixed term of three years commencing from the Listing Date and shall continue thereafter until it is terminated by either party by giving not less than three months' notice in writing at any time after such initial fixed term to the other, provided that our Company may terminate the agreement by giving to the Director not less than three months' prior notice in writing at any time after the date of the agreement. The appointment shall terminate automatically in the event of the executive Director ceasing to be a Director for whatever reason.

(b) Under the arrangements currently proposed, conditional upon the Listing, the annual remuneration (excluding payment pursuant to any discretionary benefits or bonus, granting of share options or other fringe benefits) payable by our Group to Mr. Li, Mr. Zhang and Mr. Xu under their respective service contracts is HK$120,000.

(c) Each of the executive Directors may be entitled to, if so recommended by our Remuneration Committee and approved by the Board at its absolute discretion, a discretionary bonus, the amount of which is determined with reference to the operating results of our Group and the performance of the executive Director.

The non-executive Director has entered into a service agreement with our Company under which he is appointed for a period of two years commencing from the Listing Date. The annual director's fee payable to Mr. Yuan under his letter of appointment is HK$120,000. Each of the independent non-executive Directors has entered into a service agreement with our Company under which each of them is appointed for a period of one year commencing from the Listing Date. The annual director's fee payable to each of Mr. Chen Zhong, Mr. Wong Chun Sek Edmund and Mr. Wu Tai Cheung under their respective letter of appointment shall be HK$120,000. Save for the annual director's fees mentioned above, none of the independent non-executive Directors is expected to receive any other remuneration for holding his office as an independent non-executive Director.

Save as disclosed above, none of our Directors has or is proposed to have any service agreement with our Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

4. Remuneration of Directors

During the Track Record Period, our Directors confirmed that our Group's remuneration policy for our Directors and senior management members of the subsidiaries were based on their experience, level of responsibility and general market conditions. Any discretionary bonus was linked to the business performance of our Group and the individual performance of such Directors and senior management members. Our Company intends to adopt the same remuneration policy after the Listing, subject to the review by and the recommendations of our Remuneration Committee.

For FY2016, FY2017, FY2018 and the four months ended 30 April 2019, the aggregate amount of fees, salaries, allowances, discretionary payments, bonuses and contribution to pension schemes paid by our Group to the Directors were approximately RMB2.1 million, RMB1.9 million, RMB2.2 million and RMB0.7 million, respectively.

Further information in respect of our Directors' emoluments is set out in Appendix I to this prospectus. It is expected that the aggregate emoluments (excluding payment pursuant to any discretionary bonus or granting of share options) payable by our Group to our Directors (including the independent non-executive Directors) for the year ending 31 December 2019 will be approximately RMB1.8 million.

Save as disclosed in the Accountant's Report set out in Appendix I to this prospectus, none of our Directors received any remuneration or benefits in kind from our Group during the Track Record Period.

5. Disclaimers

Save as disclosed in the sections headed "Relationship with Controlling Shareholders", "Substantial Shareholders" and this Appendix IV to this prospectus:

(a) so far as our Directors are aware, none of our Directors or chief executive has any interest or short position in the shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) immediately following the completion of the Share Offer and assuming that the Over-allotment Option and the options which may be granted under the Share Option Scheme are not exercised, which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required, pursuant to the Listing Rules relating to securities transactions by our Directors to be notified to our Company and the Stock Exchange, once the Shares are listed;

(b) so far as our Directors are aware, none of our Directors and experts referred to in the paragraph headed "F. Other Information — 6. Qualifications of experts" of this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors and experts referred to in the paragraph headed "F. Other Information — 6. Qualifications of experts" in this Appendix IV is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(d) none of our Directors has any existing or proposed service agreements with any member of our Group, excluding agreements which are determinable by the employer within one year without payment of compensation other than statutory compensation;

(e) taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, our Directors are not aware of any person, not being a Director of our Company, who will, immediately following completion of the Share Offer and the Capitalisation Issue, be interested in or has short positions in the Shares or underlying shares of our Company which have to be notified to our Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO once the Shares are listed, 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;

(f) none of the experts referred to in the paragraph headed "F. Other Information — 6. Qualifications of experts" of this Appendix IV has any shareholding in any member of our Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

(g) none of our Directors, their associates or any shareholder of our Company (which to the knowledge of our Directors owns more than 5% of our Company's issued share capital) has any interest in our Group's five largest suppliers and five largest customers.

6. Agency fees or commissions received

Information on the agency fees or commissions received by the Underwriters is set out in the paragraph headed "Underwriting" of this prospectus.

