

On Real International Holdings Limited

安悅國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8245



By way of placing

Sponsor



Joint Lead Managers



太平洋基業證券有限公司
Pacific Foundation Securities Limited

Sole Bookrunner



太平洋基業證券有限公司
Pacific Foundation Securities Limited

IMPORTANT

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

On Real International Holdings Limited 安悅國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING

Number of Placing Shares : 120,000,000 Shares
Placing Price : Not more than HK\$0.60 per Placing Share
and expected to be not less than
HK\$0.40 per Placing Share (payable in
full upon application, plus brokerage fee
of 1.0%, SFC transaction levy of
0.0027% and Stock Exchange trading fee
of 0.005%, subject to refund)
Nominal Value : HK\$0.01 each
Stock Code : 8245

Sponsor



Joint Lead Managers



太平基業證券有限公司
Pacific Foundation Securities Limited

Sole Bookrunner



太平基業證券有限公司
Pacific Foundation Securities Limited

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 "Documents available for inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission 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 Placing Price is expected to be fixed by the Price Determination Agreement to be entered into between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or about Tuesday, 22 September 2015 or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree. The Placing Price will not be more than HK\$0.60 per Placing Share and is expected to be not less than HK\$0.40 per Placing Share. If, for any reason, the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Placing Price by the Price Determination Date, the Placing will not become unconditional and will lapse.

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, with our consent, reduce the indicative Placing Price range below that stated in this prospectus at any time prior to Price Determination Date. In such a case, notices of reduction of the indicative Placing Price will be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.on-real.com.

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 "Risk Factors".

Prospective investors of the Placing Shares should note that the Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters) shall have the absolute right to terminate the Underwriting Agreement by notice in writing to our Company with immediate effect if any of the events set forth in "Underwriting — Underwriting arrangements, commissions and expenses — Grounds for termination" occurs at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be Wednesday, 30 September 2015).

No information on any website forms part of this prospectus.

18 September 2015

CHARACTERISTICS OF GEM

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

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

The principal means of information dissemination on GEM is by publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at www.hkexnews.hk in order to obtain up-to-date information on listed issuers.

EXPECTED TIMETABLE

2015 *(Note 1)*

Expected Price Determination Date *(Note 2)* Tuesday, 22 September

Announcement of the Placing Price, the level
of indication of interest in the Placing to be published on the
website of the Stock Exchange at www.hkexnews.hk *(Note 3)* and
our Company's website at www.on-real.com *(Note 3)*
on or before Tuesday, 29 September

Allotment of the Placing Shares to placees on or before Tuesday, 29 September

Deposit of share certificates for the Placing Shares into CCASS
on or before *(Note 4)* Tuesday, 29 September

Dealings in Shares on GEM to commence at 9:00 a.m. on Wednesday, 30 September

Notes:

1. All times and dates refer to Hong Kong local times and dates. Details of the structure of the Placing, including its conditions, are set out in "Structure and Conditions of the Placing". If there is any change in the above expected timetable, an announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.on-real.com.
2. The Price Determination Date, being the date on which the Placing Price is to be determined, is expected to be on or about Tuesday, 22 September 2015 or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree. If, for any reason, the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Placing Price by the Price Determination Date, the Placing will not become unconditional and will lapse.
3. None of the websites or any information contained therein form part of this prospectus.
4. The share certificates for the Placing Shares allotted and issued to the placees are expected to be deposited directly into CCASS on or before Tuesday, 29 September 2015 for credit to the respective CCASS Participants' or the CCASS Investor Participants' stock accounts designated by the Underwriters, the placees or their agents (as the case may be). Our Company will not issue any temporary documents or evidence of title.

Share certificates will only become valid certificates of title of the Shares to which they relate when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms at or before 8:00 a.m. (Hong Kong time) on the Listing Date.

For details of the structure of the Placing, including the conditions thereto, see "Structure and Conditions of the Placing".

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IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sponsor, the Joint Lead Managers, the Sole Bookrunner and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sponsor, the Joint Lead Managers, the Sole Bookrunner, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person involved in the Placing.

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SUMMARY AND HIGHLIGHTS

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you, and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read this prospectus in its entirety including the appendices hereto before you decide to invest in the Placing Shares. There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in “Risk Factors” on pages 29 to 50 of this prospectus. You should read that section carefully before you decide whether to invest in the Placing Shares.

OVERVIEW

We are a two-way radio product designer and manufacturer established in 2001. We derive our revenue principally from designing, manufacturing and selling two-way radios and baby monitor products on ODM basis. We offer one-stop services covering product design and development, sourcing and procurement, production and assembly, sales, marketing and logistics and after-sales services.

FINANCIAL PERFORMANCE DURING THE TRACK RECORD PERIOD

Revenue

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Two-way radios	324,523	90.6	322,619	93.2
Baby monitors				
– Video baby monitors	1,235	0.3	60	0.0
– Audio baby monitors	6,002	1.7	7,286	2.1
	7,237	2.0	7,346	2.1
Other products	23,860	6.7	14,588	4.2
Sub-total	355,620	99.3	344,553	99.5
Servicing business	2,509	0.7	1,638	0.5
Total	358,129	100.0	346,191	100.0

Our revenue decreased by approximately 3.3% from approximately HK\$358.1 million for the year ended 31 March 2014 to approximately HK\$346.2 million for the year ended 31 March 2015. Such decrease was mainly due to our cessation of sales of DECT phones since September 2013.

We recorded a significant decrease in the revenue attributable to our video baby monitor products during the Track Record Period primarily due to our business strategy in focusing on marketing our new digital audio baby monitor products and in developing advanced digital video baby monitors in the year ended 31 March 2015. See “Financial Information — Year to year comparison of results of operations — Revenue — Baby monitors”.

Overall gross profit and gross profit margin

	Year ended 31 March	
	2014	2015
Gross profit (<i>HK\$'000</i>)	55,111	61,026
Gross profit margin (%)	15.4	17.6

SUMMARY AND HIGHLIGHTS

Gross profit and gross profit margin by business segment

	Year ended 31 March			
	2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Two-way radios	49,814	15.3	50,757	15.7
Baby monitors				
– Video baby monitors	259	21.0	12	20.0
– Audio baby monitors	878	14.6	1,073	14.7
Other products	3,690	15.5	3,167	21.7
Servicing business	470	18.7	350	21.4
Total	55,111	15.4	55,359	16.0

Our overall gross profit increased by approximately 10.7% from approximately HK\$55.1 million for the year ended 31 March 2014 to approximately HK\$61.0 million for the year ended 31 March 2015. The gross profit for the year ended 31 March 2015 included an one-off reversal of retirement benefit costs of approximately HK\$5.7 million. With a written confirmation from the Social Insurance Fund Management Bureau of Xinxing on 16 September 2014 confirming that it has not issued and will not issue an order requiring Xinxing Great Success to repay the social insurance or impose administrative penalty on Xinxing Great Success, we reversed the one-off retirement benefit costs of approximately HK\$5.7 million for the year ended 31 March 2015. Taking out the effect of this one-off reversal, the gross profit during the year ended 31 March 2015 would be approximately HK\$55.4 million and the gross profit margin would be approximately 16.0%. The slight increase in our overall gross profit margin (after taking out the effect of the one-off reversal as mentioned above) was primarily due to (i) the increase in gross profit margin of two-way radios; (ii) the increase in gross profit margin of other products as a result of the cessation of sales of DECT phones since September 2013, which its gross profit margin was relatively lower; and (iii) the decrease in cost of sales during the year ended 31 March 2015.

Net current liabilities

As at 31 March 2014 and 2015, we had net current liabilities of approximately HK\$4.5 million and HK\$9.3 million, respectively. Our net current liabilities position was mainly due to (i) the use of short term borrowings to finance our capital expenditures and for trade finance purpose; and (ii) the classification of certain long term borrowings due for repayment after one year which contain a repayment on demand clause as current liabilities, which amounted to approximately HK\$11.8 million and HK\$7.2 million as at 31 March 2014 and 2015 respectively. See “Financial Information — Net current liabilities”.

SUMMARY AND HIGHLIGHTS

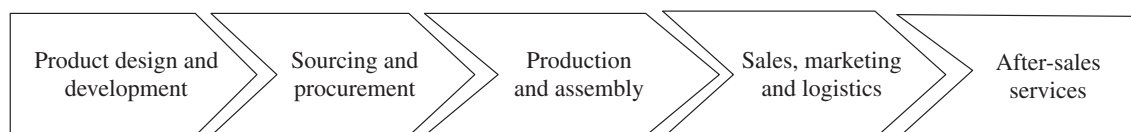
SALES VOLUME AND REVENUE BY GEOGRAPHICAL LOCATION OF SHIPMENT DESTINATION OF PRODUCTS COVERING ALL OUR BUSINESS SEGMENTS (NOTE 1)

	Year ended 31 March					
	2014			2015		
	Sales volume	Revenue		Sales volume	Revenue	
	<i>Approx. '000</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>Approx. '000</i>	<i>HK\$'000</i>	<i>% of revenue</i>
US	2,727	125,684	35.1	2,232	148,606	42.9
Europe (Note 2)	731	52,614	14.7	955	54,857	15.9
The Netherlands	557	38,068	10.6	504	41,675	12.0
Asia (Note 3)	1,049	42,940	12.0	952	37,745	10.9
UK	412	28,452	7.9	232	23,002	6.6
Germany	446	37,851	10.6	224	18,858	5.5
Others (Note 4)	435	32,520	9.1	237	21,448	6.2
Total	6,357	358,129	100.0	5,336	346,191	100.0

Notes:

1. The geographical breakdown was prepared based on shipping destination without taking into account the re-export or onward sales (if any) of our products by our customers.
2. Europe includes but is not limited to France, Italy and Belgium but excludes UK, Germany and the Netherlands.
3. Asia includes but is not limited to the PRC and Hong Kong.
4. Others include but is not limited to Brazil, Canada and Russia.

OUR DESIGN AND MANUFACTURING BUSINESS MODEL



We generally seek orders through promoting product ideas and through responding to customers' RFPs. We learn about the product needs and preferences of our customers through our years of relationship and attending trade fairs and exhibitions in Hong Kong and overseas. We generally operate on a built-to-order basis. We conduct test runs, obtain certification for our products and seek customers' approval before we mass produce. We perform stringent testing procedures before delivery. We are generally responsible for delivery from our production facilities to the port of shipment or customer's warehouse as orders are generally on FOB terms.

We are responsible for the system architecture design of our products. We design radio circuits, customising RF modules for specific uses in applications requiring wireless radio communication. We design component layout and define relationships between components for our products to achieve the required behaviour on specific performance and frequency levels. Our product development team comprised 75 staff as at the Latest Practicable Date. We are recognised as a High and New Technology Enterprise (高新技術企業) with a certificate dated 30 September 2014 for a validity period of three years.

SUMMARY AND HIGHLIGHTS

PRODUCTS

The table below sets forth our sales volume and average selling prices by key product category during the Track Record Period.

	Year ended 31 March			
	2014		2015	
	Sales volume	Average selling price	Sales volume	Average selling price
	<i>(Approximate)</i>	<i>HK\$ (Note)</i>	<i>(Approximate)</i>	<i>HK\$ (Note)</i>
Two-way radios (<i>per unit</i>)	5,203,000	62.4	4,291,000	75.2
Baby monitors (<i>per set</i>)				
– Video baby monitors	4,000	308.8	200	301.9
– Audio baby monitors	61,000	98.4	88,000	83.2

Note: The average selling price represents the revenue for respective types of products for the respective financial years divided by the total sales volume for the respective types of products for the respective financial years.

PRODUCTION AND OPERATION FACILITIES

We conduct our business operations primarily in our head office, the Songgang Production Facility and the Xinxing Production Facility in the PRC with a total gross floor area of 17,599.4 sq.m as at the Latest Practicable Date. The table below sets forth the production capacity, production volume and utilisation rate of the Songgang Factory for the periods indicated.

	Year ended 31 March	
	2014	2015
Estimated maximum production capacity (<i>'000 pieces</i>)	7,669	7,669
Actual production volume (<i>'000 pieces</i>)	5,223	4,197
Approximate utilisation rate (%)	68	55

Defects of certain leased properties and contingency arrangements

So far as we are aware, the lessors of the properties for the Songgang Production Facility and Shenzhen office did not possess the relevant property ownership certificates and construction works planning permits for the relevant leased properties. The Songgang Production Facility is crucial to our operations. Our PRC Legal Advisers have advised that there is a potential risk that the relevant authorities in the PRC may deem the leases invalid. Notwithstanding that our Directors consider that the possibility of us being forced to relocate from the Songgang Production Facility and the Shenzhen office is remote, in order to minimise the risk of any disruption to our business operations, we have formulated a contingency plan as further described in “Business — Property — Contingency arrangements for our production and business operation” (pages 197 to 206).

CESSATION OF SALES TO CUSTOMER B

Sales to Customer B, a top five customer for the year ended 31 March 2014, ceased in September 2013. Customer B purchased DECT phones from us under an agreement in June 2010. We later consented to the assignment of such agreement to its subsidiary in November 2013. We subsequently terminated business with such entity due to (i) the product would soon reach end-of-life status; and (ii) we decided to discontinue our DECT phone product line as part of our business strategy. See “Business — Customers” (pages 163 to 182).

SUMMARY AND HIGHLIGHTS

RELIANCE ON OUR LARGEST CUSTOMER

During the Track Record Period, we derived a significant portion of our revenue from a small number of customers including Cobra Electronics Corporation (“CEC”), our largest customer. See “Business — Customers — Reliance on major customers” (pages 172 to 182). The table below sets forth CEC’s contribution to our total revenue, gross profits and gross profit margins during the Track Record Period.

	Year ended 31 March					
	2014			2015		
	Gross profit	Gross profit margin	Percentage of our total revenue	Gross profit	Gross profit margin	Percentage of our total revenue
	HK\$’000	%	%	HK\$’000	%	%
CEC	24,790	15.8	45.2	27,173	16.8	46.7

CEC is a leading global designer and marketer of mobile communications and navigation products in markets including the US, Canada and Europe and headquartered in the US. As at the Latest Practicable Date, we had established over nine years of relationship with it. We started business relationship with it when it procured our two-way radios for the European market in 2006. In 2007, it placed orders with us for two-way radios for the US market. During the Track Record Period, our sales to CEC consisted mainly of sales of two-way radios. We have entered into a written supply agreement with it with no purchase obligations and purchases will be made by orders. We have also entered into a sourcing arrangement with it under which, among others, we place purchase orders for raw materials with its subsidiary and settle such transactions with it. CEC was acquired by a private equity firm in October 2014, which brought CEC and another company under a newly formed company (“Holdco”) in June 2015. After such acquisition, we have continued to receive confirmed orders from CEC. In July 2015, CEC has confirmed to us that (i) it would continue to handle the two-way radio business under the Cobra brand just like in the past; (ii) we are the major supplier of its consumer two-way radios and the purchase orders; and (iii) forecasts issued by it to our Group before and after June 2015 would continue to remain valid. CEC sells two-way radios and other products under its Cobra brand.

Our sales to CEC for the five months ended 31 March 2015 decreased by approximately 1.5% when compared with the same period in the year ended 31 March 2014. Subsequent to 31 March 2015, our sales to CEC for the two months ended 31 May 2015 were affected by the decrease in retail sales in the US as mentioned in “Financial Information — Recent developments and material adverse change”. Our sales to CEC in June 2014 were higher than those in June 2015 as during the first quarter of 2014, we received more orders from CEC due to increased orders received by it from its customer, a children product specialty chain store in the US, for new product models of two-way radios and such products were shipped in June 2014. As a result of the above factors, according to the management accounts of our Company, our sales to CEC from April to June 2015 decreased by approximately 62.3% when compared with the same period in 2014. Our sales to CEC in July 2015 remained at almost the same level when compared with that in July 2014.

Our Directors are of the view that the business relationship between our Group and CEC has been stable and positive since its change of ownership in October 2014. We confirm that, up to the Latest Practicable Date, (i) our Directors had not received any indication from CEC that they will cease placing orders or terminate business relationship with us; and (ii) our Directors had not received any indication from CEC and Holdco relating to any change of existing business relationship between us and CEC.

CUSTOMERS AND SUPPLIERS

Our major customers comprise large consumer electronics companies with international brands including CEC, Customer A, Binatone Electronics International Limited, Tristar Europe B.V. and Hesdo B.V.. Our business relationships with our five largest customers ranged from over three to over 11 years. During the Track Record Period, our sales to our five largest customers accounted for approximately 74.3% and 74.6% of our total revenue, respectively.

SUMMARY AND HIGHLIGHTS

Our business relationships with our five largest suppliers (save as two independent subcontractors) ranged from over two to over five years and we had maintained over five years of business relationship with our largest supplier. For the two years ended 31 March 2015, our purchases from our five largest suppliers accounted for approximately 15.9% and 20.0% of our total cost of sales, respectively, and our purchases from our largest supplier accounted for approximately 5.4% and 5.1% of our total cost of sales, respectively.

INDUSTRY AND MARKET

The two-way radio industry is considered mature with stabilised profit margins while the baby monitor industry is at its growth stage with rising demand from consumers. We derive a majority of our revenue from sales of two-way radios. The CBRE Report has highlighted certain unfavourable market factors: the industry is well-matured with limited growth potential; two-way radio devices tend to lose competitive advantages with mobile phone technologies getting more popular; average price per set (a standard package of two devices) of device has been gradually declining since 2009; global oversupply etc.

Our Directors consider that the global oversupply situation in the two-way radio market has only a small scale impact on our business. See “Business — Market competition” (pages 189 to 191).

The CBRE Report has also highlighted certain favourable market factors which our Directors consider key to our business: two-way radios being irreplaceable where the mobile signal is not good or mobile roaming charge is expensive; applicability to a wide range of sectors such as government, military, public safety, marine, industrial, commercial and personal; the growth rate of global two-way radio consumption remaining relatively stable at a range of about 5.0% to 14.0% from 2009 to 2014; and certain costs of production such as raw material prices and labour costs show signs of stable trends with gradual slow growth in recent years.

COMPETITIVE STRENGTHS

Our Directors believe that the following of our competitive strengths have enabled us to compete effectively: (i) strong product design and development capabilities; (ii) established and long-standing business relationships with our customers; (iii) proven track record on product quality and delivery; (iv) vertically-integrated production capabilities; and (v) experienced and stable management team with extensive industry experience.

BUSINESS STRATEGIES

Our business objectives are to grow our existing business, diversify our revenue streams and expand our customer base by expanding product offerings and features, improving information technology system and strengthening management and widening sales channel. We intend to adopt the following key business strategies: (i) strengthen our product portfolio; (ii) enhance our information management systems; and (iii) strengthen our marketing efforts.

RISK FACTORS

There are certain risks involved in our operations and in connection with the Placing, many of which are beyond our control. These risk factors are further described in “Risk Factors” (pages 29 to 50). Set forth below are some major risks that may materially and adversely affect us:

- We derive a significant portion of our revenue from sales to our major customers. If our major customers were to terminate their respective relationships with us entirely and if we failed to develop new customers, our business would be adversely affected.
- We highly depend on the EU and US markets. If there was a drastic decrease in orders from our customers in these markets, we cannot guarantee that we would be able to make up the loss of sales from other markets.

SUMMARY AND HIGHLIGHTS

- We derive a significant portion of our revenue from our sales of two-way radios. Any decrease in our sales in such products would materially and adversely affect our business, financial condition and results of operations.
- If we failed to anticipate technology innovation and successfully develop and market new products in time or at all, our business, financial condition and results of operations will be adversely affected as a result.
- The sales and profitability of our products are dependent on our customers' business performance.
- We experienced net current liabilities during the Track Record Period. Failure to manage our liquidity situation carefully could expose us to difficulties to obtain adequate financing for our business in the future.

SHAREHOLDER INFORMATION

Our history dates back to 2001 when Mr. Tam, our chairman, chief executive officer and executive Director, established our first operating subsidiary, On Real. Mr. Hsu, our executive Director, joined us in 2003. Over the years, we have established On Real (Shenzhen), Xinxing On Time and Xinxing Great Success in the PRC. To consolidate our business, we transferred certain assets, liabilities and employees of Xinxing On Time to Xinxing Great Success and disposed Xinxing On Time. See "History, Reorganisation and Corporate Structure — Corporate structure — Disposal of Xinxing On Time" (pages 116 to 119). Upon completion of the Placing and the Capitalisation Issue, Mr. Tam and Mr. Hsu will own approximately 37.39% and 16.61% of our share capital, respectively and will continue to be our Controlling Shareholders after the Listing. Our two pre-IPO investors will hold approximately 14.00% and 7.00% of interests in our Company, respectively upon completion of the Placing and the Capitalisation Issue. See "History, Reorganisation and Corporate Structure — Pre-IPO investments" (pages 119 to 123).

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of our consolidated results for the Track Record Period, which has been extracted from the Accountant's Report.