Save as disclosed herein and in the section headed "Directors and Senior Management" of this prospectus and the Accountant's Report set out in Appendix I to this prospectus, none of the Directors, or the experts named in the paragraph headed "F. Other Information — 6. Qualifications of experts" in this Appendix IV had received any agency fee, commissions, discounts, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group from our Group within the two years immediately preceding the date of this prospectus.

7. Related party transactions

For details of the related party transactions of our Group entered into within two years immediately preceding the date of this prospectus, please refer to note 28 of the Accountant's Report set out in Appendix I to this prospectus.

E. SHARE OPTION SCHEME

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the Shareholders of our Company passed on 20 September 2019 are set out below:

1. Purpose of the Share Option Scheme

The Share Option Scheme is an incentive scheme established to recognise and motivate the contributions that Eligible Participants (as defined below) have made or may make to our Group.

The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieve the following principal objectives:

(a) motivate the Eligible Participants to optimise their performance and efficiency for the benefit of our Group; and

(b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, "**Eligible Participants**" means any person who satisfies the eligibility criteria in paragraph 2 below.

2. Who may join and basis of eligibility

The Board may at its discretion grant options to:

(a) any Eligible Employees. "**Eligible Employees**" means any employee (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which our Group holds at least 20% of its issued share capital ("**Invested Entity**");

(b) any non-executive Director (including independent non-executive Directors) of our Company, any subsidiary or any Invested Entity;

(c) any supplier of goods or services of any member of our Group or any Invested Entity;

(d) any customer of any member of our Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and

(h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, options may be granted to any company wholly owned by one or more Eligible Participants.

The basis of eligibility of any participant to be granted any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his/her contribution or potential contribution to the development and growth of our Group.

3. Subscription Price of Shares

The exercise price for any Share under the Share Option Scheme shall subject to any adjustments made pursuant to paragraph 14 below, be a price determined by the Board and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date of the relevant option, which must be a day on which the Stock Exchange is open for the business of dealing in securities (a "**Trading Day**"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the offer date of the relevant option; and (iii) the nominal value of a Share on the offer date.

For the purpose of calculating the exercise price where our Company has been listed for less than five Trading Days, the Offer Price of the Shares shall be used as the closing price of the Shares for any Trading Days falling within the period before the Listing Date.

4. Grant of options and acceptance of offers

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Eligible Participant.

5. Maximum number of Shares

(a) Subject to sub-paragraphs (b) to (d) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (i.e. 25,000,000 Shares) (the "**Scheme Mandate Limit**") unless approved by our Shareholders pursuant to sub-paragraph (c) below. Options lapsed in accordance with the terms of the scheme(s) will not be counted for the purpose of calculating the Scheme Mandate Limit.

(b) Subject to sub-paragraphs (c) and (d) below, the Scheme Mandate Limit may be renewed by the shareholders of our Company in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by our Shareholders. Upon such renewal, all options granted under the Share Option Scheme and any other share option schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to our Shareholders containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.

(c) Subject to sub-paragraph (d) below, the Board may seek separate shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to our Shareholders containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.

(d) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group must not, in aggregate, exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by our Group if such grant will result in the said 30% limit being exceeded.

6. Maximum entitlement of each participant

No option shall be granted to any Eligible Participant which, if exercised in full would result in the total number of the Shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further options above this limit shall be subject to the following requirements:

(a) approval of our Shareholders at general meeting, with such Eligible Participant and his/her close associates (or his/her associates if the Eligible Participant is a connected person) abstaining from voting;

(b) a circular in relation to the proposal for such further grant must be sent by our Company to our Shareholders with such information from time to time as required by the Listing Rules;

(c) the number and terms of the options to be granted to such proposed grantee shall be fixed before our Shareholders' approval mentioned in (a) above; and

(d) for the purpose of calculating the minimum exercise price for the Shares in respect of the further options proposed to be so granted, the date of board meeting for proposing such grant of further options shall be taken as the date of offer of such options.

7. Requirements on granting options to certain connected persons

Any grant of options to any Director, chief executive or Substantial Shareholder of our Company, or any of their respective associates, must be approved by the independent non-executive Directors (excluding an independent non-executive Director who or whose associate is a proposed grantee of an option).

Where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the total number of Shares in issue; and

(b) having an aggregate value, based on the closing price of the Shares at the date of such grant, in excess of HK$5 million,

such further grant of options must be approved by our Shareholders by poll in a general meeting where the grantee, his/her associates and core connected persons of our Company must abstain from voting in favour at such general meeting. Our Company will send a circular to our Shareholders containing the information required under the Listing Rules.

8. Restrictions on the time of grant of options

No option shall be granted after inside information has come to the knowledge of our Company until our Company has announced the information. In particular, it may not grant any option during the period commencing one month immediately before the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to announce its results for any year or half-year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. "Inside information" has the meaning defined in the SFO.

The Board may not make any offer to an Eligible Participant who is a Director during the periods or times in which the Director is prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

9. Time of exercise of option

An option may (and may only) be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the offer date subject to the provisions of early termination thereof, and provided that the Board may determine the minimum period for which an option has to be held or other restrictions before its exercise.

The grantee shall not exercise an option to the extent that the public float of our Company will be less than 25% (or such higher percentage as required by the Stock Exchange or the Listing Rules) of the issued share capital of our Company immediately after the allotment and issue of the Shares upon such exercise of the option.

10. Performance targets

Save as determined by the Board and provided in the offer of grant of the options, there is no performance target that must be achieved before the options can be exercised.

11. Ranking of Shares

The Shares to be allotted and issued upon exercise of an option shall be subject to all the provisions of the Articles of our Company for the time being in force and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the allotment date. Any Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of our Company as the holder thereof.

12. Rights are personal to grantee

An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do.

13. Rights on death or cessation of employment

(a) In the event of death of the grantee (being an individual) before exercising the option in full, his/her personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his/her death and not already exercised) within a period of 12 months following his/her death or such longer period as the Board may determine.

(b) In the event of the grantee who is an Eligible Employee ceasing to be an Eligible Employee for any reason other than his/her death, or the termination of his/her employment pursuant to paragraph 18(e), the grantee may exercise the option (to the extent exercisable as at the date of such cessation and not already exercised) within 30 days following such cessation or such longer period as the Board may determine. The date of cessation as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as our Directors may determine.

14. Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company while an option remains exercisable or the Share Option Scheme remains in effect, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate so far as unexercised; and/or the exercise price; and/or the method of exercise of the options; and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must be made in compliance with the Listing Rules, give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled and shall be made on the basis that the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than nominal value provided that in such circumstance, the exercise price shall be reduced to the nominal value. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial adviser of our Company or the auditors of our Company must confirm to the Board in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

15. Rights on a general offer

If a general or partial offer (whether by way of takeover offer, share repurchase offer, or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror), our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, the grantee shall be entitled to exercise the option (to the extent exercisable as at the date on which the offer becomes or is declared unconditional and not already exercised) in full or in part at any time within 14 days after the date on which the offer becomes or is declared unconditional.

16. Rights on winding-up

In the event notice is given by our Company to our Shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise all or any of his/her options (to the extent exercisable as at the date of the notice of meeting and not already exercised) at any time not later than two Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting of our Company to consider the winding-up and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

17. Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the restructuring, reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme, and thereupon the grantee shall be entitled to exercise all or any of his/her option(s) (to the extent which has become exercisable as at the date of the notice and not already exercised) at any time not later than two Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

18. Lapse of options

An option (to the extent not already exercised) shall automatically lapse and not be exercisable on the earliest of:

(a) the expiry of the option period;

(b) the expiry of any of the periods referred to in paragraph 13 above;

(c) subject to paragraph 16 above, the date of the commencement of the winding-up of our Company;

(d) the expiry of the period referred to in paragraph 17 above;

(e) the date on which the grantee who is an Eligible Employee ceases to be an Eligible Employee by reason of summary dismissal or being dismissed for misconduct or other breach of the terms of his/her employment contract or other contract constituting him an Eligible Employee, or the date on which he/she begins to appear to be unable to pay or has no reasonable prospect of being able to pay his/her debts or has become insolvent or has made any arrangements or composition with his/her creditors generally or on which he/she has been convicted of any criminal offence involving his/her integrity or honesty, unless otherwise resolved to the contrary by the Board;

(f) in respect of a grantee other than an Eligible Employee, the date on which the Board shall determine that (i)(a) such grantee has committed any breach of any contract entered into between such grantee on one part and our Group or any Invested Entity on the other part; or (b) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his/her creditors generally; or (c) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in subparagraph (i)(a), (b) or (c) above, unless otherwise resolved to the contrary by the Board;

(g) the expiry of the period referred to in paragraph 15 above; and

(h) the date on which the grantee commits a breach of paragraph 12 or any terms or conditions attached to the grant of the option or an event, in respect to a grantee, referred to in (2) below occurs, unless otherwise resolved to the contrary by the Board.