Highlights of consolidated income statements

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Revenue	358,129	346,191
Cost of sales	(303,018)	(285,165)
Profit before income tax	31,355	14,918
Profit for the year	24,881	10,536

Highlights of consolidated statements of financial position

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Non-current assets	52,947	35,564
Current assets	129,840	115,314
Non-current liability	(434)	(32)
Current liabilities	(134,359)	(124,586)
Net current liabilities	(4,519)	(9,272)
Total assets less current liabilities	48,428	26,292

SUMMARY AND HIGHLIGHTS

KEY FINANCIAL RATIOS

	Year ended 31 March	
	2014	2015
Gross profit margin	15.4%	17.6%
Net profit margin before interest and tax (<i>Note</i>)	8.9%	4.5%
Net profit margin (<i>Note</i>)	6.9%	3.0%
Return on equity	51.8%	40.1%
Return on assets	13.6%	7.0%
Interest coverage ratio	48.9	28.2

	As at 31 March	
	2014	2015
Current ratio	1.0	0.9
Quick ratio	0.6	0.7
Gearing ratio	49.4%	189.4%
Debt to equity ratio	N/A	81.2%

Note: Our net profit margin before interest and tax decreased from approximately 8.9% for the year ended 31 March 2014 to approximately 4.5% for the year ended 31 March 2015. Such decrease was mainly due to (i) the non-recurring Listing expenses of approximately HK\$16.9 million incurred during the year ended 31 March 2015; and (ii) the increase in our other general administrative expenses of approximately HK\$7.4 million. As a result of the foregoing, our net profit margin decreased from approximately 6.9% for the year ended 31 March 2014 to approximately 3.0% for the year ended 31 March 2015.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Based on the unaudited financial information of our Company, our sales for the four months ended 31 July 2015 decreased by approximately 15.5% as compared to that for the corresponding period in 2014, which was mainly because of the decrease in sales of products shipped to the US. Retail sales in the US shrunk in the first quarter of 2015, mainly due to the harsh weather which kept customers away from showrooms and malls and thus weakened consumption level, which in turn slow down the movement of inventories of our customers and holdup their procurement from us. Such decrease was partially offset by the increase in our sales to Customer A for the four months ended 31 July 2015 as compared to the same period in 2014. During the Track Record Period, Customer A placed purchase orders to us for the products shipped to Asia, Europe and UK only until we incurred sales to Customer A for the products which were shipped to the US since February 2015. In addition to its launch of new models of two-way radios, our sales to Customer A for the four months ended 31 July 2015 increased significantly as compared to the same period in 2014. Further, we received two project awards in March 2015 from a new customer, Customer E, which is a subsidiary of a Japanese company listed on the Tokyo Stock Exchange which manufactures and markets wireless consumer electronic products worldwide, thus it is expected that revenue will be generated from Customer E in the year ending 31 March 2016 despite no revenue has been generated from Customer E as at the Latest Practicable Date. As such, our Directors consider that our sales growth will recover and increase gradually. The revenue for the four months ended 31 July 2015 was extracted from our unaudited condensed consolidated financial statements for the four months ended 31 July 2015 prepared by our Directors in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, which were reviewed

SUMMARY AND HIGHLIGHTS

by PricewaterhouseCoopers, our reporting accountants, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

During the year ended 31 March 2015, we outsourced part of our labour-intensive manufacturing processes to subcontractors which allows us to reduce our labour cost and achieve greater flexibility in allocating our resources. As we had to assess the performance of the subcontractors when we started using their services, the cost effectiveness of subcontracting had not been reflected during the transitional period. The cost effectiveness of subcontracting had been achieved since January 2015 and we recorded a higher gross profit and gross profit margin for the four months ended 31 July 2015 when compared with the same period in 2014, mainly as a result of lower direct labour cost incurred. We recorded a higher net profit for the four months ended 31 July 2015 as compared to the corresponding period in 2014 primarily due to the increase in our gross profit as discussed above and the decrease in the Listing expenses (of which approximately HK\$16.9 million was charged to the consolidated income statement for the year ended 31 March 2015 and the remaining of approximately HK\$8.2 million is expected to be charged to the consolidated income statement for the year ending 31 March 2016) incurred. Based on the foregoing, it is expected that our net profit will be improved accordingly.

The impact of the Listing expenses disclosed in “— Listing expenses” on our consolidated income statement is expected to result in or have resulted in material adverse changes in the financial or trading position or prospect of our Group since 31 March 2015, being the date to which our latest audited financial information were prepared. Save as disclosed above, our Directors confirm that as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects of our Group since 31 March 2015, being the date to which our latest audited financial information was prepared and there had been no event since 31 March 2015 which would materially and adversely affect the information shown in our consolidated financial information included in the Accountant’s Report.

DIVIDEND AND DIVIDEND POLICY

Onward declared dividends of approximately HK\$0.5 million for the year ended 31 March 2014. On Real declared (i) dividends of approximately HK\$7.3 million and HK\$16.0 million for the two years ended 31 March 2015 respectively; (ii) a special dividend payment of approximately HK\$35.0 million (HK\$10.0 million in cash and approximately HK\$25.0 million for settlement of disposal of Xinxing On Time); and (iii) a special dividend of approximately HK\$1.0 million which was fully set off against the same amount of receivables due to us from our Controlling Shareholders as at 30 November 2014. The declaration of future dividends will be subject to the discretion of our Directors and will depend on, among other things, our earnings, cash flow, financial condition, capital requirements, statutory reserve requirements and any other factors our Directors may consider relevant. Currently, we do not have any predetermined dividend distribution ratio. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future. See “Financial Information — Dividend policy”.

SUMMARY AND HIGHLIGHTS

KEY PLACING STATISTICS

	Based on the Placing Price of	
	<u>HK\$0.40 per Placing Share</u>	<u>HK\$0.60 per Placing Share</u>
Market capitalisation (<i>Note 1</i>)	HK\$192,000,000	HK\$288,000,000
Unaudited pro forma adjusted net tangible assets value per Share (<i>Note 2</i>)	HK\$0.10	HK\$0.15

Notes:

1. The calculation of market capitalisation of the Shares is based on the indicative Placing Price range of HK\$0.40 to HK\$0.60 per Placing Share and a total of 480,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Placing but without taking into account any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus.
2. The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after having made the adjustments referred to in “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus and on the basis of a total of 480,000,000 Shares in issue assuming that the Placing has been completed on 31 March 2015 but without taking into account any Shares which may be allotted and issued under the exercise of any options that may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus.

LISTING EXPENSES

The total Listing expenses in relation to the Placing are estimated to be approximately HK\$35.5 million (assuming a Placing Price of HK\$0.50 per Placing Share, being the mid-point of the indicative Placing Price range, among which: (i) approximately HK\$10.4 million is expected to be accounted for as a deduction from equity upon Listing; and (ii) approximately HK\$25.1 million was and will be recognised as expenses in our consolidated income statement, of which approximately HK\$16.9 million was charged to the consolidated income statement for the year ended 31 March 2015 and the remaining of approximately HK\$8.2 million is expected to be charged to the consolidated income statement for the year ending 31 March 2016. Our Directors emphasise that the amount of the Listing expenses is a current estimate for reference only and the final amount to be recognised in the consolidated financial statements of our Group for the year ending 31 March 2016 is subject to adjustment based on audit and the then changes in variables and assumptions. Prospective investors should note that our financial performance for the year ending 31 March 2016 is expected to be adversely affected by the estimated non-recurring Listing expenses mentioned above, and may or may not be comparable to our past financial performance.

SUMMARY AND HIGHLIGHTS

USE OF PROCEEDS AND REASONS FOR LISTING

We intend to apply the net proceeds from the Placing of approximately HK\$24.5 million (assuming a Placing Price of HK\$0.50 per Placing Share, being the mid-point of the indicative Placing Price range) as follows:

<u>Amount</u> <i>(HK\$ in million)</i>	<u>Approximate % of total estimated net proceeds</u>	<u>Intended use</u>
17.2	70.1	Strengthening our product portfolio by developing new products, purchasing tooling and developing IoT connectivity
2.0	8.0	Enhancing our information management system by improving our information management systems and purchasing new computer system to accommodate our information technology need
3.1	12.8	Strengthening our marketing efforts by expanding our sales and marketing team and continuing to participate in exhibitions
2.2	9.1	Working capital and other general corporate purposes

For further details, please see “Future plans and use of proceeds”.

Taking into account our Directors (i) consider that we operate in the niche market of designing and manufacturing two-way radios and baby monitors; (ii) are not aware of any direct comparable companies listed in Hong Kong with size and operations similar or comparable to our Group, and having considered the current state of our business, our Directors are of the view that the risks associated with investment in our Company would render our Company more suitable to be listed on GEM than on Main Board. Our Directors may consider migrating to the Main Board subject to our future development and business strategies.

Our Directors consider that no public information of any companies in the industry of size and operations similar or comparable to us is available for us to compare our financial performance to that of our competitors.

HISTORICAL NON-COMPLIANCE

Our Directors consider that our historical non-compliance incidents did not constitute material or systemic non-compliance. See “Business — Non-compliance” (pages 207 to 219).

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus.

“Accountant’s Report”	the accountant’s report on our Company set out in Appendix I to this prospectus
“Acting in Concert Confirmation”	the deed of confirmation dated 27 August 2014 executed by our Controlling Shareholders, whereby they confirmed the existence of their acting in concert arrangements. For details, see “Relationship with Controlling Shareholders — Overview — Our Controlling Shareholders”
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted by our Shareholders on 16 September 2015 to take effect upon commencement of trading of Shares on GEM, a summary of which is set out in Appendix III to this prospectus
“Board” or “Board of Directors”	the board of Directors
“Brand A”	a brand of Customer A under which two-way radios, baby monitors and other products are sold
“business day”	any day (other than a Saturday, a Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 359,980,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in “A. Further information about our Company — 3. Written resolutions of our Shareholders passed on 16 September 2015” in Appendix IV to this prospectus
“CBRE”	CBRE Limited, a market research and consulting company, an Independent Third Party
“CBRE Report”	the industry expert report issued by CBRE, details of which are set out in “Industry Overview”
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“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 practices, 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
“CeBIT”	Centrum für Büroautomation, Informationstechnologie und Telekommunikation, a trade show in Hannover, Germany
“China” or “PRC”	the People’s Republic of China, which for the purpose of this prospectus excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which took effect from 3 March 2014, as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	On Real International Holdings Limited (安悅國際控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 30 June 2014
“Controlling Shareholder(s)”	Mr. Tam and Mr. Hsu

DEFINITIONS

“Deed of Indemnity”	a deed of indemnity dated 16 September 2015 entered into by Mr. Tam and Mr. Hsu in favour of our Company (for itself and as trustee for and on behalf of each of its subsidiaries), particulars of which are set out in “E. Other Information — 1. Estate duty, tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition”	a deed of non-competition undertaking dated 16 September 2015 entered into by Mr. Tam and Mr. Hsu in favour of our Company (for itself and as trustee for and on behalf of each of its subsidiaries), particulars of which are set out in “Relationship with Controlling Shareholders — Non-competition undertaking”
“Director(s)”	the director(s) of our Company
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) as adopted by the National People’s Congress on 16 March 2007 and became effective on 1 January 2008
“EU”	the European Union, a political-economic union constituted by 28 European countries
“Euro” or “EUR”	the lawful currency of the member states of EU
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended, supplemented or otherwise modified from time to time
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were our Company’s subsidiaries at the relevant time, or the businesses acquired or operated by them or (as the case may be) their predecessors

DEFINITIONS

“HKAS”	Hong Kong Accounting Standards
“HKFRSs”	Hong Kong Financial Reporting Standards issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HK\$”, “HKD” or “Hong Kong dollar(s)”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent from and not connected with (within the meaning of the GEM Listing Rules) any director, chief executive, substantial shareholder of our Company, its subsidiaries or any of their respective associates
“Joint Lead Managers”	Quam Securities Company Limited and Pacific Foundation Securities Limited, being the joint lead managers of the Placing
“Latest Practicable Date”	13 September 2015, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date on which dealings in the Shares on GEM first commence, which is expected to be on or about Wednesday, 30 September 2015
“Listing Division”	the listing division of the Stock Exchange
“Main Board”	the main board of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company as amended from time to time

DEFINITIONS

“MOFCOM”	the PRC Ministry of Commerce (中華人民共和國商務部)
“Mr. Hsu”	Mr. Hsu Wing Sang (許永生), an executive Director and a Controlling Shareholder
“Mr. Law”	Mr. Law Sai Hung (羅世鴻), the shareholder holding the entire interest in Pacific Able and our significant shareholder. For details of Mr. Law and his relationship with our Company, see “History, Reorganisation and Corporate Structure — Pre-IPO investments”
“Mr. Tam”	Mr. Tam Wing Ki (談永基), our chairman, chief executive officer, an executive Director and a Controlling Shareholder
“Mr. Yeung”	Mr. Yeung Shing Wai (楊成偉), the shareholder holding the entire interest in SW Venture Asia and our substantial shareholder. For details of Mr. Yeung and his relationship with our Company, see “History, Reorganisation and Corporate Structure — Pre-IPO investments”
“On Real”	On Real Limited (安悦有限公司), a company incorporated in Hong Kong with limited liability on 29 January 2001, which is an indirect wholly-owned subsidiary of our Company
“On Real (BVI)”	On Real (BVI) Limited, a company incorporated in the BVI with limited liability on 4 July 2014, which is a direct wholly-owned subsidiary of our Company
“On Real (Shenzhen)”	On Real Electronics (Shenzhen) Limited* (安悦電子(深圳)有限公司), a limited liability company established in the PRC on 9 May 2002, which is an indirect wholly-owned subsidiary of our Company
“On Time (HK)”	On Time (HK) Limited (安泰(香港)有限公司), a company incorporated in Hong Kong with limited liability on 18 January 2005, which is principally engaged in the business of trading of electronic components and held by Mr. Tam (as to 69.23%) and Mr. Hsu (as to 30.77%). It is not and will not be a member of our Group

DEFINITIONS

“Onward”	Onward Technology Development Limited (安信科技發展有限公司), a company incorporated in Hong Kong with limited liability on 28 September 2004, which is an indirect wholly-owned subsidiary of our Company
“Pacific Able”	Pacific Able Limited (恒寶有限公司), a company incorporated in the BVI with limited liability on 2 September 2008, which is wholly owned by Mr. Law
“Placing”	the conditional placing by the Underwriters on behalf of our Company of the Placing Shares for cash at the Placing Price, as further described in “Structure and Conditions of the Placing”
“Placing Price”	the final price per Placing Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) which will be not more than HK\$0.60 per Placing Share and is expected to be not less than HK\$0.40 per Placing Share, such price to be fixed on the Price Determination Date
“Placing Share(s)”	the 120,000,000 new Shares being offered for subscription by our Company at the Placing Price under the Placing
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as adopted by the SCNPC on 27 October 2005 and amended on 28 December 2013 and became effective on 1 March 2014
“PRC Legal Advisers”	Hills & Co., the legal advisers of our Company 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
“Price Determination Agreement”	the agreement to be entered into between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date to fix and record the Placing Price

DEFINITIONS

“Price Determination Date”	the date, expected to be on or about Tuesday, 22 September 2015 or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree, on which the Placing Price will be fixed for the purposes of the Placing
“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or a provincial-level city under the direct supervision of the PRC government
“Reorganisation”	the corporate reorganisation arrangements undergone by our Group in preparation for the Listing, details of which are set out in “History, Reorganisation and Corporate Structure”
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 16 September 2015, the principal terms of which are summarised in “D. Share Option Scheme” in Appendix IV to this prospectus
“Shine View”	Shine View Development Limited (景耀發展有限公司), a company incorporated in Hong Kong with limited liability on 14 February 2014 which is held by Mr. Tam (as to 69.23%) and Mr. Hsu (as to 30.77%). Shine View is not and will not be a member of our Group

DEFINITIONS

“Sole Bookrunner”	Pacific Foundation Securities Limited, being the sole bookrunner of the Placing
“Solution Smart”	Solution Smart Holdings Limited, a company incorporated in the BVI with limited liability on 13 February 2014, which is wholly-owned by SW Venture Asia
“Songgang Factory”	our factory located in Songgang Sub-District, Baoan District, Shenzhen, China. For details of its location, see “Business — Property — Leased properties in the PRC”
“Songgang Production Facility”	the Songgang Factory and the Songgang Staff Quarters
“Songgang Staff Quarters”	our staff quarters located in Songgang Sub-District, Baoan District, Shenzhen, China. For details of its location, see “Business — Property — Leased properties in the PRC”
“Sponsor” or “Quam Capital”	Quam Capital Limited, a corporation licensed by the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being a sponsor to the Listing
“sq.m” or “m ² ”	square metre
“Starian”	Starian Caring Limited (星太電子(香港)有限公司), a company incorporated in Hong Kong with limited liability on 24 October 2013, which is an indirect wholly-owned subsidiary of our Company
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SW Venture Asia”	SW Venture Asia Limited, a company incorporated in the BVI with limited liability on 29 August 2013, which is wholly-owned by Mr. Yeung
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Track Record Period”	the period comprising the two financial years ended 31 March 2015
“UK”	the United Kingdom of Great Britain and Northern Ireland
“Underwriters”	the underwriters of the Placing named in “Underwriting — Underwriters”
“Underwriting Agreement”	the conditional underwriting agreement dated 18 September 2015 entered into by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sponsor, the Joint Lead Managers, the Sole Bookrunner and the Underwriters, brief particulars of which are summarised in “Underwriting”
“US” or “United States”	the United States of America
“US\$”, “USD” or “US dollars”	United States dollars, the lawful currency of the US
“Xinxing Factory”	our factory located in Xinxing County, China. For details of its location, see “Business — Property — Leased properties in the PRC”
“Xinxing Great Success”	Xinxing Great Success Plastic Limited* (新興縣偉輝塑膠製品有限公司), a limited liability company established in the PRC on 24 March 2011, which is an indirect wholly-owned subsidiary of our Company
“Xinxing On Time”	Xinxing On Time Electronics Limited* (新興縣安泰電子有限公司), a limited liability company established in the PRC on 24 May 2007 which is wholly-owned by Shine View, and a connected person of our Company. Xinxing On Time was formerly wholly-owned by On Real and has ceased to be our subsidiary since 31 August 2014
“Xinxing Production Facility”	the Xinxing Factory and the Xinxing Staff Quarters
“Xinxing Staff Quarters”	our staff quarters located in Xinxing County, China. For details of its location, see “Business — Property — Leased properties in the PRC”
“%”	per cent

DEFINITIONS

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

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

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains certain definitions and other terms used in this listing document in connection with our Group and our business. The terms and their meanings may not correspond to standard industry definitions.

“analog”	of, relating to, or being a mechanism in which data is represented by continuously variable physical quantities
“AOI”	acronym for automated optical inspection, an automated visual inspection of a range of products, including PCBA
“AOI machine”	a machine which automatically inspects a 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
“AQL”	acronym for acceptable quality limit, an industry standard that provides a statistical measurement of the maximum percentage of defective goods considered acceptable in a particular sample size
“Bluetooth”	a wireless technology standard for exchanging data over short distances
“CE”	The Conformity European Certificate, conformity marking used on certain products placed in the market in the European Economic Area indicating conformity with the health and safety requirements of the European Union
“COB”	acronym for chip on board, a process relating to the mounting of uncoated semiconductor elements directly to a PCB
“COB machine”	a machine which is used in our COB assembly line. It is programmed according to the particular product that the PCB is produced for and creates electric circuit tracks between electronic components on the PCB
“CPU”	acronym for central processing unit, the portion of a computer system that carries out the instructions of a computer program, and is the primary element carrying out the computer’s functions

GLOSSARY OF TECHNICAL TERMS

“CTCSS”	acronym for continuous tone-coded squelch system, an analogue squelch
“DECT”	acronym for digital enhanced cordless telecommunication, a wireless phone system made for cordless phone use
“digital”	of or relating to information that is stored in the form of the numbers 0 and 1
“dPMR”	acronym for digital private mobile radio, a mobile radio system
“DSSS”	acronym for direct sequence spread spectrum, a modulation method
“ERP”	acronym for enterprise resource planning, a system that integrates internal management information across an entire organisation, embracing finance, sales and services through the use of an integrated software application
“FCC”	The Federal Communications Commission in the US
“FHSS”	acronym for frequency hopping spread spectrum, a modulation method
“FM”	acronym for frequency modulation, a modulation method to carry sound or other information
“FOB”	acronym for free (or freight) on board
“FRS”	acronym for family radio service, a radio service consists of 14 channels (each channel is 12.5 kHz) on FM in around 462 to 467 MHz spectrum range. FRS devices generally have a maximum power of 0.5 watt and integral (non-detachable) antennas
“FRS/GMRS”	a radio service that provide access to both the FRS and GMRS bands
“GHz”	acronym for gigahertz, a unit of frequency

GLOSSARY OF TECHNICAL TERMS

“GMRS”	acronym for general mobile radio service, a radio service consists of 23 channels (each channel is 25 kHz) on FM in around 462 to 467 MHz spectrum range. GMRS devices generally have power levels of 1 to 5 watts and may have detachable antennas
“group call function”	a function which allow users to transmit voice message to everyone in the group, or to separate members in a group independently using PTT buttons
“IC”	acronym for integrated circuit, a semi-conductor device that combines a number of transistors and electronic circuits onto a piece of silicon
“IoT”	acronym for internet-of-things, the interconnection of devices with the internet
“IPX-7 waterproof standard”	a standard for measuring the level of protection afforded against water, with a scale ranging from IPX-0 to IPX-8. IPX-7 means that the device is submersible for 30 minutes maximum, for no deeper than one meter without suffering water damage
“ISO”	acronym for International Organisation for Standardisation, a non-governmental organisation that develops and publishes international standards
“ISO 9001:2008”	one of the management standards and guidelines of ISO which states that 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
“kHz”	acronym for kilohertz, a unit of frequency
“LCD”	acronym for liquid crystal display, a type of thin, flat panel display often used in small portable electronic devices such as mobile phones
“LED”	acronym for light-emitting diode, a semiconductor diode that emits light when conducting current and is used in electronic equipment

GLOSSARY OF TECHNICAL TERMS

“MCU”	acronym for micro controller unit, a small computer on a single integrated circuit containing a processor core, memory and programmable input/output peripherals
“MHz”	acronym for megahertz or million hertz, a unit of frequency
“MP3”	a specific digital audio encoding format using a form of lossy data compression. It is a common audio format for consumer audio storage, as well as a de facto standard of digital audio compression for the transfer and playback of music on digital audio players
“MRP”	acronym for material resource planning
“NOAA”	acronym for National Oceanic and Atmospheric Administration, a US federal agency, focused on the condition of the oceans and the atmosphere. NOAA’s National Weather Service provides local and regional forecasts and emergency alerts for severe weather conditions
“ODM”	acronym for original design manufacturing, a business model under which a manufacturer designs and manufactures a product specified by the customer and eventually sold under the brand name of another company
“PCB”	acronym for printed circuit board, a single or multi-layer board of circuitry which provides electrical interconnections and a surface for mounting chips and other electronic components; the basic platform used to connect the microprocessors, capacitors, resistor networks and other components that are essential to the functioning of electronic products
“PCBA”	acronym for printed circuit board plus assembly, a PCB populated with electronic components
“plastic injection machine”	a machine for manufacturing plastic products by the injection molding process
“PMR”	acronym for private mobile radio, a mobile radio system

GLOSSARY OF TECHNICAL TERMS

“PMR446”	a type of PMR which consists of eight channels (each channel is 12.5 kHz) on FM in around 446.0 to 446.1 MHz spectrum range. PMR446 devices have a maximum power of 0.5 watt and integral (non-detachable) antennas
“PTT”	acronym for push-to-talk
“R&TTE Directive”	the Radio Equipment and Telecommunications Terminal Equipment Directive of the European Parliament and of the Council of 9 March 1999 covering a number of products that uses radio frequency which will be repealed by Directive 2014/53/EU with effect from 13 June 2016
“RF”	acronym for radio frequency
“RFP”	acronym for request for proposal
“RoHS”	acronym for Restriction of Hazardous Substances Directive of the European Parliament and of the European Council concerning, among others, registration, evaluation, authorisation and restriction of chemicals
“SAME”	acronym for Specific Area Message Encoding, a protocol which allows a user to program a SAME enabled radio to receive weather and other emergency alerts of a selected area
“smart phone” or “smart device”	a handset with a number of functions similar to those of computer. Some products allow users to install handset applications to increase handset usability. Most smart phones or smart devices support Wi-Fi internet service
“SMT”	acronym for surface mount technology, a method for constructing electronic circuits in which the components are mounted directly onto the surface of PCBs
“SMT machine”	a machine which automatically mounts electronic components onto a PCB. Solder paste or epoxy is applied onto the PCB where the electronic components are to be mounted by following the designated circuit patterns

GLOSSARY OF TECHNICAL TERMS

“spectrum”	the radio frequency spectrum of hertzian waves used as a transmission medium for mobile telecommunications and other services
“squelch”	a feature which mutes the radio speaker
“TFT”	acronym for thin film transistor, a type of LCD flat-panel display screen
“two-way radio”	a radio that can both transmit and receive
“VOX”	acronym for voice operated exchange which enables hands-free operation
“watt”	a unit of power, which is defined as one joule per second and measures the rate of energy conversion or transfer
“Wi-Fi”	a wireless networking technology that uses radio waves to provide wireless high-speed internet and network connections

FORWARD-LOOKING STATEMENTS

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

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

Subject to the requirements of the GEM Listing Rules, we do not intend to publicly 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 statements. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Placing Shares. You should pay particular attention to the fact that the legal and regulatory environment in which our Group operates may differ in some respects from that which prevails in other countries. The business, financial condition or results of operations of our Group could be materially adversely affected by any of these risks and uncertainties. The trading price of the Shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We derive a significant portion of our revenue from sales to our major customers. If our major customers were to terminate their respective relationships with us entirely and if we failed to develop new customers, our business would be adversely affected.

Our sales to our five largest customers represented approximately 74.3% and 74.6% of our total revenue for each of the two years ended 31 March 2015, respectively. Our sales to our largest customer represented approximately 45.2% and 46.7% of our total revenue for each of the two years ended 31 March 2015, respectively.

We do not enter into any long-term agreements with our customers with purchase obligations. Purchases by our customers are typically made on the basis of actual purchase orders received from time to time with no commitment to place future orders with us. Our customers are not obligated to continue placing orders with us at all or at the same level which they historically have done. Consequently, our customers, including our five largest customers, could cancel, reduce or defer future orders or cease to place orders at all, at will. During the Track Record Period, sales to Customer B, one of our five largest customers for the year ended 31 March 2014 ceased (for details, see “Business — Customers”). Revenue generated from Customer B accounted for approximately 4.0% of our total revenue for the year ended 31 March 2014. We cannot assure you that our existing customers will continue to place purchase orders with us in the future at the same quantity and price level as in the current or prior periods, or at all. If there is any other unexpected cessation of, or substantial reduction in the volume of, orders with any of our existing major customers, we cannot assure you that we would be able to obtain replacement in a timely manner or on commercially reasonable terms. Furthermore, the actual volume of our customers’ orders could be inconsistent with our expectations at the time we plan our expenditures and as a result, our business operations, financial condition and results of operations could vary from period to period and could fluctuate significantly in the future. If any of our relationships with our major customers were to be so altered and we were unable to obtain replacement orders, our results of operations would be adversely affected.

RISK FACTORS

We highly depend on the EU and US markets. If there was a drastic decrease in orders from our customers in these markets, we cannot guarantee that we would be able to make up the loss of sales from other markets.

For each of the two years ended 31 March 2015, our sales to the EU market (including but not limited to France, Italy, Belgium, UK, Germany and the Netherlands) (in terms of shipment destination without taking into account re-export or onward sales (if any) of our products by our customers) represented approximately 43.8% and 40.0% of our total revenue, respectively and our sales to the US market (in terms of shipment destination without taking into account re-export or onward sales (if any) of our products by our customers) represented approximately 35.1% and 42.9% of our total revenue, respectively. Our Directors anticipate that our sales to the EU and US markets will continue to represent significant portion of our turnover in the near future. Economic and political factors impacting these markets in particular could adversely affect the spending habits of its consumers and, therefore, the purchasing decisions of our customers in the EU and US markets. If there is a drastic decrease in the volume of orders from our customers in the EU and US markets, we cannot assure you that we could increase orders from other markets to make up for such loss of sales. In addition, according to the CBRE Report, the growth rate of two-way radio consumption in US market has slowed down since 2011 while the growth rate of two-way radio consumption in EU market has experienced volatilities since 2011 with an expected decreased growth rate in 2015. If we fail to seize an increase in orders from other markets (especially the China market which is expected to be the largest two-way radio consumption market in 2015 in terms of sales volume according to the CBRE Report), our business operations and financial results could be adversely affected.

Further, according to the CBRE Report, the birth rate, one of the main drivers for sale of baby monitors in the US (one of the largest baby monitor markets in terms of sales volume in 2014 according to CBRE Report) and EU (one of the largest baby monitor markets in terms of sales volume in 2014 according to CBRE Report) is gradually declining. Birth rates are affected by many factors that are beyond our control, such as government population policy, economic conditions, environmental impact, social and religious beliefs, etc. A decreasing birth rate in the US and EU could adversely affect the demand for our baby monitor products and our results of operations.

We derive a significant portion of our revenue from our sales of two-way radios. Any decrease in our sales in such products would materially and adversely affect our business, financial condition and results of operations.

A substantial proportion of our revenue is generated from the sales of two-way radios. For each of the two years ended 31 March 2015, sales of two-way radios accounted for approximately 90.6% and 93.2% of our total revenue, respectively. We cannot assure that the sales of our two-way radio products would generate the revenue at a level comparable to that of the historical sales. If the market demand for two-way radio products decrease in the future, or if we fail to develop new two-way radio products appealing to our customers or increase customers' orders for our baby monitor products, our business operations and financial results could be adversely affected.

RISK FACTORS

If we failed to anticipate technology innovation and successfully develop and market new products in time or at all, our business, financial condition and results of operations will be adversely affected as a result.

Due to rapid technological innovation and changing consumer preferences inherent to our industry, we are subject to product and technology obsolescence and price erosion. If we cannot successfully anticipate and identify changes in market demand due to technological changes and develop and introduce new and competitive products and services that meet the needs of the market or gain market acceptance in a timely and effective manner, our results of operations and reputation could be adversely affected. If we failed to introduce new products or services that meet market demands, there is a risk that we could possess large amounts of obsolete inventory for which we could set lower selling prices and our profit margins could be adversely affected. In addition, we cannot assure you that we will have adequate funding and resources necessary for developing and marketing new products or that our marketing strategies for our new products will be successful.

For each of the two years ended 31 March 2015, our product development costs capitalised as intangible assets or prepayments for research and development were approximately HK\$3.6 million and HK\$7.6 million, respectively. We cannot assure you that we can continue to invest adequate funding and resources in the development of new products, services and technologies in the future. In addition, we cannot assure you that these investments would yield the results expected.

The sales and profitability of our products are dependent on our customers' business performance.

We sell our two-way radio and baby monitor products mainly by direct sales to our customers on ODM basis. The business performance of our customers, which is beyond our control, would affect our sales to our customers. Our customers could underperform due to a number of factors, such as changes in business strategies, failure to develop successful marketing strategies, changes in the market demand for our customers' products and adverse market or economic conditions in the markets in which our customers operate, in particular, Europe and the US. If our customers experience underperformance, they could reduce their purchases from us, which could have a material and adverse impact on our business, financial condition, results of operations and prospect.

We experienced net current liabilities during the Track Record Period. Failure to manage our liquidity situation carefully could expose us to difficulties to obtain adequate financing for our business in the future.

We recorded net current liabilities of approximately HK\$4.5 million and HK\$9.3 million as at 31 March 2014 and 31 March 2015, respectively. For details, see "Financial Information — Net current liabilities". Historically, we have met our working capital and other liquidity requirements principally from cash generated from our operations and banking facilities. We cannot assure you that our operations will generate sufficient cash inflow to finance all our activities and cover our general working capital requirements. In the event that we are unable to generate enough cash from our operations to finance our future development, our financial condition and results of operations will be adversely affected.

RISK FACTORS

Fluctuations in the price, availability and quality of components and underlying raw materials could result in increased costs for us.

We have experienced fluctuations in the price of our raw materials. For details, see “Financial Information — Description and analysis of principal items in the consolidated income statements — Cost of sales”. We do not manufacture and we purchase the components we use for our products except for plastic casings and a few other plastic parts. For each of the two years ended 31 March 2015, the costs of raw materials and components represented approximately 65.7% and 63.9% of our total cost of sales, respectively. We do not enter into long-term purchase agreements with our suppliers which impose purchase obligations on our suppliers and there is a risk that we will not be able to source adequate supplies of components during periods of high demand at competitive prices or at all. For certain of the components we use, such as MCUs, different suppliers may produce different versions with different peripheral. If we are no longer able to source a particular component from an existing supplier due to discontinuation or for whatever reason, there is no assurance that we can source the same component in the same version with the same features from another supplier, and as a result, it is possible that we would need to alter the design of our products to ensure that the functionality requirements are met. This would create additional burden on our human and operational resources. We cannot assure you that our customers will accept the altered design or the cost of manufacturing the altered design is acceptable to our customers. Further, fluctuations in the availability and pricing of components can adversely affect our operating results. For instance, shortages of components and underlying raw materials, such as copper and rare earth elements that make up components could result in sharply higher prices and an increase in the cost of products and could cause a reduction or suspension of production at our manufacturing sites.

We place orders for our most frequently used components, such as MCUs and ICs in line with our production and inventory plans determined in advance based on our forecast of customer demand. Customer demand is highly volatile and difficult to predict and if we fail to accurately forecast our customer demand, we could be subject to shortage or excess of inventory of components and products and cause disruption of production plans and result in loss of sales opportunities or inventory adjustments and our business operations and financial results could be adversely affected.

Our profitability will be affected by the declining selling price and we may not be able to sustain current profitability.

Our profit is sensitive to changes in selling price. Any significant decline in the selling prices of our products will negatively affect our profitability in the future. During the Track Record Period, we experienced decrease in the average selling price of our baby monitor products. For details, see “Financial Information — Description and analysis of principal items in the consolidated income statements — Revenue”. Given this, our profitability for the Track Record Period might not give any indication of, and should not be interpreted as guidance for, our total profits in the future. In the event we encounter continuing selling price declines of our major products in the future, we could have difficulties to maintain or manage our business growth and our business operations and financial results could be adversely affected.

RISK FACTORS

Our performance could fluctuate due to changes in our business strategies.

During the history of our business, we have produced a number of different products other than two-way radio and baby monitor. We discontinued certain product lines during the Track Record Period and sales to one of our five largest customers for the year ended 31 March 2014 had ceased in September 2013 (for details, see “Business — Our products — Other products”). We cannot assure that customers who previously purchase the products that we discontinue will place orders for our other products.

We are shifting some of our marketing resources to the Asia market, as we experienced a general decline in demand for our products in the European markets (including but not limited to France, Italy, Belgium, UK, Germany and the Netherlands). For details of our sales by geographical location of the shipment location of our products, see “Business — Overview”. We cannot assure that we will be able to sustain continuing growth in our sales to the Asia market in the future.

We cannot assure you that changes in our business strategies will achieve the desired results. If we fail to execute our business plans effectively or if we are unable to manage our managerial, operational and financial resources to accommodate these changes, we cannot assure that we will be able to implement our business strategies accurately and our business, reputation and prospect could be adversely affected.

Our products are subject to certain laws and regulations, government policies and economic, social and political conditions in EU and US and other jurisdictions where we sell our products.

Our products need to satisfy various certification requirements. For details, see “Regulatory Overview”. As the eligibility criteria for these certifications could change from time to time and those changes are out of our control, we cannot assure you that our products can successfully satisfy these certification requirements or obtain relevant certificate(s) on time, or at all in the future. If our products fail to obtain or renew all necessary certificates, our customers could not continue to place orders with us and our operations and financial result could be materially and adversely affected.

In addition, as most of our products are exported to EU and US, we are subject to challenges in relation to changes in local regulations, trade policies, taxation laws, foreign exchange controls, import or export controls and economy development status which could affect our customers’ performance results and the end-consumers’ discretionary spending habits and ability. Economic slowdown or recession or potential economic slowdown or recession could result in a reduction in discretionary consumer spending and cause our customers to delay, defer or cancel their purchase orders with us. Further, unfavourable changes in local laws and regulations and government policies could block and/or discourage our customers to place purchase orders with us. If there are prolonged economic difficulties or financial crisis or continuing decline in consumer confidence in the economy or if we cannot suitably modify our business strategies to adjust those unfavourable changes in local laws and regulations and government policies, our business operation, financial condition and results could be adversely affected.

RISK FACTORS

We are subject to risk of currency fluctuations and any ongoing hedging transactions may not fully shield us from foreign-exchange fluctuations.

During the Track Record Period, while our expenses and costs were mainly denominated in HKD and RMB, a substantial portion of our revenue was denominated in USD due to the export-oriented nature of our business. Any significant fluctuations in the exchange rates between RMB and USD could materially and adversely affect our results of operations. Any future exchange rate volatility relating to RMB could expose us to risks of uncertainties in the value of net assets, profits and dividends. For each of the two years ended 31 March 2015, we recorded net exchange gains which amounted to approximately HK\$35,000 and HK\$0.4 million, respectively.

In light of the export nature of our business and our significant USD denominated receivables from our customers and to hedge against the risk of fluctuation of the USD against the RMB, we entered into certain foreign-exchange forward contracts during the Track Record Period to sell USD and buy RMB at specified exchange rates on specified future dates. As at 31 March 2014, the notional principal amounts of the outstanding foreign exchange forward contracts were approximately HK\$100.6 million. No prevailing foreign exchange forward contracts were outstanding as at 31 March 2015. For details, see “Financial Information — Description and analysis of principal items in the consolidated income statements — Other gains – net”. In the future, we intend to continue to conduct foreign exchange hedging transactions. We cannot assure you, however, that such transactions will be risk-free, and any loss resulting from such transactions may materially and adversely affect our financial condition and results of operations.

Recently, Euro has depreciated substantially against USD. Although a substantial portion of our revenue was denominated in USD, if Euro continues to depreciate, the price of our products in terms of Euro would increase. We did not adjust the prices of our products to our customers in EU according to the recent depreciation of Euro. If our customers in EU and their onward customers cannot transfer the price increase to the end customers or that they do not have appropriate hedging arrangements in place, they may request us to reduce the selling prices to ensure their profitability. In such event, we may not have sufficient bargaining power to maintain our profitability and we may even lose purchase order from our customers if our quotations are not acceptable to them, which could in turn adversely affect our revenue and financial performance.

Prior dividends distributions are not an indication of our future dividend policy and we may not be able to pay any dividends on our Shares.

Onward declared dividends in the sum of approximately HK\$0.5 million for the year ended 31 March 2014 to its then shareholders. On Real declared (i) dividends in the total sum of approximately HK\$7.3 million for the year ended 31 March 2014 and approximately HK\$16.0 million for the year ended 31 March 2015 to its then shareholders; (ii) a special dividend payment in the sum of approximately HK\$35.0 million (HK\$10.0 million in cash and approximately HK\$25.0 million for settlement of disposal of its 100% equity interest in

RISK FACTORS

Xinxing On Time) to its then shareholders; and (iii) a special dividend of approximately HK\$1.0 million to its then shareholders which was fully set off against the same amount of receivables due to us from our Controlling Shareholders as at 30 November 2014. Historical dividend distributions are not indicative of our future distribution policy and we cannot assure you that dividends of similar amounts or at similar rates will be declared in the future. Any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend on among other things, our earnings, cash flow, financial condition, capital requirements, statutory reserve requirements and any other factors that our Directors may consider relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Companies Law, including (where required) the approval of shareholders. Therefore, we cannot guarantee when, if and in what form dividends will be paid on our Shares following the Placing. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable. For other details of our dividend policy, see “Financial Information — Dividend policy”.

We could be subject to imposition of fines and penalties due to non-compliance with certain laws and regulations in relation to (i) social insurance and housing provident fund contribution; (ii) occupational disease prevention and control; and (iii) environmental protection in the PRC.

During the Track Record Period, we did not pay certain past social insurance and housing provident fund contributions. Our PRC Legal Advisers have advised that, as a result of these non-compliance incidents, we could be ordered to settle the unpaid amounts and subject to penalties or other liabilities. Our Directors have assessed that the amount of outstanding social insurance and housing provident fund contributions were approximately HK\$16.6 million and HK\$7.7 million as at 31 March 2014 and 31 March 2015, respectively. Xinxing Great Success and On Real (Shenzhen) have been in compliance with relevant social insurance and house fund policies and regulations, since July 2014 and October 2014, respectively. Provision for the unpaid amount has been made in our financial statements which our Directors considered as adequate.

Historically, we on various occasions did not fully comply with certain PRC laws and regulations on occupational disease prevention and control, including (i) Xinxing Great Success did not declare the occupational hazards at work places for the years from 2011 to 2013 and On Real (Shenzhen) did not declare the major changes to the occupational hazard factors from the date of change to 30 October 2014 to the local administrative department of work safety; and (ii) Xinxing Great Success and On Real (Shenzhen) did not attend to the “three simultaneities” procedures for the prevention and control of occupational disease hazards for construction projects which may cause occupational disease hazards. Our PRC Legal Advisers have advised that, as a result of the aforesaid non-compliance incidents, we could be ordered to (i) complete rectification within a prescribed time and pay a fine ranging from RMB20,000 to RMB50,000 (for breaches occurring from November 2009 to May 2012) or RMB50,000 to RMB100,000 (for breaches occurring since June 2012) for failing to make the 2011 to 2013 declarations or from RMB5,000 to RMB30,000 for failing to make the major

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change declaration; and (ii) pay a fine ranging from RMB100,000 to RMB500,000 and discontinue the operations which cause occupational disease hazards or discontinue the construction or shut down for failing to rectify the non-compliance regarding the “three simultaneities” procedures.