If the grantee is a company wholly owned by one or more Eligible Participants:

(1) the provisions of paragraphs 13(a) and (b), 18(e) and (f) shall apply to the grantee and to the options granted to such grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 13(a) and (b), 18(e) and (f) shall occur with respect to the relevant Eligible Participant; and

(2) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant,

provided that the Board may decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

19. Cancellation of options granted but not yet exercised

The Board shall have the absolute discretion to cancel any options granted at any time if the grantee so agreed provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available but unissued options (excluding the cancelled options) within the limit approved by our Shareholders as mentioned in the Share Option Scheme from time to time.

20. Period of the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years after the adoption date, after which no further options may be issued. Subject to the above, in all other respects, in particular, in respect of Options remaining outstanding, the provisions of the Share Option Scheme shall remain in full force and effect.

The Board may impose such terms and conditions of the offer of grant either on a case-by-case basis or generally as are not inconsistent with the Share Option Scheme including but not limited to the minimum period for which an option must be held before it can be exercised.

21. Alteration to the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the terms and conditions of the Share Option Scheme relating to matters set out in Rule 17.03 of the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) cannot be altered to the advantage of grantees or prospective grantees except with the prior approval of our Shareholders in general meeting. No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction of such majority of the grantee as would be required of our Shareholders under the Articles for the time being of our Company for a variation of the rights attached to Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of our Directors or administrators of the Share Option Scheme in relation to any alterations to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

The amended terms of the Share Option Scheme and/or the options must continue to comply with the relevant provisions of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to Share Option Scheme).

Subject to the above paragraphs, the Board may at any time alter, amend or modify the terms and conditions of the Share Option Scheme such that the provisions of the Share Option Scheme would comply with all relevant legal and regulatory requirements in all relevant jurisdictions to the extent as considered necessary by the Board to implement the terms of the Share Option Scheme.

22. Termination to the Share Option Scheme

Our Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

23. Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon (i) the Stock Exchange granting the approval of the listing of and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue, the Share Offer and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any options under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the Listing Date; (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and (iii) the commencement of dealings in the Shares on the Stock Exchange.

As at the Latest Practicable Date, no option had been granted by our Company under the Share Option Scheme. An application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in the Shares to be issued and allotted by our Company pursuant to the exercise of options that may be granted under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the Listing Date.

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

F. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders have, entered into a Deed of Indemnity in favour of our Company (for itself and as trustee for each of its subsidiaries) pursuant to which the Controlling Shareholders have agreed to jointly and severally indemnify each of the members of our Group against, *inter alia*, the following:

(a) the amount of any and all taxation which might fall on any of the members of our Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into on or before the date on which the Share Offer becomes unconditional and the completion of the Share Offer which shall be evidenced by the first trading of the Shares on the Stock Exchange (the "**Effective Date**") whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any and all taxation resulting from the receipt by any of the members of our Group of any amounts paid by the Controlling Shareholders;

(b) any claims, actions, demands, losses, proceedings, liabilities, damages, costs, expanses, penalties and fines of whatever nature including loss of profits or benefits sustained or incurred or suffered by any member of the Group directly or indirectly arising from or in connection with any non-compliance or alleged non-compliance with any applicable laws, rules or regulations of Hong Kong, the Cayman Islands, the British Virgin Islands, the PRC, the U.S. or of any part of the world, in the course of its business on or before the Effective Date, including but not limited to the incidents referred to in the paragraphs headed "Business — Properties — Title Defects", "Business — Legal and Compliance", "Business — Litigations" and/or the implementation of the Reorganisation of our Group described in the section headed "History, Development and Reorganisation — Reorganisation"; or all actions, claims, demands, proceedings, costs and expenses, damages, losses and liabilities whatsoever which may be made, suffered or incurred by the members of our Group in respect of or arising directly or indirectly from or on the basis of or in connection with any litigation, arbitration, claim and/or legal proceedings, whether of criminal, administrative, contractual, tortuous or otherwise nature instituted or threatened against the members of our Group and/or any act, non-performance, omission or otherwise of the members of our Group accrued or arising on or before the Listing Date, including but not limited to the incidents referred to in the paragraph headed "Business — Litigations".