Historically, we on various occasions did not fully comply with certain PRC environmental protection laws and regulations, including (i) On Real (Shenzhen) commenced operation prior to applying for the environmental impact assessment approval for the extension construction project for the Songgang Factory; and (ii) Xinxing Great Success commenced operation prior to applying for the environmental protection approval and the pollutant discharge permit for a construction project for the Xinxing Factory. Our PRC Legal Advisers have advised that, as a result of the aforesaid non-compliance incidents, we could be ordered to (i) conduct reapplication procedure within a prescribed period and failure of which could subject us to cease construction and a maximum fine of RMB100,000; and (ii) cease the discharge of pollutant within a prescribed period and pay a fine from RMB50,000 to RMB100,000 and failure of which could subject us to cease production and operation. Our PRC Legal Advisers have advised that the Songgang Factory and the Xinxing Factory have been in compliance with the relevant regulations in relation to environmental protection since August 2014 and January 2015, respectively.

For details, see “Business — Non-compliance”. We cannot assure you that we will not be subject to fines or penalties or other liabilities in the future, and if such happens, our financial position could be adversely affected.

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

Risks relating to the Songgang Production Facility

We currently lease the properties for the Songgang Production Facility which has a total gross floor area of approximately 8,843.3 sq.m from an Independent Third Party. So far as we are aware, (i) the landlord does not possess the property ownership certificates and construction works planning permits for such leased properties; and (ii) as at the Latest Practicable Date, such leased properties were registered as historical illegal buildings used for production and business (歷史遺留生產經營性違法建築) in Shenzhen, China according to the applicable laws and regulations in the PRC. The Songgang Production Facility is crucial to our operations.

As advised by our PRC Legal Advisers, (i) our lease agreement could be adjudicated as invalid and unenforceable due to the title encumbrances and there is a risk that we will be required to vacate the premises; and (ii) the aforesaid risk continues to apply notwithstanding the registration of the leased properties as historical illegal property ownership certificates buildings. Further, it is beyond our control whether the landlord would be able to obtain the property ownership certificates.

RISK FACTORS

In the event that we are forced to relocate from the Songgang Production Facility, we estimate to incur relocation costs of approximately RMB600,000 to relocate our operations in the Songgang Production Facility to a backup facility, details of which are set out in “Business — Property — Contingency arrangements for our production and business operation”.

Risks relating to the Shenzhen office

We currently lease the properties for the Shenzhen office which has a gross floor area of approximately 797 sq.m from an Independent Third Party. So far as we are aware, the landlord does not possess the property ownership certificates and construction works planning permits for such leased properties.

As advised by our PRC Legal Advisers, our lease agreement could be adjudicated as invalid and unenforceable due to the title encumbrances and there is a risk that we will be required to vacate the premises. Further, it is beyond our control whether the landlord would be able to obtain the property ownership certificates.

In the event that we are forced to relocate from the Shenzhen office, we estimate to incur relocation costs of approximately RMB240,000 to relocate our operations in the Shenzhen office to another location, details of which are set out in “Business — Property — Contingency arrangements for our production and business operation”.

Risks relating to our contingency arrangements

We have adopted certain contingency arrangements including, with respect to the Songgang Production Facility, the entering into pre-lease agreement for relocation to a backup facility, the entering into of a contingent manufacturing agreement for reservation of the facilities of a subcontractor and the adoption of a relocation plan of our production operations. The formal lease agreement for the backup facility has not been entered into. If the landlord of such backup plants could not deliver vacant possession of the backup facility, we cannot assure you that we will be able to identify other alternative suitable production facilities of size and rental comparable to those of the Songgang Production Facility in a timely manner. The contingent manufacturing agreement stipulates that we will provide the production plan and testing standards to the subcontractor seven days in advance. There is no guarantee that the subcontractor will be able to fully accommodate our production requirements. We expect that large amounts of management time and human resources will be diverted from our existing business and operations to implement the relocation. If any or all of the above occurs, we could experience longer than expected delays before resuming production at full capacity or at all, and incur higher than expected loss of revenue and profits as well as further claims due to delay and/or failure to deliver our products to our customers.

With respect to the Shenzhen office, there is no assurance that we would be able to secure a prompt relocation to suitable premises of size and rental comparable to those of the Shenzhen office, nor is there any assurance that the relocation will not have any adverse impact on our business, which may in turn affect the revenue and financial performance of our Group.

RISK FACTORS

For further details, see “Business — Property — Defects of certain of our leased properties”.

We outsource certain manufacturing and engineering processes to independent subcontractors. Any disruption to their manufacturing operations could adversely affect our production schedule and in turn affect our business operations and financial results.

We engage independent subcontractors for certain of our manufacturing and engineering processes. For details, see “Business — Production — Subcontracting”. If there is any significant disruption to the operations of our subcontractors or damage to their facilities due to natural or other causes such as technical and mechanical failures, their operations could be adversely impacted, which could cause knock-on delays in our delivery schedules and impair our ability to fulfil our customers’ orders. If we discover any subcontractor has encountered material non-compliance issues, for instance, violations of local health and safety laws, we will need to divert management and financial resources to assess whether we should terminate relationship with the subcontractors. We cannot assure that the performance monitoring procedures we adopt for our subcontractors will be effective and any material deterioration of product quality for any reasons could result in damage to our business reputation. In the event of early termination of, or any adverse changes to, the current subcontracting agreements we have with our subcontractors or if such agreements are not renewed upon expiry, we cannot assure that we will be able to locate comparable alternative subcontractors that could provide the services we require in a timely manner and/or on commercially acceptable terms. This could cause delay to our product schedule and in turn affect our business operations and financial results.

We usually pay the full amount of all raw material costs due to suppliers before we receive payment from our customers. We incur certain product development costs before actual orders are placed by customers. If any significant amount of payments cannot be collected from our customers, our financial conditions and results of operations could be adversely affected.

We usually pay the full amount of raw material costs due to the suppliers in accordance with their payment terms to us before we receive payment from our customers. We incur certain product development costs more than six months before actual orders are placed by customers. Our sales to customers are generally on open account basis with credit terms ranging generally from 30 to 90 days from the date of monthly statement and we do not require our customers to pay deposits upon receiving their orders. The timing difference between the payment and credit terms given by us to our customers and the payment and credit terms given to us by our suppliers may result in significant cash flow mismatch which may adversely affect our cash flow position and our ability to meet our working capital requirements in the future. As a result of the cash flow mismatch, our cash and bank balances decreased from approximately HK\$45.0 million to HK\$33.9 million and our total borrowings increased from approximately HK\$23.7 million to HK\$49.7 million from 31 March 2014 to 31 March 2015. During the Track Record Period, we funded our material costs by using cash generated from operating activities and cash balances and/or financing mainly comprised bank borrowings and trade financing and we

RISK FACTORS

generally funded our product development costs by using cash generated from operating activities and cash balances. We can offer no assurances that all of our customers will continuously maintain a good practice of making timely payments to us according to the relevant contractual arrangements. If any significant amount of payments cannot be collected from our customers, for example, due to cancellation of purchase orders subsequently or a deterioration in our customers' creditworthiness, our financial conditions and results of operations could be adversely affected. If we adopt a different practice with our customers, such as requiring them to pay before delivery, our relationship with them could deteriorate and there is a risk that they will cease to place orders with us, which could adversely affect our business and financial performance.

If we cannot adequately protect our intellectual property rights, our business could be adversely affected.

As at the Latest Practicable Date, we had registered one patent and two trademarks in the PRC and registered one trademark in Hong Kong. See "B. Further information about our business — 2. Our intellectual property rights" in Appendix IV to this prospectus for further details. We cannot assure that we can successfully protect our registered patent and trademarks. As our unique know-how and expertise in RF technology and the design of two-way radio products are either not fully capable of being protected by intellectual property rights or protected only to a limited extent pursuant to legal limitations in certain jurisdictions, there is a risk that we will not be able to effectively prevent third parties from using our know-how and expertise and produce products similar or superior to ours. If such event happens, the competitive advantage of our products and technologies could reduce and our business, results of operations and prospects could materially and adversely affect.

If we are accused of infringing others' intellectual property rights, there is a risk that we will be liable for significant damages.

Our products and services incorporate a wide variety of technologies. We could face legal proceedings or claims against us from time to time asserting that such technology infringes the intellectual property owned by others. If such event occurs, there is a risk that we will need to enter into settlement or licence agreements, to pay significant damage awards, and/or to face a temporary or permanent injunction prohibiting us from marketing or selling certain of our products and services, which could have an adverse effect on our business, operating results, financial condition and reputation.

Our success depends on the ability to recruit and retain skilled technical employees and management professionals.

In order to continuously and successfully develop, design, manufacture, market and sell our products and services in increasingly competitive markets, we must attract and retain key personnel, including our management professionals and skilled employees such as software engineers. There is a high demand for such skilled employees in the industry we operate in, and there is a risk that we will be unable to attract or retain qualified employees to keep up with future business needs. The loss of the services of one or more members of our key management professionals and skilled employees in the absence of any suitable replacements could have a material adverse effect on our operation and prospects.

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A material disruption of our operations could adversely affect our business.

Our operations are heavily dependent on the use of our production facilities, which are subject to operation risks. These risks include the breakdown or failure of our major equipments, power supply or maintenance, natural disasters, industrial accidents and the need to comply with the directives of relevant government authorities such as statutory inspections and testing. These risks could result in temporary, permanent, partial or complete shut-downs of our operations, and as a result, our operations and financial results could be adversely affected. Further, our business also relies on prompt delivery and quality transportation of finished products for shipment, raw materials from our suppliers and the provision of services by certain third-party vendors. Certain events, such as adverse weather conditions, massive riots, natural disasters, severe traffic accidents and delays, suspension of public transportation systems, non-cooperation of our suppliers or their logistics partners and labour strikes, could lead to delayed or lost deliveries, which could result in the loss of revenue.

We are subject to financial and reputational risks due to product quality and liability issues.

Our business is inherent to the risk of product liability claims. We cannot guarantee that all products produced by us are defect-free. If our products failed to perform their specifications or caused or alleged to have caused property damage, bodily injury or death, we would be subject to product liability claims. These claims, regardless of merit, could subject us to lawsuits and result in unexpected expenses. If large scale product recalls were requested due to products claims or if we failed in the lawsuits, our reputation, business operation and financial result will be adversely affected.

If we fail to maintain an effective quality control system, our business could be adversely affected.

Under the agreements we entered into with some of our customers, we agree that our production facilities would meet the relevant standards set out in the ISO 9001:2008 quality management system and other stringent requirements while our products would meet with the relevant international and local safety standards and that we are responsible for the act of our subcontractors. We cannot assure you that we can maintain our effective quality control system or to renew our ISO 9001:2008 certificates in the future. There is no assurance that defects, errors or vulnerabilities would not exist in the quality assurance tests conducted on our products, whether by ourselves or in external laboratories. If our production facilities or products fail to meet with our customers' requirements, our customers could cease placing orders with us and our reputation could be harmed. We outsource some industrial design works relating to the aesthetics and ergonomics of our products to third-party external designers and outsource part of our manufacturing and engineering processes to independent subcontractors. If our procedures on monitoring the performance of our subcontractors fail to achieve the desired result, it could result in deteriorating quality of our products and could subject us to liability. In such event, our operations and profitability would be adversely affected. If we fail to manufacture our products with internationally accepted safety and quality assurance or meet customer's requirements, we could be subject to a decrease in demand for our products or cancellation or loss of orders from our customers which would in turn have adverse impact on our business operation and financial result.

RISK FACTORS

In addition, most of our products are exported. Relevant authorities in our export markets could change and amend laws and regulations relating to product safety of their respective jurisdictions from time to time. The occurrence of any such event is out of our control and we could risk producing products that are found to be in breach of the new and amended laws and regulations of the relevant jurisdiction(s). We could be subject to administrative investigations or be liable to penalties or incur additional costs of compliance and maintenance, thereby adversely affecting our business, operating result, reputation and prospect.

Our financial performance for the year ending 31 March 2016 will be affected by certain non-recurring expenses.

Notwithstanding our financial performance for the Track Record Period disclosed in this prospectus, our financial results for the year ending 31 March 2016 will be affected by certain non-recurring expenses, including the expenses in relation to the Listing. Currently, we only have an estimate of our Listing expenses to be incurred and the actual amount to be recognised in the financial statements of our Group for the year ending 31 March 2016 is subject to adjustment based on audit and the then changes in variables and assumptions. Accordingly, our financial results for the year ending 31 March 2016 will be affected by the expenses in relation to the Listing.

Our sales of products and services are sensitive to the seasonality of consumer demand.

Our sales are sensitive to seasonality. For example, during the Track Record Period, we experienced lower sales in the fourth quarter of our financial year (i.e. from January to March) which, our Directors believe, is attributable to lower end-consumer purchasing desire after the major holidays, including Thanksgiving and Christmas. As a result, changes in the competitive environment, changes in market conditions and delays in the release of consumer products can adversely affect our operating results.

We experienced incidents of non-compliance with the Predecessor Companies Ordinance.

Some of our Hong Kong subsidiaries have on various occasions not fully complied with certain statutory requirements in the Predecessor Companies Ordinance with respect to matters relating to the adoption of audited financial statements. See “Business — Non-compliance” for further details. If the Registrar of Companies in Hong Kong takes any action against the relevant subsidiaries in our Group, including the assessment of fines or other penalties and/or if our Controlling Shareholder(s) fail to indemnify us in full, our reputation, cash flow and results of operation could be adversely affected.

The preferential income tax rate we are entitled to could be changed or discontinued, which could adversely affect our profitability.

On Real (Shenzhen) is granted the status of High and New Technology Enterprise (高新技術企業) with a certificate dated 30 September 2014 for a validity period of three years and is entitled to apply for a preferential income tax rate of 15% instead of a statutory rate of 25% in the PRC during the period of validity of the certificate. The status of High and New

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Technology Enterprise of On Real (Shenzhen) will expire in September 2017. If any application for renewal of such status upon expiry of the current certificate fails and we cease to be a High and New Technology Enterprise, we will be subject to the then prevailing statutory rate, which could lead to an increase in the effective income tax rate of our PRC subsidiaries and in turn affect our future results of operation. In the event that the PRC government changes its tax policy of supporting high and new technology enterprises, such as revocation of such policy, we could lose the right to apply for, and/or the benefits afforded by, a preferential income tax rate, which could adversely affect our business and the results of our operations.

We could be adversely affected by the sanctions of the US government, the EU and Australia against certain Russian individuals and entities.

Russia is one of our shipment destinations of our products. Our revenue generated from the sales of our products shipped to Russia represented approximately 4.2% and 2.6% in terms of our total revenue for each of the two years ended 31 March 2015, respectively. We are aware that following Russia's military intervention in Ukraine in 2014, the United States, the EU and Australia have put in place certain economic or trade sanctions against, among others, certain named Russian individuals and entities. The military intervention in Ukraine may bring uncertainty to or even adversely affect the economy of Russia. We also cannot assure that the scope of the sanctions will not expand in the future. If there is any material adverse effect on the Russian economy brought about by the military intervention or any change in the sanctions, the business of customers of our products in Russia could be adversely affected. This could result in a drop in the demand for our products and our sales attributable to Russia would in turn be materially adversely affected.

We cannot predict the interpretation or implementation of sanctions laws or government policy by the United States, the EU, Australia, or other applicable jurisdictions with respect to any current or future activities by us in Russia. We have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, or our Shareholders or investors to violate or become a target of sanctions laws of the United States, the EU and/or Australia. We can provide no assurance that our future business will be free of risk under the sanctions, or that we will conform our business to the expectations and requirements of the authorities of any government that does not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. If the sanction authorities of the United States, the EU, Australia or any other jurisdictions were to determine that any of our business activities constitutes any violation of the sanctions imposed by them, our business, financial condition and results of operation as well as reputation could be materially and adversely affected. In addition, as many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

We cannot guarantee the accuracy of facts, projections, other statistics and information derived from various official government publications or the CBRE Report referred to in this prospectus.

Facts, projections, other statistics and information in this prospectus relating to the demand for two-way radio and baby monitor products in the US, EU and China market and the two-way radio and baby monitor manufacturing industry in China have been derived from

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various official government publications or industry sources or obtained from CBRE. We believe that these publications are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality or reliability of the source materials. They have not been prepared or independently verified by us, the Sponsor, the Joint Lead Managers, the Sole Bookrunner and the Underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts, forecasts, statistics and information, which may not be consistent with other information compiled elsewhere. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts, forecasts, statistics and information in this prospectus may be inaccurate or may not be comparable to facts, forecasts, statistics and information produced with respect to other economies. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Hence, you should not unduly rely upon the facts, forecasts, statistics and information with respect to the demand for two-way radio and baby monitor products in the US, EU and China market and the two-way radio and baby monitor manufacturing industry in China contained in this prospectus.

RISKS RELATING TO OUR INDUSTRY

Our industry is affected by macro-economy globally.

Our industry is volatile and is sensitive to economic slowdown or recession which is beyond our control. Economic slowdown or recession or potential economic slowdown or recession could result in a reduction in discretionary consumer spending and cause our consumers to delay, defer or cancel their purchases. Prolonged economic difficulties or financial crisis or continuing decline in consumer confidence in the economy will have an adverse effect on our business, financial condition and results of operations.

Our industry is subject to competition.

Our products and services face competition from products and services sold by competitors on the basis of several factors such as price and function. In order to provide products and services that appeal to changing and increasingly diverse consumer preferences, and to overcome the fact that a relatively high percentage of consumers already possess products and services similar to those that we offer, we must develop to anticipate consumer tastes and rapidly develop attractive products and services with competitive selling prices. If we cannot efficiently develop and offer products at competitive prices or introduce new products with enhanced functions in a timely manner, our operating results and financial condition could be adversely impacted.

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Increased inspection procedures, tighter import and export controls and additional trade restrictions could increase our operating costs and cause disruption to our business.

The consumer electronics industry is subject to various security and customs inspections and related procedures (the “**Inspection Procedures**”) in countries of origin and destination as well as at transshipment points. Such Inspection Procedures can result in the seizure of consumer electronics products and the levying of customs duties, fines or other penalties against exporters or importers. If Inspection Procedures or other controls are further tightened, we could incur further costs and delays and our business could be harmed.

Foreign exchange restrictions imposed by the PRC government could negatively affect the business operations of our Group.

The PRC government regulates the conversion between RMB and foreign currencies. Over the years, the PRC government has significantly reduced control over routine foreign exchange transactions under current accounts, including trade and service-related foreign exchange transactions and payment of dividends. However, strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE or its branches, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions. We currently have two PRC subsidiaries. Any tightening of such restriction may adversely affect the performance of our operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our subsidiaries in China and our operations in China are governed by PRC laws and regulations. The PRC legal system is based on written statutes and the legal interpretation by the SCNPC. Prior court decisions could be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in introducing laws and regulations when dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. As these laws, regulations and legal requirements are not fully developed and are subject to change, making interpretation and enforcement of such laws and regulations uncertain. These uncertainties could limit the reliability of legal protections available to us and could negatively affect our business results, operations and financial conditions. In addition, any litigation in China could be protracted and result in substantial costs and diversion of resources and management attention.

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The economic and political policies of the PRC government could adversely affect the overall economic growth of China, our business, financial conditions and results of operations.

We conduct substantially all of our business operations in China. As our business is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. Accordingly, our results of operations, financial conditions and prospects are subject to a significant degree to economic developments in China. Although the PRC economy has been transforming from a planned economy to a more market oriented economy, the PRC government can still exercises significant control over China's economic growth through the allocation of resources, controlling of foreign exchange, setting monetary policy and providing preferential treatments to particular industries or companies. In the past 20 years, the PRC government has implemented various measures to encourage economic development and the PRC economy has experienced significant growth. We cannot assure that future actions and policies of the PRC government will continue to boost the economic growth. If PRC economy encounters serious downturns, our business results, operations and financial conditions could be adversely affected.

It could be difficult to effect service of process or to enforce foreign judgements in the PRC.

Since substantially all of our assets are located in the PRC, investors could encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and officers. Moreover, it is understood that the enforcement of foreign judgements in the PRC is subject to uncertainties. A judgement of a court from a foreign jurisdiction could be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if the judgements of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements.

China does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgements of a court in any of this non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision could be difficult or impossible.

Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability and in turn affect our results of operation.