The Controlling Shareholders will, however, not be liable under the Deed of Indemnity in respect of any taxation to the extent that, among others:

(a) provision, reserve or allowance has been made for such taxation or liability in the audited accounts of our Company or any member of our Group for FY2016, FY2017, FY2018 and the four months ended 30 April 2019; or

(b) the taxation or liability falling on any member of our Group on or after the Listing Date which would not have arisen but for any act or omission of, or transaction voluntarily effected by our Company or any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Controlling Shareholders other than any such act, omission or transaction:

    (i) carried out or in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or

    (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date; or

    (iii) consisting of any of the members of our Group ceasing, or being deemed to cease, to be a member of our Group for the purposes of any matter of taxation on or before the Listing Date; or

(c) the taxation liability arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in law or practice coming into force after the date of this Deed of Indemnity or any retrospective increase in tax rates coming into force after the date of this Deed of Indemnity; or

(d) any provisions or reserve made for taxation, taxation claim or liability in the audited accounts of our Company or any member of our Group for FY2016, FY2017, FY2018 and the four months ended 30 April 2019 which is finally established to be an over-provision or an excessive reserve, then the Controlling Shareholders' liability (if any) in respect of such taxation, taxation claim or liability shall be reduced by an amount not exceeding such over-provision or excessive reserve; or

(e) for which any member of our Group is primarily liable in respect of or in consequence of any event occurring or income, profits or gain earned, accrued or received or transactions in the ordinary course of its business after the Listing Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As at the Latest Practicable Date, to the best of our Directors' knowledge, there is no current litigation or any pending or threatened litigation or arbitration proceedings against any member of our Group that could have a material adverse effect on our Group's financial condition or results of operation.

3. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme on the Stock Exchange.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

The fee of the Sole Sponsor is HK$5.5 million and is payable by our Company.

4. Preliminary expenses

The preliminary expenses of our Company are approximately US$4,300 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
Dakin Capital Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Appleby	Legal advisers as to Cayman Islands law
Beijing DHH (Shanghai) Law Firm	Legal advisers as to PRC law
Hogan Lovells	Legal advisers as to U.S. law
China Insights Industry Consultancy Limited	Independent market research consultant

None of the experts has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

7. Consents of experts

Each of the parties listed in the paragraph headed "6. Qualifications of experts" in this Appendix IV has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its letter, report, valuation certificate, opinion and/or references to its name (as the case may be), all of which are dated the date of this prospectus, in the form and context in which they respectively appear in this prospectus.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Share Registrars

The register of members of our Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

10. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial prospects of our Company or its subsidiaries since 30 April 2019 (being the date to which the latest audited financial statements of our Company were made up) and up to the Latest Practicable Date.

11. Miscellaneous

Save as disclosed herein:

(a) within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of our Company or any of its subsidiaries has been issued, agree to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;

(iii) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares; and

(iv) no founder, management or deferred shares of our Company have been issued or agreed to be issued.

(b) no share, warrant 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;

(c) all necessary arrangements have been made enabling the Shares to be admitted into CCASS;

(d) our Directors confirm that none of them shall be required to hold any shares by way of qualification and none of them has any interest in the promotion of our Company;

(e) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus;

(f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(g) there is no arrangement under which future dividends are waived or agreed to be waived; and

(h) save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among others, copies of the Application Forms, the written consents referred to in the paragraph headed "F. Other information — 7. Consents of experts" in Appendix IV to this prospectus and copies of the material contracts referred to in the paragraph headed "B. Further information about the business of our Group — 1. Summary of material contracts" in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Hastings & Co. at 5th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and the Articles of Association;

2. the Accountant's Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

3. the audited consolidated financial statements of our Group for FY2016, FY2017, FY2018 and the four months ended 30 April 2019;

4. the report from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

5. the letter of advice prepared by Appleby, the legal advisers to our Company as to Cayman Islands law, summarising certain aspects of the Companies Law referred to in Appendix III to this prospectus;

6. the Companies Law;

7. the legal opinion prepared by Beijing DHH (Shanghai) Law Firm, the legal advisers to our Company as to PRC law, in respect of certain aspects of our Group;

8. the memorandum of advice prepared by Hogan Lovells, the legal advisers to our Company as to U.S. law;

9. the material contracts referred to in the paragraph headed "B. Further information about the business of our Group — 1. Summary of material contracts" in Appendix IV to this prospectus;

10. the service agreements and letters of appointment referred to in the paragraph headed "D. Disclosure of interests — 3. Particulars of service agreements" in Appendix IV to this prospectus;

11. the written consents referred to the paragraph headed "F. Other information — 7. Consents of experts" in Appendix IV to this prospectus;

12. the Share Option Scheme; and

13. the CIC Report.

信懇智能控股有限公司
Confidence Intelligence Holdings Limited