During the Track Record Period, all of our manufacturing activities in the PRC were undertaken by On Real (Shenzhen) and Xinxing Great Success (collectively the “**PRC Subsidiaries**”) which sold most of the finished products to our Hong Kong subsidiaries for onward sales to our customers. Our Hong Kong subsidiaries placed purchase orders to our PRC Subsidiaries when they received purchase orders from our customers. Our Group implemented a transfer pricing policy for the intra group sales from our PRC Subsidiaries to our Hong Kong Subsidiaries and it was reviewed by a transfer pricing consultant. According to the report

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prepared by our transfer pricing consultant, our cost-plus methodology adopted to determine the fees charged to our Hong Kong subsidiaries is supported by appropriate transfer pricing analysis and are in line with the market. Our Directors confirm that the relevant intra group transactions were conducted on normal and commercial terms. However, there can be no assurance that tax authorities reviewing such arrangements would agree that we are in compliance with transfer pricing laws, or that such laws will not be modified. In the event an authority of any relevant jurisdiction finds that transfer prices were manipulated in a way that distorts true taxable income, such authority could require our relevant subsidiaries to re-determine transfer prices and thereby reallocate the income or adjust the taxable income or deduct cost and expense of the relevant subsidiary in order to accurately reflect such income. Any such reallocation or adjustment could result in a higher overall tax liability for us and adversely affect our business, financial condition and results of operations.

Withholding tax on dividends received from our PRC subsidiaries could affect our Company's ability to pay dividends to our Shareholders.

Our Company is incorporated under the laws of the Cayman Islands and indirectly holds interests in our PRC subsidiaries. According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and the Implementation Rules of the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), non-resident enterprises which have not set up institutions or premises in the PRC, or where the institutions or premises are set up but its subsidiary's after-tax income has no actual relationship with such institutions or premises shall be subject to the withholding tax of 10% on income derived from the after-tax profit of its subsidiary.

According to the Arrangements between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes On Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), profit derived by a foreign investor residing in Hong Kong from its PRC enterprise in which such foreign investor directly owns 25% equity interest is subject to the tax rate of 5% after obtaining the approval from the relevant tax bureau.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaties (《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 by the State Administration of Taxation (中華人民共和國國家稅務總局) and became effective on 20 February 2009, all of the following requirements shall be satisfied for a party to a tax agreement to be entitled to the tax rate specified in the tax agreement for dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be the company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC domestic company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, shall reach the percentage specified in the tax agreement. Since On Real (Shenzhen) and Xinxing Great Success have not yet distributed any dividend, whether the withholding tax rate for its dividends is 5% will depend, in part, on how the PRC tax authorities apply or enforce the EIT Law and EIT Rules. Such withholding tax will in turn reduce the amount of dividends or other distributions our Company can receive and restrict our ability to pay dividends to the Shareholders.

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Our operations could be affected if there is a labour shortage or substantial increase in labour costs in the PRC.

If there is a shortage of labour in the PRC where our productions take place, our operations could be adversely affected and extra time and resources will be deployed to recruit new labour, as a result of which our cost of production will increase. In the future, labour costs could continue to increase significantly and additional legislations or the increased statutory minimum wages could be enacted by the PRC government which further increases the employers' obligations to pay for employee's benefits and welfare. The occurrence of any of the above will raise our overall cost of production and hence, the selling prices of our products, which could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE PLACING

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

Prior to the Placing, there was no public market for the Shares. The Placing Price for the Shares was the result of negotiations between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Placing Price can differ significantly from the market price for the Shares following the Placing. In addition, there can be no assurance that there will be an active trading market for our Shares following the Placing or in the future.

The trading volume and market price of our Shares following the Placing could be volatile.

The price and trading volume of the Shares could be volatile. Factors such as variations in our Group's revenues, earnings and cash flows and announcements of new investments and strategic alliances or acquisitions could result in large and sudden changes in the volume and price at which the Shares will trade. Volatility in the trading price of the Shares could also be caused by factors outside our Group's control and could be unrelated to our Group's operating results. These factors include: (i) investors' perception of our Group's business plans; (ii) changes in our Group's senior management personnel; and (iii) macroeconomic factors.

Future sales or perceived sales of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares.

There is no assurance that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Placing. We cannot predict the effect, if any, of any future sales of the Shares by any of our Controlling Shareholders, or that the availability of the Shares for sale by any of our Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

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Purchasers of the Placing Shares will experience an immediate dilution and may experience further dilution if we issue additional Shares or other securities in the future.

Based on the Placing Price range, the Placing Price is expected to be higher than the net tangible asset value per Share immediately prior to the Placing. Therefore, the purchasers of the Placing Shares will experience an immediate dilution in unaudited pro forma net tangible asset value to approximately HK\$0.10 per Share and approximately HK\$0.15 per Share based on the Placing Price of HK\$0.40 per Placing Share and HK\$0.60 per Placing Share, respectively. Additional funds may be required in the future to finance the expansion or new developments of the business and operations of our Group. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the Shareholders of our Company may be diluted or such new securities may confer rights and privileges that take priority over those conferred by the Placing Shares.

Any options granted under the Share Option Scheme may dilute the Shareholders' equity interests.

We have conditionally adopted the Share Option Scheme. As at the Latest Practicable Date, no option had been granted to subscribe for Shares under the Share Option Scheme. Following any issue of new Shares upon exercise of any options which may be granted under the Share Option Scheme, there will be an increase in the number of issued Shares. As such, there may be a dilution or reduction of shareholding of the Shareholders which results in a dilution or reduction of the earnings per Share or net asset value per Share. In addition, the fair value of the options to be granted to the eligible participants under the Share Option Scheme will be charged to the consolidated income statements of our Group over the vesting periods, if any, of the options. The fair value of the options shall be determined on the date of granting of the options. Accordingly, our financial results and profitability may be adversely affected.

Shareholders and investors could face difficulties in protecting their interests because our Company was incorporated under the laws of the Cayman Islands and these laws could provide different protections to minority Shareholders than the laws of Hong Kong.

Our corporate affairs are governed by the Memorandum and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders could differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences could mean that the minority Shareholders could have different protections than they would have under the laws of Hong Kong.

RISK FACTORS

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

Statistics and facts in this prospectus have not been independently verified.

This prospectus includes certain statistics and facts that have been extracted from government official sources and publications or other sources. We believe that the sources of these statistics and facts are appropriate for such statistics and facts and have taken reasonable care in extracting and reproducing such statistics and facts. We have no reason to believe that such statistics and facts are false or misleading or that any material information has been omitted that would render such statistics and facts false or misleading. These statistics and facts from these sources have not been independently verified by us, our Controlling Shareholders, the Sponsor, the Underwriters, the Joint Lead Managers, the Sole Bookrunner, any of their respective directors or any other party involved in the Placing and therefore, we make no representation as to the accuracy or completeness of these statistics and facts, as such these statistics and facts should not be unduly relied upon.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this prospectus could be inaccurate or there is a risk that they are not comparable to statistics produced for other economies and should not be relied upon. Furthermore, we cannot assure you that the facts and other statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such facts or other statistics.

Forward-looking statements in this prospectus could prove inaccurate.

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of our Directors. Such forward-looking statements are based on numerous assumptions as to our present and future business strategies and the development of the environment in which we operate. Our actual financial results, performance or achievements could differ materially from those discussed in this prospectus. Investors should be cautious against placing undue reliance on any forward-looking statements as these statements involve known and unknown risks, uncertainties and other factors which could cause our actual financial results, performance or achievements to be materially different from our anticipated financial results, performance or achievements expressed or implied by these statements. We are not obliged to update or revise any forward-looking statements in this prospectus, whether by reason of new information, future events or otherwise.

RISK FACTORS

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles, media coverage and/or research analyst reports regarding us and the Placing.

There could be press articles, media coverage and/or research analyst reports regarding us and the Placing, which could include certain financial information, financial projections, industry comparisons, and/or other information about us and the Placing that do not appear in this prospectus. We do not accept any responsibility for any such press articles, media coverage or research analyst report or the accuracy or completeness or reliability of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. We have not authorised the disclosure of any such information in the press, media or research analyst report. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it and accordingly, you should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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 (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purposes of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
- there are no other matters the omission of which would make any statement herein or 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.

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

Printed copies of this prospectus are available, for information purposes only, at the offices of (1) Quam Securities Company Limited at 18/F-19/F, China Building, 29 Queen's Road Central, Hong Kong; and (2) Pacific Foundation Securities Limited at 11/F, New World Tower II, 16-18 Queen's Road Central, Hong Kong from 4:00 p.m. to 5:00 p.m. on Friday, 18 September 2015 and during normal office hours from 9:00 a.m. to 5:00 p.m. from Saturday, 19 September 2015 up to and including Tuesday, 29 September 2015 (both dates inclusive but on business days only).

PLACING SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing which is sponsored by the Sponsor and managed by the Joint Lead Managers. The Placing Shares will be fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement (including but not limited to the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company agreeing on the Placing Price). For further information about the Underwriters and underwriting arrangements, see "Underwriting".

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DETERMINATION OF THE PLACING PRICE

The Placing Price is expected to be fixed by the Price Determination Agreement to be entered into between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or about Tuesday, 22 September 2015, or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree. For full information relating to the determination of the Placing Price, see “Structure and Conditions of the Placing”.

RESTRICTIONS ON SALE OF THE PLACING SHARES

No action has been taken to permit any offering of the Placing Shares 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 nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Placing Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or as an exemption therefrom.

Each person acquiring the Placing Shares will be required to confirm, or by his/her acquisition of the Placing Shares be deemed to confirm, that he/she is aware of the restrictions on offers of the Placing Shares described in this prospectus and that he/she is not acquiring, and has not been offered, any such shares in circumstance that contravenes any such restrictions.

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

STRUCTURE AND CONDITIONS OF THE PLACING

Details of the structure of the Placing, including the conditions thereto, are set out in “Structure and Conditions of the Placing”.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Division for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on GEM. 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 list is being or is proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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

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

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

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on GEM and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the 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 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.

HONG KONG SHARE REGISTRAR AND STAMP DUTY

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

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of our Shares will be paid to the Shareholders listed on our Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Placing are recommended to consult their professional advisers if they are in any doubt as to taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, our Shares. None of our Company, the Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives (where applicable) or any other persons or parties involved in the Placing accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, our Shares.

DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. (Hong Kong time) on or about Wednesday, 30 September 2015.

Shares will be traded in board lots of 5,000 Shares each and are freely transferable.

The GEM stock code for the Shares is 8245.

Our Company will not issue any temporary document of title.

LANGUAGE

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

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

EXCHANGE RATE CONVERSION

Unless otherwise specified, this prospectus contains translations for the convenience of the reader the following rates: HK dollars into US dollars at the rate of HK\$7.74 = US\$1.00 and HK dollars into RMB at the rate of HK\$1.00 = RMB0.7947 as at the Latest Practicable Date. These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in HK\$, RMB or US\$ can be or could have been at the relevant dates converted at the above rates or any other rates at all.

Unless our Company determines otherwise, dividends payable in HK dollars in respect of the Shares will be paid to the Shareholders listed on our Company's Hong Kong branch register of members to be maintained in Hong Kong by cheque sent, by ordinary post, at the Shareholder's risk to the registered address of each Shareholder or, in the case of joint holders, the first-named holder in accordance with the Articles.

ROUNDING

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

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Tam Wing Ki (談永基) <i>(Chairman and chief executive officer)</i>	G/F, 99 Fourth Street Section L Fairview Park New Territories Hong Kong	Chinese
Mr. Hsu Wing Sang (許永生)	Flat 1218, 12/F, Shing Ka House Kwai Shing East Estate Kwai Chung New Territories Hong Kong	Chinese
Mr. Tao Hong Ming (陶康明)	Flat A, 31/F, Block 12 Discovery Park Tsuen Wan New Territories Hong Kong	Chinese
Non-executive Director		
Mr. Chau Wai Hung, Andy (周煒雄)	Room 1905, Shek Cheung House Shek Lei Estate Kwai Chung New Territories Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
Independent non-executive Directors		
Mr. Cheng Yuk Kin (鄭煜健)	Flat 1809, Tower 2 Harbourview Horizon 12 Hung Lok Road Hung Hom Bay, Kowloon Hong Kong	Chinese
Mr. Fan Chun Wah, Andrew (范駿華)	Room E, 22/F, Block 38 Laguna City 11 South Laguna Street Kwun Tong, Kowloon Hong Kong	Chinese
Ms. Reina Lim Yan Xin (林延芯)	Flat 3011, Block R Kornhill Quarry Bay Hong Kong	Singaporean

See “Directors and Senior Management” for further details of our Directors and senior management.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED IN THE PLACING

Sponsor

Quam Capital Limited
18/F-19/F, China Building
29 Queen's Road Central
Hong Kong

Joint Lead Managers

Quam Securities Company Limited
18/F-19/F, China Building
29 Queen's Road Central
Hong Kong

Pacific Foundation Securities Limited
11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong

Sole Bookrunner

Pacific Foundation Securities Limited
11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law
Tung & Co.
in association with Jia Yuan Law Office
Office 1601, 16th Floor
LHT Tower
31 Queen's Road Central
Hong Kong

As to the PRC law
Hills & Co.
11th Floor, Central Business Building
No. 88 Fu Hua 1st Road
Fu Tian District
Shenzhen
PRC

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

As to Cayman Islands law

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

As to English law

Wragge Lawrence Graham & Co LLP
4 More London Riverside
London
SE1 2AU

As to German law

Gleiss Lutz Hootz Hirsch PartmbB
Rechtsanwälte, Steuerberater
Taunusanlage 11
60329 Frankfurt am Main
Germany

As to Netherlands law

Stibbe
Suite 1505
15/F, ICBC Tower
Citibank Plaza
3 Garden Road, Central
Hong Kong

As to US law

Alston & Bird LLP
One Atlantic Center
1201 West Peachtree Street
Atlanta, GA 30309-3424

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

As to Hong Kong law

Pinsent Masons
50th Floor, Central Plaza
18 Harbour Road
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

As to the PRC law

Dacheng Law Offices

10th Floor, Gongjiao Building
No. 1001, Lianhuazhi Road
Futian District
Shenzhen 518036
PRC

Auditors and reporting accountant

PricewaterhouseCoopers

Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Property valuer

International Valuation Limited

Room 1203A, 12/F
Kai Tak Commercial Building
317-319 Des Voeux Road Central
Hong Kong

Industry consultant

CBRE Limited

12/F, Three Exchange Square
8 Connaught Place, Central
Hong Kong

Compliance adviser

Quam Capital Limited

18/F-19/F, China Building
29 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Registered office in the Cayman Islands	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarters in the PRC	Unit 308, 3/F, Section 3 Block B, Ming You Industrial Products Procurement Center Bao Yuan Road Xixiang Sub-district, Baoan District Shenzhen China
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Room 2401-02, 24/F, Jubilee Centre 46 Gloucester Road Wanchai Hong Kong
Company's website	<u>www.on-real.com</u> <i>(Information in this website does not form part of this prospectus)</i>
Company secretary	Ms. Au Annie Man Wai (歐敏慧) <i>(ICSA, HKICS)</i> Flat F, 22/F Block 6 Chi Fu Fa Yuen Southern Hong Kong
Authorised representatives	Mr. Tao Hong Ming (陶康明) Flat A, 31/F, Block 12 Discovery Park Tsuen Wan New Territories Hong Kong Ms. Au Annie Man Wai (歐敏慧) Flat F, 22/F Block 6 Chi Fu Fa Yuen Southern Hong Kong

CORPORATE INFORMATION

Compliance officer	Mr. Tao Hong Ming (陶康明) Flat A, 31/F, Block 12 Discovery Park Tsuen Wan New Territories Hong Kong
Audit committee	Mr. Cheng Yuk Kin (鄭煜健) (<i>Chairman</i>) Ms. Reina Lim Yan Xin (林延芯) Mr. Fan Chun Wah, Andrew (范駿華)
Remuneration committee	Ms. Reina Lim Yan Xin (林延芯) (<i>Chairman</i>) Mr. Cheng Yuk Kin (鄭煜健) Mr. Fan Chun Wah, Andrew (范駿華) Mr. Tao Hong Ming (陶康明)
Nomination committee	Mr. Tam Wing Ki (談永基) (<i>Chairman</i>) Mr. Cheng Yuk Kin (鄭煜健) Ms. Reina Lim Yan Xin (林延芯) Mr. Fan Chun Wah, Andrew (范駿華)
Principal share registrar and transfer office in the Cayman Islands	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Boardroom Share Registrars (HK) Limited 31/F, 148 Electric Road North Point Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

CORPORATE INFORMATION

**Australia and New Zealand Banking
Group Limited, Hong Kong Branch**

14th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

DBS Bank (Hong Kong) Limited

16th Floor, The Center
99 Queen's Road Central
Central
Hong Kong

INDUSTRY OVERVIEW

This section contains certain information which is derived from official government publications and industry sources as well as a commissioned report from CBRE. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from the above sources has not been independently verified by us, the Sponsor, the Joint Lead Managers, the Sole Bookrunner, the Underwriters or any of their affiliates or advisors, nor any other party involved in the Placing and no representation is given as to its accuracy. Please refer to “Risk Factors — Risks relating to our business — We cannot guarantee the accuracy of facts, projections, other statistics and information derived from various official government publications or the CBRE Report referred to in this prospectus” for details. We believe, after taking reasonable care, that there have been no material adverse changes in the market information since the date of the report issued by CBRE which may qualify, contradict or have an impact on the information in this section.

INTRODUCTION

We commissioned CBRE, an independent market research company, to provide an overview of the demand for two-way radio and baby monitor products in the US, EU and China market and an analysis of the two-way radio and baby monitor manufacturing industry in China at a fee of HK\$550,000 which our Directors believe reflects the market rate.

CBRE is a company that provides a range of services including but not limited to real estate brokerage, capital markets, global research, consulting, asset management and valuation services. The Valuation & Advisory Services (Greater China) arm of CBRE engages in various asset valuation, market and due diligence research, merger and acquisition and initial public offering advisory, rating appeal advisory as well as business valuation.

The CBRE Report was prepared based on a top-down approach, starting from the macro economy of US, EU and China, to the different facets of the two-way radio and baby monitor industry. CBRE utilised both primary and secondary research, and attempted to cross check each significant finding with multiple sources. Their primary research included site visits, management interviews and consultation with industry experts to verify information from third party sources and desktop studies. Their secondary research included industry reports, internet research, research from brokerage firms, articles written by industry professionals, university publications, and intelligence from third party data providers. Any projections in the CBRE Report were done utilising a mix of both qualitative and quantitative analysis. Whenever applicable, a set of historical data is used as a basis for its projections, and if necessary, adjustments are subsequently made for projection purposes and to ensure data relevancy. This is the basis upon which we consider the data and statistics to be reliable.

INDUSTRY OVERVIEW

FUTURE FORECAST

Some of the analytical conclusions extracted from the CBRE Report cover future forecasts. The Sponsor and we consider such information to be reliable, accurate and not misleading after taking into account the following factors:

- CBRE is an independent reputable professional research agency with extensive experience in their profession; and
- although the research report issued by CBRE constitutes forecast of the development of the two-way radio and baby monitor market in the US, EU and China, it does not contain performance forecast of our Company in the future.

DEMAND OVERVIEW AND ANALYSIS OF TWO-WAY RADIO AND BABY MONITOR IN THE MARKET

Two-way radio

Overall market

From 2009 to 2014, growth rate of global two-way radio consumption stayed at a range of approximately 5.0% to 14.0%. The year-on-year (“Y-o-Y”) growth rate from 2009 to 2010 is the highest among the past five years. Growth in global two-way radio consumption slowed down since 2010, reached the trough in 2012 and rebounded in 2013. In 2014, global two-way radio consumption growth rebounded to about 7.0%. In 2015 to 2016, the projected Y-o-Y growth rate in global sales of two-way radio is expected to be approximately 6.0%.

US market

The US was the largest two-way radio market in terms of sales amount, which accounted for approximately 34.0% of global consumption in 2014. From 2011 onwards, growth in the US two-way radio sales slowed down and in 2015 the projected Y-o-Y growth rate is expected to be approximately 3.2%.

EU market

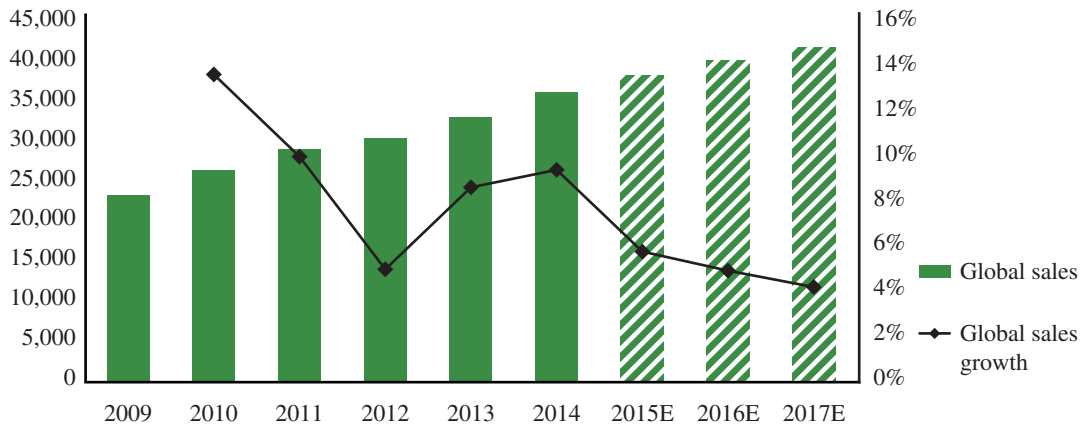
EU was the third largest two-way radio market in terms of sales amount, which accounted for approximately 16.9% of global consumption in 2014. From 2011 onwards, growth in EU two-way radio sales slowed down and reached a trough in 2012. The growth rate rebounded to about 4% in 2014. In 2015, the projected Y-o-Y growth rate is expected to be approximately 1.4%.

INDUSTRY OVERVIEW

China market

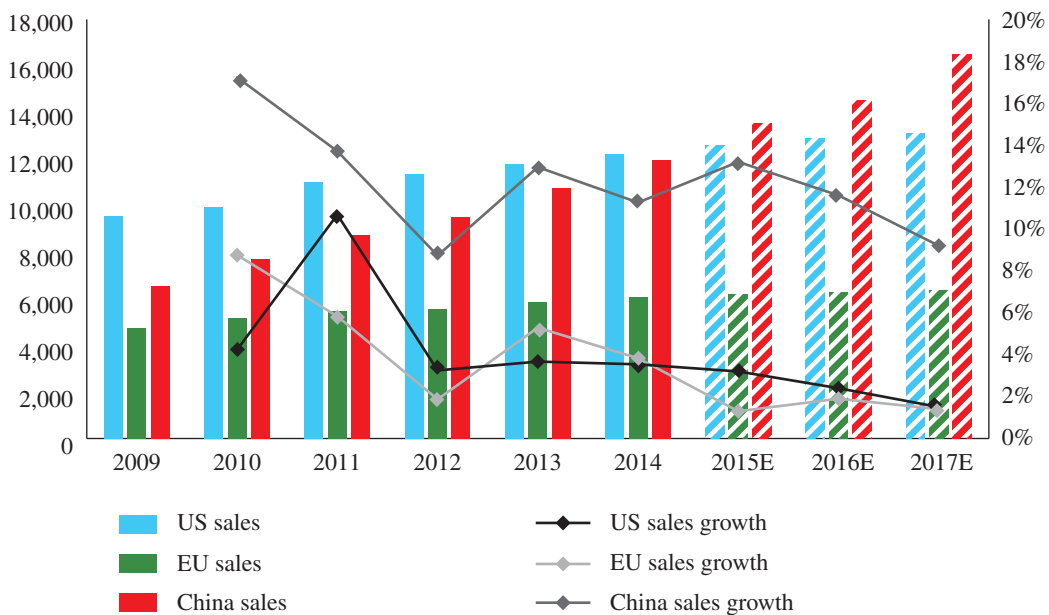
China was the second largest two-way radio market in terms of sales amount, which accounted for approximately 33.3% of global consumption in 2014. From 2009 to 2014 (except 2012), growth in China two-way radio sales stayed well above 10.0% and the projected Y-o-Y growth rate is expected to be approximately 13.1% in 2015.

Two-way radio sales and growth analysis in global markets, in thousand devices (2009-2017)



Source: CBRE Report

Two-way radio sales and growth analysis in US, EU and China, in thousand devices (2009-2017)



Source: CBRE Report

INDUSTRY OVERVIEW

Baby monitor

The growth rate of global baby monitor sales stayed at a range of approximately 3.3% to 8.8% from 2009 to 2014. The Y-o-Y growth rate was above 8.0% in 2009 to 2010. From 2010 to 2013, growth in global baby monitor consumption slowed down and reached a rate of about 3.3% in 2013. The growth rate increased to 4.7% in 2014. In 2015 to 2016, the projected Y-o-Y growth rate in global sales of baby monitor is expected to be approximately 3.6%.

US market

The US was the largest baby monitor market in terms of sales amount, which accounted for approximately 45.9% of global consumption in 2014. From 2011 onwards, growth in the US baby monitor sales slowed down significantly and the projected Y-o-Y growth rate from 2015 to 2016 is expected to be approximately 2.7%.

EU market

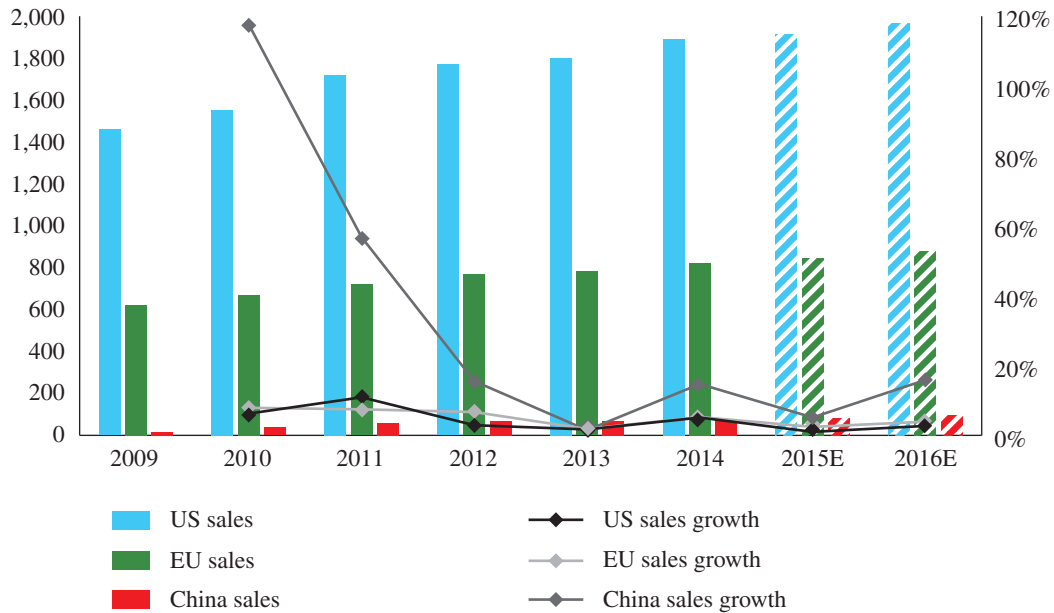
EU was the second largest baby monitor market in terms of sales amount, which accounted for approximately 20.0% of global consumption in 2014. The Y-o-Y growth rate showed a downward trend from 2009 to 2013 and improved to the level of approximately 5.0% in 2014. The growth rate is expected to be approximately 2.4% and 3.9% in 2015 and 2016.

China market

China's baby monitor share in terms of sales amount in the global market was relatively small, which accounted for approximately 1.9% of global consumption in 2014. From 2009 to 2013, the Y-o-Y growth rate of PRC baby monitor sales demonstrated a significant downward trend from approximately 118.0% to approximately 1.0%. From 2013 to 2014, the consumption growth had increased steadily. It is expected that the growth rate would remain at approximately 5% to 16% from 2015 to 2016.

INDUSTRY OVERVIEW

Baby monitor sales and growth analysis, in thousand devices (2009-2016)



Source: CBRE Report

SUPPLY OVERVIEW AND ANALYSIS OF TWO-WAY RADIO AND BABY MONITOR MANUFACTURING INDUSTRY

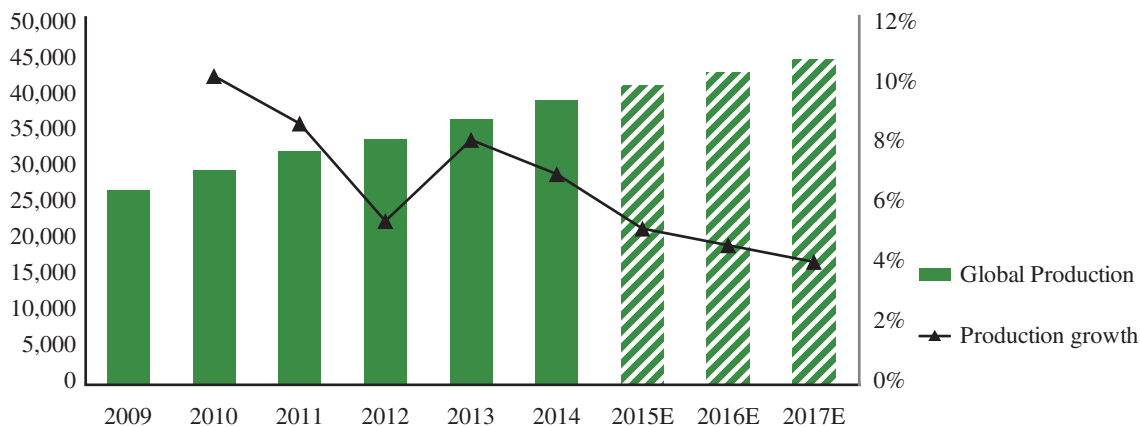
Two-way radio

Overall supply and production

The total production of two-way radio products in global market has been growing steadily from 2009 to 2014. The Y-o-Y growth rate from 2009 to 2010 is the highest among the past five years, which accounted for approximately 10.0% and it is expected that the growth rate would slightly slow down to 4.0% to 5.0% in 2015 to 2017.

INDUSTRY OVERVIEW

Two-way radio overall supply and production growth in global markets, in thousand devices (2009-2017)

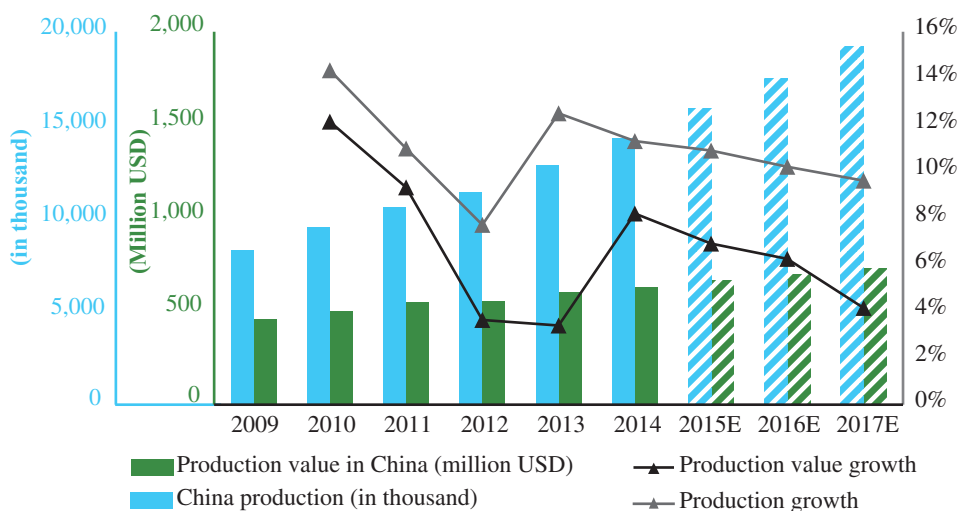


Source: CBRE Report

Total production value of two-way radio in China

The production of two-way radio products in China market has been undergoing a steady growth from 2009 to 2014. The production value of the two-way radio industry hit its peak at around USD600 million in 2014. It is expected that production value would continue to grow at a rate around 4.0% to 7.0% in 2015 to 2017.

Total production value, supply and production growth of two-way radio in China (2009-2017)



Source: CBRE Report

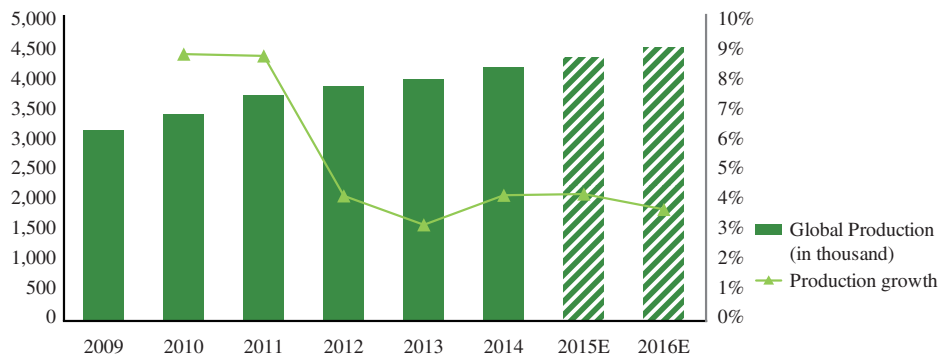
INDUSTRY OVERVIEW

Baby monitor

Overall supply and production

The total production of baby monitor products in global market fluctuated at the rates from 3.0% to 9.0% from 2009 to 2014. The Y-o-Y growth rate from 2009 to 2010 and the Y-o-Y growth rate from 2010 to 2011 are the highest among the past five years. From 2011 onwards, production growth in baby monitor slowed down significantly. It is expected that the growth rate would be about 4.2% and 3.7% in 2015 and 2016, respectively.

Baby monitor overall supply and production growth, in thousand devices (2009-2016)



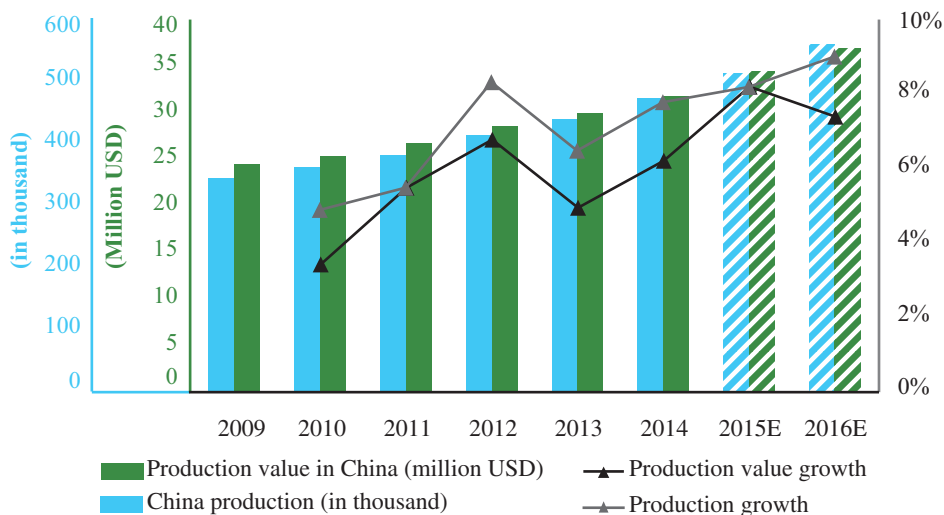
Source: CBRE Report

Total production value of baby monitor in China

The production growth rate of baby monitor products in China stayed at approximately 5.0% to 9.0% from 2009 to 2014. Though contributing to a comparatively small portion to the global figure, production value of the baby monitor industry in China hit its peak at around USD32.0 million in 2014. It is expected that production value would continue to grow at a rate of around 7.0% to 8.0% in 2015 and 2016.

INDUSTRY OVERVIEW

Total production value, supply and production growth of baby monitor in China (2009-2016)



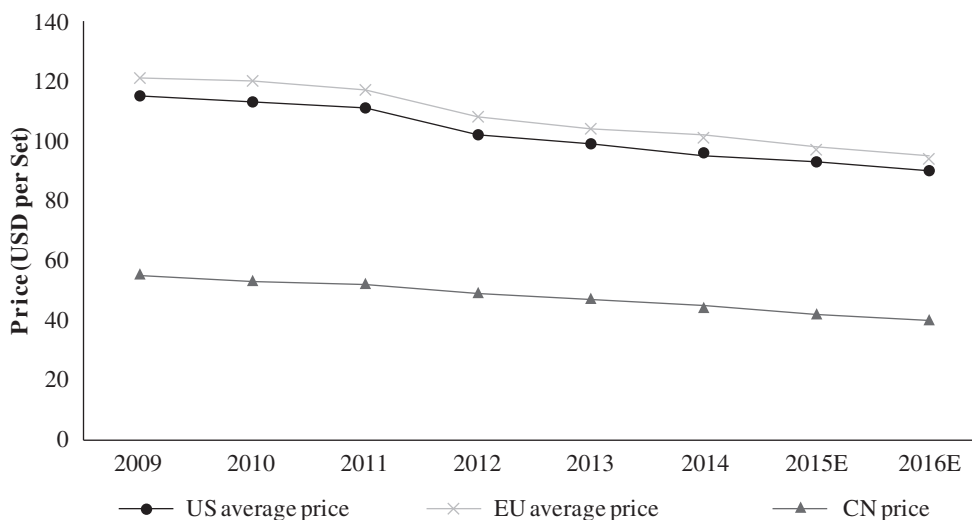
Source: CBRE Report

PRICE TREND OF FINAL PRODUCTS

Two-way radio

Average price per set (a standard package of two devices) of global two-way radio has been gradually declining since 2009. In 2014, average price per set was approximately USD98. In the long term, it is estimated that the average price per set will be approximately USD82 in 2019.

Two-way radio device – average price (US, EU & PRC) (2009-2016)



Source: CBRE Report

INDUSTRY OVERVIEW

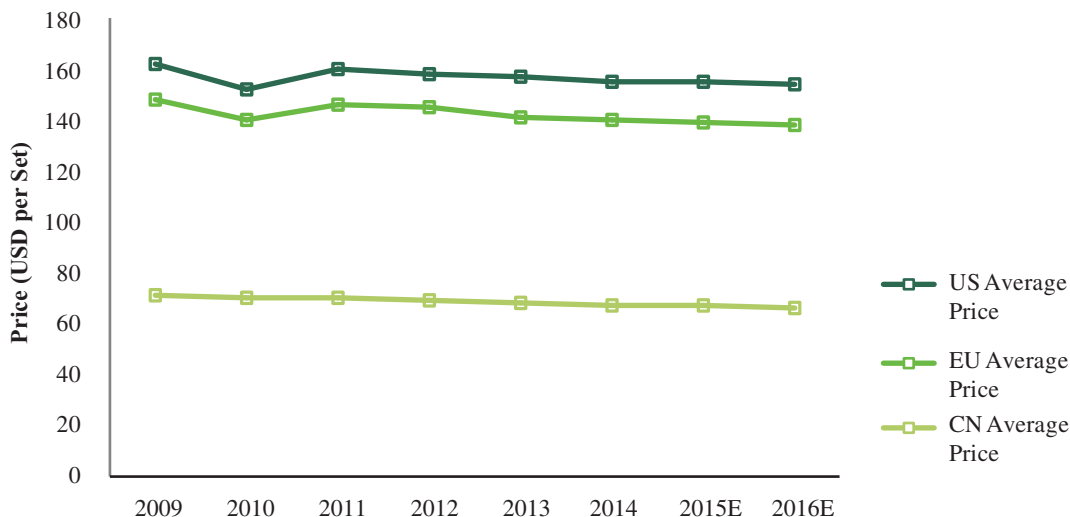
Major factors affecting prices of two-way radio products are mainly cost of production and macro-economic environment. Major costs of the two-way radio industry include design features, raw materials price and labour costs. The major raw material of products in the two-way radio industry includes metal, plastic and semiconductor. A majority of these costs show signs of stable trends with gradual slow growth in recent years, mainly due to the macro “slow-down” economic policies adopted by the PRC government.

A significant price change in raw materials, labour, energy and capital expenditure will have a direct impact on the operating cost of manufacturers. Such changes could be increasing equipment price, statutory adjustment of electricity rates or increment of labour costs in the market.

Baby monitor

The average price for a baby monitor in the US, EU and China is approximately USD155, USD140 and USD70, respectively. Branded baby monitors may offer higher quality and durability but may also be charged at higher prices.

Baby monitor – average price (US, EU & PRC) (2009-2016)



Source: CBRE Report

Apart from the major factors of costs and macro-economic environment and policies similar to the two-way radio market, the threats of substitutes, such as web-camera will also lead to a decrease in demand on baby monitors and could lead to a declining price trend of the product.

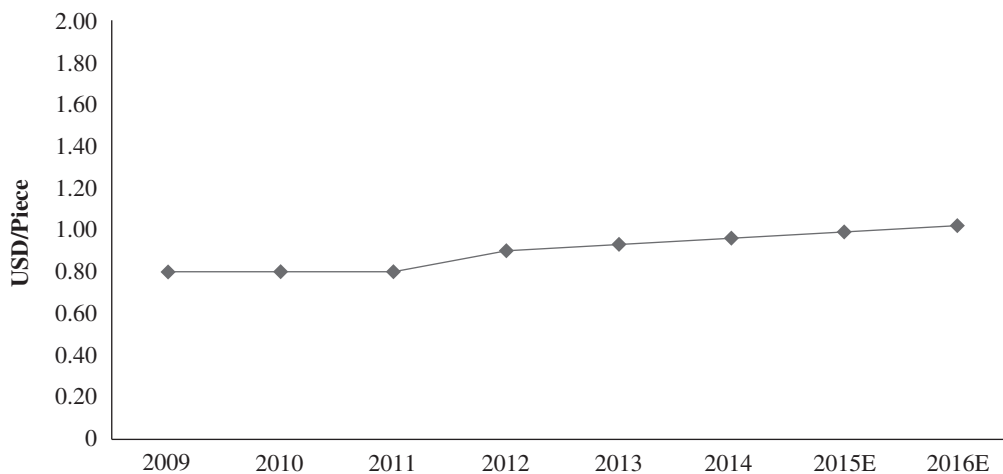
INDUSTRY OVERVIEW

PRICE TREND OF MAJOR RAW MATERIALS

IC

Average price (per piece) of IC produced in China stayed rather steady from 2009 to 2011 at approximately USD0.8. The price increased to approximately USD0.9 in 2012 and is expected to increase steadily to approximately USD1.0 in 2016.

Average price of IC in China (2009-2016)



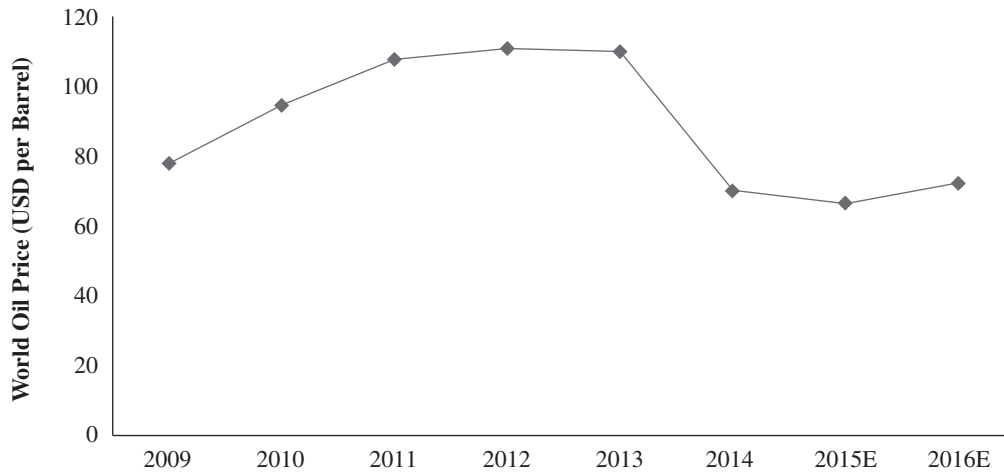
Source: CBRE Report

Plastic

Since most plastic is produced from crude oil, crude oil price has a direct impact on the price of plastic. Oil price was at approximately US\$78 per barrel at the end of 2009 and reached a level of approximately US\$110 per barrel at the end of 2013. At the end of 2014, the oil price fell to US\$70 per barrel. It is expected that the oil price would stay at relatively low level at a price range of about US\$66 to US\$73 in the period from 2015 to 2016.

INDUSTRY OVERVIEW

World oil price (2009-2016)

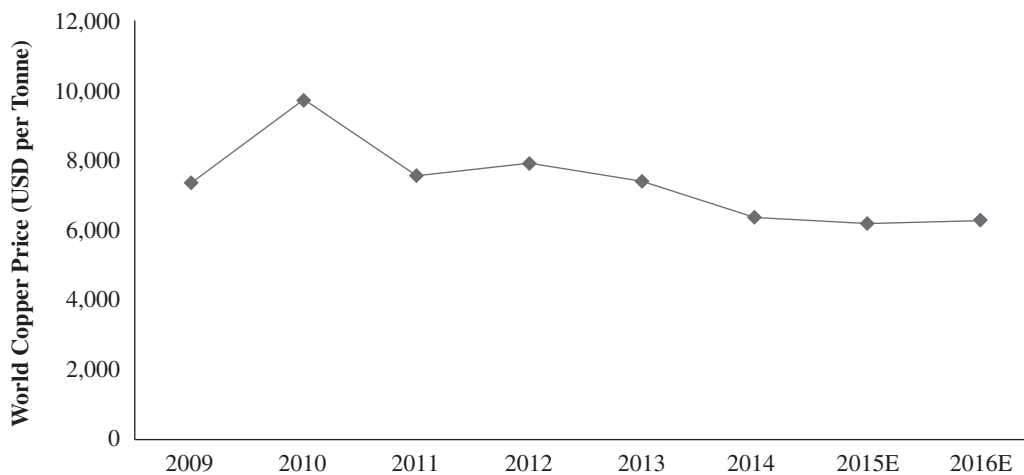


Source: CBRE Report

Copper

The world copper price per tonne experienced a drastic surge in 2010 and reached a level over US\$9,700 at the end of 2010. After that, the price dropped drastically and was approximately US\$6,400 at the end of 2014. It is expected that the price would be lower due to retarded growth in Asian countries such as China and India, which are major consumers of copper, as their economic growth would slow down in the foreseeable future.

World copper price trend (2009-2016)



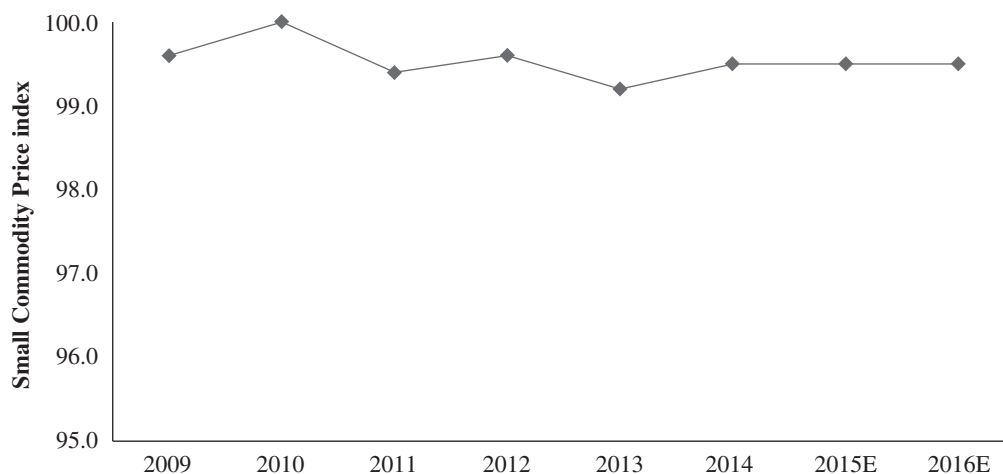
Source: CBRE Report

INDUSTRY OVERVIEW

Battery

According to the YiWu-China Small Commodity Price Index which reflects the trading condition of small commodities in China, battery price has a stable trend since 2009 to present, prevailing at an index level of 99.5 to 100. It is expected that price of batteries in China will continue to stay relatively constant in 2015 to 2016.

China's batteries price trend (2009-2016)



Source: CBRE Report

FLUCTUATION IN PURCHASE PRICES OF RAW MATERIALS AND FINAL PRODUCTS

Generally speaking, the prices of raw materials have been increasing during the past years and market participants are facing pressure to maintain their profit margin. As the market is fully competitive, transparent and has already matured, it is difficult for the market players to raise the price of final products. Alternative solution would be implementing effective cost-saving methods during production or developing solution based products which incorporate extra product features.

COMPETITIVE LANDSCAPE AND COMPETITIVE ADVANTAGES

According to the CBRE Report, there were approximately 100 to 150 and 30 to 40 ODM manufacturers in the respective two-way radio and baby monitor industry in China as at 31 December 2014. According to the CBRE Report, the 10 largest two-way radio ODM manufacturers based in China accounted for approximately 64.6% of the market share in terms of production volume for the year ended 31 December 2014, and the 10 largest baby monitor ODM manufacturers based in China accounted for approximately 58.8% of the market share in terms of production volume for the same year.

INDUSTRY OVERVIEW

Competitive advantages

According to the CBRE Report, there are three key strengths which we enjoy over our competitors, including (i) abundant industry experience of management – the knowledge and experience of our management team enable us to respond quickly to the fast-changing trends in the two-way radio and baby monitor industry; (ii) self-owned product design and development capability – our product development team is able to develop products on its own initiative and respond to customers' RFP; and (iii) strong customer relationship with large consumer electronics companies with international brands such as CEC, our largest customer for the Track Record Period, of which its Cobra brand ranked second and seventh in the US and EU personal market, respectively, in terms of sales volume of two-way radio products in 2014, and Delta Enterprise Corporation, a manufacturer of children's products based in the US which benefits us with opportunities for continuous sales and growth.

Entry barriers for two-way radio and baby monitor manufacturers

Regulations

For two-way radio and baby monitor, the laws and regulations in relation to product safety and use of radio frequency in the US, EU and China have to be strictly observed. Effectively, this imposes an implicit quota on the number of market participants and reduces competition from potential entrants.

Capital requirements and cost of manufacturing

CBRE estimated that an investment of RMB40 million is required for setting up and operating a manufacturing company with an annual production of 100,000 sets of two-way radio devices in China.

Total cost of manufacturing in China is affected by substantial increase in wages for manufacturing workers as well as other costs emerged due to policies introduced by the PRC government on labour law enforcements, intellectual property protections and environment scrutiny of all kinds. Such factors also contribute to the potential increase in capital requirements for new entrants to enter the market.

Distribution network

Distributors are crucial in bringing success to a supply chain. Electronic goods such as two-way radio and baby monitor can be sold to customers through several different distribution channels. Having a strong distribution network usually hints a competitive advantage. This barrier of entry for a potential market entrant could be high as the inability to build and strengthen its distribution network may cripple a company's sales growth. Attempting to enter the competition in an industry that is already mature and skewed towards saturated, entrenching dealers or new distributors could be exceptionally difficult.

INDUSTRY OVERVIEW

Economies of scale

Economies of scale effect in both two-way radio and baby monitor markets tend to be significant as extensive sales networks and long and stable relationships with suppliers assist large manufacturers to obtain economies of scale through lower costs and higher profit margins. This is not easy to be obtained by new participants in both markets.

Opportunities and threats for the two-way radio and baby monitor industry

Opportunities

- i. Macro economic environment in the US and EU is improving. As a large majority of our products are shipped to the US and EU, there may be stronger demand from and increased sales to customers based in such regions.
- ii. Regulatory changes in China. In December 2009, the Ministry of Industry and Information Technology of China mandated that the approval of analog two-way radio would be halted starting from 1 January 2011. This was aimed at speeding up the process of converting two-way radio into the digital communication era. We can leverage the market opportunities brought by such change and expand our market share in China.
- iii. The baby monitor industry is at its growth stage. The market witnessed rising demand from consumers as technology is continuously evolving.
- iv. Increase in children care brand operators, such as Delta Enterprise Corporation, entering the baby monitor market. By leveraging its branding in the baby products market and cross selling with its other products, we can potentially increase sales of our baby monitor products.
- v. Strong product design and development capabilities. Our in-house product development team allows us to make use of our know-how in radio transmission technologies and incorporate other value-added features into our product. We can also add compatibility with other mobile devices such as smartphone so as to improve flexibility in product usage and user experience of our products.

Threats

- i. The two-way radio industry is a well-matured industry with limited growth potential.

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- ii. Substitutes and alternatives available. For two-way radio, there are substitutes from other instant message tools, such as mobile phones. Individuals can easily connect with one another almost everywhere with their mobile phones. As mobile phone technologies are getting more popular, together with the increasing availabilities of two-way radio mobile applications, two-way radio devices tend to lose its competitive advantages in terms of its convenience and multi-functional ability. For baby monitor, alternatives such as web camera or internet protocol (IP) camera can serve the same function as a baby video monitor.

- iii. Appreciation of RMB increases our labour costs and cost of raw materials and reduces the attractiveness of production based in China. Depreciation in the currency in countries where our customers are based reduces the demand for our products as they will find products imported from China more expensive.

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REGULATORY REQUIREMENTS IN THE PRC

The relevant laws and regulations applicable to the operations and business of the subsidiaries in the PRC are set out below:

Incorporation, operation and management of wholly foreign owned enterprise (“WFOE”)

The incorporation, operation and management of a company in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”) which was promulgated by the SCNPC on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005 and 28 December 2013, with the latest amendments taking effect on 1 March 2014. The major amendments include, but are not limited to, cancelling the paid-up capital registration and removing the statutory minimum registered capital requirements and the statutory timeframe for the capital contribution.

The PRC Company Law generally governs two types of companies – limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its creditors is limited to the extent of its property. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the extent of the capital contributions/shares subscribed respectively by them. The PRC Company Law also governs foreign-invested limited liability companies. According to the PRC Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The (i) PRC Laws 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 was amended on 31 October 2000 and (ii) the Implementation Rules of the PRC Law on Wholly Foreign Owned Enterprises (《中華人民共和國外資企業法實施細則》) promulgated by the State Council on 12 December 1990 and was subsequently amended on 12 April 2001 and 19 February 2014 govern the establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, employment and all other relevant matters of WFOE.

Any investment conducted by the foreign investors and foreign enterprises in the PRC is subject to the Guidance Catalogue of Industries for the Foreign Investment (《外商投資產業指導目錄》) (the “**Guidance Catalogue**”), the latest version of which was promulgated by the MOFCOM and the National Development and Reform Commission (國家發展和改革委員會) on 10 March 2015 and came into effect on 10 April 2015. The Guidance Catalogue contains specific provisions guiding market access of foreign capital, with respect to categorizing industries into encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign-invested industries. Foreign investment is permitted for industries not listed in the Guidance Catalogue unless specifically disallowed in other PRC regulations.

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The Management of Radio Operation

The development, manufacturing, marketing and import of radio transmission equipment in PRC is subject to the Regulations of the PRC on the Management of Radio Operation (《中華人民共和國無線電管理條例》) (the “**Radio Regulations**”), which is promulgated and came into effect on 11 September 1993. Pursuant to the Radio Regulations, (i) the working frequencies and frequency bands needed for development of the radio transmission equipment shall conform to the provisions of the State concerning radio management and be submitted to the State Radio Management Organization (the “**SRMO**”) for the approval; (ii) the working frequencies, bands, and related technical indices of the radio transmission equipment produced shall conform to the provisions of the State concerning radio management and submitted to the SRMO or local radio management organisation for the record.

Pursuant to the Provisions on the Manufacturing of Radio Transmission Equipment (《生產無線電發射設備的管理規定》) which was promulgated on 7 October 1997 and became effective on 1 January 1999, the manufacturer shall obtain the radio transmission equipment type approval certificate and the type-approval code issued by the State Radio Management Commission Office in order to manufacture the radio transmission equipment, and the radio transmission equipment for sale shall be identified with the type-approval code. Unless otherwise stipulated in the agreements entered into between PRC and the relevant countries, manufacturers do not need to obtain the radio transmission equipment type approval certificate for radio transmission equipments produced for export purpose and which will not be sold and used in domestic market.

Product Quality and Consumer Rights

Products made 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》) (the “**Product Quality Law**”), which was promulgated on 22 February 1993 and was subsequently amended on 8 July 2000 and 27 August 2009. According to the Product Quality Law, a manufacturer of a product is responsible to compensate for the damages done to the person or property except the defective products themselves due to the defects of products, unless the manufacturer is able to prove that: (i) the product has not been distributed; (ii) the defect did not exist at the time when the product was circulated; or (iii) based on the level of scientific or technological know-how at the time when the product was circulated, the defect could not be discovered.

The PRC Law on Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) (the “**Consumers Protection Law**”) was promulgated on 31 October 1993 and became effective on 1 January 1994 and was subsequently amended on 27 August 2009 and 25 October 2013. According to the Consumers Protection Law, unless otherwise provided by this law, a business operator that provides products or services shall, in any of the following circumstances, bear civil liability in accordance with other relevant laws and regulations: (i) where a defect exists in a product or service; (ii) where a product does not possess functions it is supposed to possess, and it is not declared when the product is sold; (iii) where the product standards indicated on a product or on the package of such product are not

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met; (iv) where the quality condition indicated by way of product description or physical sample, etc. is not met; (v) where products pronounced obsolete by formal State decrees are produced or expired or deteriorated products are sold; (vi) where the products are not sold in sufficient quantities; (vii) where the service items and charges are in violation of an agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a product, refund of a product purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by laws and regulations, are harmed. A business operator who fails to fulfil the security obligations and causes harm to consumer(s) shall bear tort liability according to the Consumers Protection Law.

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was promulgated on 26 December 2009 and came into force on 1 July 2010 to clarify the tort liability, and to prevent and penalise tortious conduct. Under this law, in the event of damage arising from a defective product, the sufferer 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 compensating the sufferer.

Foreign trade

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (the “**Foreign Trade Law**”) was latest amended on 6 April 2004 and took effect from 1 July 2004. Foreign trade mentioned in the Foreign Trade Law refer to the import and export of goods, technologies and international trade in services. According to the Foreign Trade Law, such unfair competition activities as selling the products at unreasonable low prices, colluding with each other in a tender, producing and releasing false advertisements and conducting commercial bribery and others like are not allowed in foreign trade activities.

Anti-unfair competition

The Law of the PRC for Anti-Unfair Competition (《中華人民共和國反不正當競爭法》) (the “**Anti-Unfair Competition Law**”) was promulgated on 2 September 1993 and took effect from 1 December 1993. According to the Anti-Unfair Competition Law, when trading on the market, operators shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. And acts of operators which contravene the provisions of the Anti-Unfair Competition Law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. Operators shall not use money or properties or the other methods to bribe to others in order to sell or purchase commodities. It shall be guilty of giving bribe if operators give a secret commission to the other organisations or individuals without the normal accounting records. It shall be guilty of taking bribe, if the organisations or individuals accept the secret discount without normal accounting records. Operators may offer a discount to the others in public, or may pay commission to the middle man in selling or purchasing commodities. However, operators who give discount to the others or pay commission to the middle man, or the others who take the discount or commission shall make accounting strictly according to the facts.

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Where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition Law and causes damage to another operator, it or he shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing its or his lawful rights and interests.

Production safety

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Production Safety Law**”) was promulgated on 29 June 2002, became effective on 1 November 2002 and was subsequently amended on 27 August 2009 and 31 August 2014. It governs the supervision and administration of production safety in the PRC. The Production Safety Law requires a production entity to meet the relevant requirements such as providing its staff with proper training, handbooks concerning production safety, and safe working conditions as set out in the relevant laws, rules and regulations in the PRC. Any production entity that fails to provide the required safe working conditions may not engage in production activities. Violation of the Production Safety Law may result in fines, penalties, suspension of operations, order to cease operations, or even criminal liability in severe cases.

Special equipment

The Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) (the “**Special Equipment Regulations**”) were promulgated by State Council, came into effect on 1 June 2003 and was further amended on 24 January 2009. According to the aforesaid regulations, enterprises manufacturing or using special equipment are required to establish and strive to perfect the safety and energy-saving management system, job security and energy-saving accountability system for the special equipment. Special equipment mentioned above refer to boilers, pressure vessels (including gas cylinders), pressure pipelines, elevators, lifting appliances, passenger ropeways, large amusement facilities, and special vehicles used in the factory, which involve a high degree of safety risks.

According to the Special Equipment Regulations, operators and the relevant managerial staff of boilers, pressure vessels, elevators, lifting appliances, passenger ropeways, large amusement devices and field (factory) inside special motor vehicles (referred to as the “operators of special equipment”) shall not engage in corresponding operation or management until they have passed the examination organised by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment with a nationally unified formula. Enterprises using special equipment shall educate and train the operators of special equipment so as to ensure that they acquire the necessary knowledge about the safe operation of special equipment.

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Labour

Companies in the PRC are subject to the PRC Labour Law (《中華人民共和國勞動法》) (the “**PRC Labour Law**”), the PRC Labour Contract Law (《中華人民共和國勞動合同法》) (the “**PRC Labour Contract Law**”) and the Implementation Regulations of the PRC Labour Contract Law (《中華人民共和國勞動合同法實施條例》), as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time. The PRC Labour Contract Law, which became effective on 1 January 2008, imposes stricter requirements with respect to signing of labour contracts with employees, stipulating probation and violation penalties, terminating labour contracts, paying remuneration and economic compensation, use of labour dispatches as well as social security premiums than previously required under the earlier PRC Laws and regulations. The PRC Labour Contract Law was further amended on 28 December 2012, and such amendments became effective on 1 July 2013.

According to the PRC Labour Law and the PRC Labour Contract Law, companies in the PRC must enter into labour contracts if they are to establish labour relationships with the employees. Companies must pay wages that are no lower than the local minimum wage standards to such employees. Companies are also required to establish labour safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to the employees.

According to the Provisions on the Prohibition of Using Child Labor which was promulgated on 1 October 2002 and came into effect on 1 December 2002, the employers must verify the identification cards of the personnel to be employed when employing personnel and shall not employ any minor under 16 years old.

Social insurance law and housing provident administrative regulations

The PRC social insurance system is mainly governed by the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (the “**Social Insurance Law**”). The Social Insurance Law was promulgated on 28 October 2010 and came into effect on 1 July 2011. According to Social Insurance Law, employers in the PRC shall conduct registration of social insurance with the competent authorities, and make contributions to the five basic types of social insurance for their employees, namely, basic pension insurance, basis medial insurance, work-related injury insurance, unemployment insurance and maternity insurance.

According to the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》) which were promulgated by State Council, came into effect on 3 April 1999 and were amended on 24 March 2002, all business entities (including foreign investment enterprises) are required to register with the local administrative centre of housing provident funds and then maintain housing fund accounts with designated banks and pay the related funds for their employees.

Occupational disease prevention and control

According to the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) promulgated by the SCNPC on 27 October 2001, effective on 1 May 2002 and amended on 31 December 2011, the Administrative Measures for the Classifications of the Occupational Disease Hazards of Construction Projects (《建設項目職業病危害分類管理辦法》) promulgated by the Ministry of Health (衛生部) on 27 July 2006, and the Interim Measures for the Supervision and Administration of “Three Simultaneities” for the Occupational Health of Construction Projects (《建設項目職業衛生“三同時”監督管理暫行辦法》) promulgated by the State Administration of Work Safety (國家安全生產監督管理總局) on 27 April 2012, for construction projects that may cause occupational diseases, the entity engaging in the construction is required to preliminarily assess risks of occupational diseases, design and construct occupational disease prevention facilities, evaluate control of the occupational disease hazards and obtain a final approval for the construction of the occupational disease prevention facilities.

According to the Interim Measures for the Supervision and Administration of “Three Simultaneities” for the Occupational Health of Construction Projects (《建設項目職業衛生“三同時”監督管理暫行辦法》), construction projects shall be supervised and managed according to the degree of risks of occupational diseases that the construction projects may cause. The risks have been categorised into the following three classes: (i) for the construction projects that may cause common occupational diseases, the pre-assessment report of occupational diseases shall be filed to the supervision and administration bureau of work safety, and the final acceptance for construction of the occupational disease prevention facilities may be organised by the entity engaging in the construction itself while the acceptance report shall be filed to the supervision and administration bureau of work safety; (ii) for the construction projects that may cause relatively serious occupational diseases, the pre-assessment report of occupational disease hazards shall be examined and verified by the supervision and administration bureau of work safety, and the final acceptance for construction of the occupational disease prevention facilities shall be organised by the supervision and administration bureau of work safety; and (iii) for the construction projects that may cause serious occupational diseases, the pre-assessment report of occupational disease hazards shall be examined and verified by the supervision and administration bureau of production safety, the design for the occupational disease prevention facilities shall be examined by the supervision and administration bureau of work safety, and the final acceptance for construction of the occupational disease prevention facilities shall be organised by the supervision and administration bureau of work safety.

According to the Notice for the Regulation of Approval Matters on “Three Simultaneities” for the Occupational Health of Construction Projects (《關於規範建設項目職業衛生“三同時”審批事項的通知》) promulgated by the Administration of Work Safety of Guangdong Province on 11 November 2012, the supervision and administration departments at various levels shall supervise and urge the construction projects apply for an approval after 31 December 2011 within their respective jurisdictions to implement “three simultaneities” for the occupational health strictly according to the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》).

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According to the Administrative Measures for the Declaration of Occupational Hazards at Work Places (《作業場所職業危害申報管理辦法》) promulgated on 8 September 2009 and abolished on 1 June 2012, the employers shall declare the occupational hazards at work places once a year. According to the provisions of the Measures for the Declaration of Projects with Occupational Hazards (《職業病危害項目申報辦法》) and the Provisions on the Supervision and Administration of Occupational Health at Work Sites (《工作場所職業衛生監督管理規定》) promulgated by State Administration of Work Safety on 27 April 2012, effective on 1 June 2012, where an employer's work site has any factors of occupational hazards as listed in the catalogue of occupational diseases, the employer shall, in accordance with the relevant provisions, faithfully and promptly declare the occupational hazards for the construction projects to the local administrative department of work safety, and accept the supervision and inspection of the administrative department of work safety and where major changes take place in the declaration of occupational hazard factors and its related contents due to technical, process, equipment or material change, the employer shall make a declaration within 15 days from the date of change.

Foreign exchange

Foreign exchange control in the PRC is mainly regulated by the Regulations of the PRC on the Management of Foreign Exchange (《中華人民共和國外匯管理條例》), which were promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and were amended on 14 January 1997 and 5 August 2008. According to the aforesaid regulations, the RMB paying under current accounts (such as foreign exchange transactions in relation to trading and service and the dividends payment) can be exchanged into foreign currency at liberty, but the exchange of the RMB under capital accounts (such as direct investment, loan or stock investment outside the PRC) into foreign currency shall first obtain approval from the foreign exchange administration.

Foreign exchange registration

On 14 July 2014, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment and Financing and in Return Investment via Special Purpose Companies (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”). According to the SAFE Circular No. 37, if a PRC domestic resident wants to use an overseas special purpose vehicle (“**SPV**”) (i.e. an overseas enterprise directly or indirectly controlled by the domestic resident for the purpose of investment or financing for the assets or interests legally held by him in a PRC domestic enterprise or outside China) to conduct return or direct investment in the PRC, the domestic resident shall bring the prescriptive materials to the local branch of SAFE to apply for foreign exchange registration of overseas investments.

As each of the ultimate individual shareholders of our Company's PRC subsidiaries is a permanent resident in Hong Kong who holds an oversea passport, which does not fall within the scope of investments in PRC by an SPV as stipulated in the SAFE Circular No. 37, our PRC Legal Advisers are of the view that the SAFE Circular No. 37 does not apply to the ultimate individual shareholders of our Group.

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Taxation

Enterprise income tax

According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) promulgated on 16 March 2007 and came into effect on 1 January 2008, the income tax rate for both domestic and foreign-invested enterprises is 25%.

Pursuant to the PRC Enterprise Income Tax Law, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered as “resident enterprises” and subject to the uniform 25% enterprise income tax rate for their global income.

The PRC Enterprise Income Tax Law also provides that the enterprise income tax should be levied at the reduced rate of 20% for qualified “small and thin-profit enterprises”, and the enterprise income tax should be levied at the reduced rate of 15% for “High and New Technology Enterprises” in key industries by the PRC.

Recognition of High and New Technology Enterprise

According to The Measures for the Administration of Designation of High and New Tech Enterprises* (《高新技術企業認定管理辦法》) (the “Measures”) which became effective on 1 January 2008, the eight high and new technology fields supported by the PRC government include: (1) electronic information technology; (2) biology and new medical technology; (3) aerospace and aeronautical technology; (4) new materials technology; (5) high technology services; (6) new energy and energy conservation technology; (7) resources and environmental technology; and (8) high and new technology used on traditional industries’ restructuring. The Measures was enacted to elaborate the High and New Technology Enterprise recognition procedures stipulated under the PRC Enterprise Income Tax Law. Under these laws and regulations, enterprises which have been registered in the PRC for more than one year that meet the requirements stipulated in the Measures may apply to the applicable governmental authority for a High and New Technology Enterprise Certificate* (高新技術企業證書) which will be valid for three years from the date of issuance. A PRC-based enterprise that has obtained such certificate and recognised as a “High and New Technology Enterprise” may apply to the applicable tax authority to obtain applicable tax exemptions and reductions. As our Group has obtained such recognition, we will be qualified to apply to the applicable tax authority for a preferential tax treatment to enjoy an corporate income tax rate of 15%.

Value-added tax

According to the Provisional Regulations Concerning Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993, which were subsequently amended on 10 November 2008 with the amendments taking effect on 1 January 2009:

- (A) All entities and individuals engaged in (i) the sales of goods, (ii) the provision of processing, repairs and replacement services and (iii) the importation of goods within the PRC are taxpayers of VAT, and shall pay VAT in accordance with these regulations.

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- (B) Except as stipulated in these regulations, for taxpayers engaged in the aforesaid services (“**Selling Goods or Taxable Services**”), the VAT payable shall be the balance of output tax payable for the period after deducting the input tax for the period. The formula for computing the tax payable is as follows: Tax payable = Output tax payable for the period – Input tax for the period.
- (C) For taxpayers engaged in Selling Goods or Taxable Services, the output tax shall be the VAT payable calculated based on the sales amounts, tax rates prescribed in these regulations and amount collected from the purchasers. The formula for computing the output tax is as follows: Output tax = Sales amount x VAT rate.
- (D) VAT rates: For taxpayers selling or importing goods, other than those stipulated in these regulations, the VAT rates shall be 17%. For taxpayers exporting goods, the VAT rate shall be 0%, except as otherwise stipulated by the State Council. For taxpayer providing processing, repairs and replacement services, the VAT rate shall be 17%.

PRC custom duties

According to the Customs Law of the PRC which was promulgated on 22 January 1987, and came into effect on 1 July 1987 and amended on 29 June 2013 and 28 December 2013, the consignee of the imports, the consignor of exports and the owners of the imports and exports are obligated to pay custom duties. The Custom is the authority in charge of the collection of custom duties.

Custom duties in the PRC mainly fall under ad valorem duties, i.e. the price of import/export commodities is the basis for the calculation of the duties. When calculating the custom duties, import/export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Custom Import and Export Tariff and shall be subject to tax levies pursuant to relevant tax rated.

Withholding tax on dividends

According to the PRC Enterprise Income Tax Law and the Implementation Rules of the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), non-resident enterprises which have not set up institutions or premises in the PRC, or where the institutions or premises are set up but its subsidiary’s after-tax income has no actual relationship with such institutions or premises shall be subject to the withholding tax of 10% on income derived from the after-tax profit of its subsidiary. According to the Arrangements between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes On Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), profit derived by a foreign investor residing in Hong Kong from PRC enterprise in which such foreign investor owns directly at least 25% equity interest is subject to the tax rate of 5% after obtaining the approval from the relevant tax bureau.

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Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaties (《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 by the State Administration of Taxation (中華人民共和國國家稅務總局) and became effective on 20 February 2009, all of the following requirements shall be satisfied for a party to a tax agreement to be entitled to the tax rate specified in the tax agreement for dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be the company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC domestic company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, shall reach the percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (《非居民享受稅收協定待遇管理辦法(試行)》) (the “**Administrative Measures**”), which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) receives dividends from a PRC resident enterprise and wishes to enjoy the favourable tax benefits under the tax arrangements, it shall submit an application for approval to the relevant tax authority. Without such approval, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax agreements.

Environmental protection

In accordance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The local government of the provinces, autonomous regions and municipalities directly under the central government in PRC may also set their own guidelines for the discharge of pollutants within their respective provinces or districts in the event that the national guidelines are inadequate. The Environmental Protection Law of the PRC was amended by the SCNPC on 24 April 2014 and became effective on 1 January 2015, which strengthens the supervision and regulation on the environmental protection on the national level and imposes stricter punishment on the illegal activities.

Construction projects

Pursuant to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) which was promulgated on 28 October 2002, the Administrative Regulations on Environmental Protection for Construction Project (《建設項目環境保護管理條例》) which were promulgated and became effective on 29 November 1998 and the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) which was promulgated on 27 December 2001 and further amended on 22 December 2010, enterprises planning construction projects shall engage qualified professionals to provide assessment reports on the environmental impact of such

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projects. The assessment report shall be filed with and approved by the relevant environmental protection bureau, prior to the commencement of any construction work. The construction project shall not commence operation, unless inspected and approved by the relevant environmental protection bureau.

Intellectual property

The products in the PRC shall be subject to intellectual property laws, which include the Copyright Law of the PRC (《中華人民共和國著作權法》), the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) and the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”).

According to the Trademark Law, which was promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001 and 30 August 2013 respectively, any of the following acts is an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark which is identical with the registered trademark on the same kind of commodities without a license from the registrant of that trademark; (ii) using a trademark which is similar to the registered trademark on the same kind of commodities, or using a trademark which is identical with or similar to the registered trademark on the similar commodities and mislead the public without a license from the registrant of that trademark; (iii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iv) forging, manufacturing without authorisation the marks of a registered trademark, or selling the marks of a registered trademark forged or manufactured without authorisation; (v) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; (vi) deliberately providing convenient conditions and helping with the acts of infringement upon the right to exclusive use of a registered trademark; and (vii) causing other damages to the right to exclusive use of a registered trademark of another person.

The Patent Law was promulgated on 12 March 1984, became effective on 1 April 1985, and was amended on 4 September 1992, 25 August 2000 and 27 December 2008 respectively. According to the Patent Law, patent is divided into three categories: invention patent, utility patent and design patent. Invention patent is intended to protect new technology or measures for a product, method or its improvement. Utility patent is intended to protect new technology or measures to improve the utility of a product shape, structure or its combination. Design patent is intended to protect new designs by combination of product shape, graphic or colour with aesthetic and industrial application value. According to the Patent Law, any exploitation of the patent without the authorisation of the patentee constitutes an infringing act.

REGULATORY OVERVIEW

Regulations on Domain Names

The Measures for the Administration of Domain Names for the Chinese Internet 《中國互聯網絡域名管理辦法》 were promulgated by the Ministry of Information Industry on 5 November 2004 and became effective on 20 December 2004. The aforementioned measures regulate the registration of domain names in China with the internet country code of “.cn”. The Measures on Domain Names Dispute Resolution 《中國互聯網絡信息中心域名爭議解決辦法(2012年修訂)》 were promulgated by the Chinese Internet Network Information Centre on 28 May 2012 and became effective on 28 June 2012. The aforementioned measures require domain name disputes to be submitted to institutions authorised by the Chinese Internet Network Information Centre for resolution.

Mergers and acquisitions rules

On 8 August 2006, the MOFCOM, the PRC Securities Regulatory Commission (中國證券監督管理委員會) (the “CSRC”), the SAFE and other three PRC authorities promulgated Rules on the Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), which came into effect on 8 September 2006 and were revised on 22 June 2009.

Foreign investors should comply with the M&A Rules when they purchase shareholding equities of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign investment enterprise; or when the foreign investors establish a foreign investment enterprise (“FIE”) in PRC and obtain the asset of a domestic company and operate the asset, or purchase the asset of a domestic company and establish a FIE to operate the asset. According to the M&A Rules, a special-purpose vehicle (“SPV”) shall mean an offshore company directly or indirectly controlled by a domestic company or PRC residents for the purpose of listing overseas with the equity interests of a domestic company actually owned by such company or individuals, and the overseas listing of a SPV shall be subject to approval from CSRC and MOFCOM.

As each of the ultimate individual shareholders of our Company’s PRC subsidiary is a permanent resident in Hong Kong who holds an oversea passport, and our Company and its subsidiaries incorporated outside PRC do not fall within the scope of being classified as a SPV directly or indirectly established or controlled by PRC entities or individuals stipulated in the M&A Rules, our PRC Legal Advisers are of view that the M&A Rules do not apply to the restructuring exercise or the proposed Listing, and our Group is not required to obtain approvals from CSRC or MOFCOM.

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REGULATORY REQUIREMENTS IN THE US

We, among others, (i) do not own or lease any real or tangible property in the US or conduct any business activities in the US or employ any persons in the US for any length of time; (ii) do not maintain an office or fixed place of business in the US; (iii) deliver products to customers in the US on FOB Hong Kong basis; (iv) perform all after-sales and other personal services outside the US; (v) do not conduct marketing activities in any form in the US; and (vi) except for gains on the sale of products to US customers, have not received any interest, rent, royalties, dividends or any items of income from US sources or payments for services performed in the US. Based on the aforesaid, our US legal advisers have advised us that:

- (i) we are not directly responsible for compliance with US laws and regulations with respect to our products and are also not indirectly liable (e.g. via contractual obligations) for such compliance;
- (ii) it is possible, however, that we may be directly responsible for compliance with certain US laws and regulations that apply regardless of the location of the manufacturer, including US patent and trademark protection laws, US laws and regulations that protect US industry from foreign unfair trade practices and impose anti-dumping duty, countervailing duty, import quotas and exclusion orders, US export controls and sanctions laws and regulations and certain state consumer product regulations.

Product safety and product liability

The US has several legal doctrines and regulations concerning product safety and product liability and two areas which are relevant to our business include private lawsuits and administrative actions taken by the US government.

(i) Consumer Product Safety Act (the “CPSA”) & Consumer Product Safety Improvement Act (the “CPSIA”)

Pursuant to the CPSA, the US Consumer Product Safety Commission (the “CPSC”) has jurisdiction over the safety of certain “consumer products” sold to the public. The CPSA defines a consumer product as any article or component part thereof (except for certain products subject to other federal regulations) “produced or distributed (i) for sale to a consumer for use in or around a permanent or temporary household or residence, a school, in recreation, or otherwise, or (ii) for the personal use, consumption or enjoyment of a consumer in or around a permanent or temporary household or residence, a school, in recreation, or otherwise.” The CPSC’s jurisdiction includes enforcement of consumer product regulations against importers and foreign manufacturers, including our Group and our products.

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The CPSIA governs product testing and documentation requirements and establishes permissible levels for certain substances, including lead. Products imported in the US which fail to comply with the CPSIA's requirements are subject to confiscation, and the importer and/or distributor in the US is subject to civil and criminal penalties. The CPSC has the authority to:

- ban a consumer product that the CPSC deems presents an unreasonable risk of injury;
- order a manufacturer to initiate repairs, recalls, replacements or refunds of products the CPSC deems to present a substantial product hazard;
- inspect any factory, warehouse or shipping container in which consumer products are manufactured or held for distribution; and
- refuse entry into the US for any product that fails to comply with applicable consumer safety rules.

Reporting requirements

Manufacturers, importers, distributors and retailers of consumer products must notify the CPSC "immediately" if it "obtains information which reasonably supports the conclusion that the product" fails to meet a consumer product safety rule, contains a defect that could create a substantial product hazard to consumers, creates an unreasonable risk of serious injury or death or fails to comply with a voluntary standard upon which the CPSC relies. In addition, a manufacturer must notify the CPSC of final judgements or settlements of cases if the consumer product at issue was "the subject of at least 3 civil actions that have been filed in the federal or state court for death or grievous bodily injury" within a 24-month period.

Children's products

The CPSIA contains special provisions directed at "children's products," which are defined as "a consumer product designed or intended primarily for children 12 years of age or younger." These provisions include imposing lead-concentration limits and phthalate bans/limits for toys and certain products intended for children under age 3, requiring the product to have permanent tracking labels, and requiring the children's products be tested before sale. The CPSC may consider baby monitors to be a "children's product" for which such regulations apply.

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General conformity certification

Under the CPSIA, domestic manufacturers or importers of consumer products imported into the US subject to a product safety rule under the CPSA are required to issue a “general conformity certification,” wherein the manufacturer or importer 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. The certification must be based on a “test of each product or a reasonable testing program,” and should specify each “rule, ban, standard or regulation applicable to the product.” The certification must accompany the product or shipment, and must be furnished to United States Customs. The importer of record to the US is required to supply the certificate of conformity.

(ii) State consumer product regulations — California specific regulations

In addition to the federal consumer product regulatory standards that are enforced by the CPSC, each state may have additional regulations that apply to our products. The most significant state regulations are found in California. Of particular importance is California’s Proposition 65, which requires a manufacturer to provide warnings in regards to substances found by the state of California to be a carcinogen and/or a reproductive toxicant. California has also prohibited the use of certain Proposition 65 substances in certain products, such as those intended for use by children. Proposition 65’s list includes lead and lead compounds, phthalate substances, and certain cobalt compounds.

(iii) Federal Communications Commission

The FCC regulates the marketing, sale, and importation of RF devices in the US. The rules cover devices such as cell phones, musical equipment, baby monitors, garage door openers, wireless home security systems, keyless automobile entry systems, microwave oven, and remote control cars. The purpose behind these regulations is to ensure that RF devices do not cause objectionable interference to other devices operating in the same frequency range or in surrounding frequency ranges. In addition, the rules are intended to protect people from harmful exposure to RF energy.

Under the FCC’s rules, an RF device is any device that is capable of emitting RF energy by radiation, conduction, or other means. RF devices are divided into three main categories by the FCC, and the FCC has different authorisation procedures for each type of device. On Real’s devices are “intentional radiators.” Devices that intentionally generate and emit RF energy are called “intentional radiators.” This category includes smart phones, baby monitors, two-way radios, and microwave ovens.

Generally speaking, all devices that emit RF energy must be authorised by the FCC. The FCC has established different procedures to authorise the devices depending upon the level of the device’s RF emissions. The three types of equipment authorisation procedures used by the FCC are verification, declaration of conformity and certification. Under the FCC’s rules, our baby monitors and two-way radios would be classified as intentional radiators subject to the

REGULATORY OVERVIEW

certification procedure. The certification process is the most stringent equipment authorisation process. Generally speaking, devices that are intentional radiators must go through the Certification process which requires that equipment be sent to the FCC or a designated telecommunications certification body for testing and approval under specified certification procedures.

There are specific labelling requirements for equipment subject to an FCC equipment authorisation. The labelling requirements vary depending upon the type of authorisation applicable.

(iv) Product liability law

Regardless of a product's compliance with federal regulatory provisions, if a product injures a person, the injured person may be able to file a product liability lawsuit against the manufacturer. Such lawsuits are typically filed in state court, and there is no federal products liability law. While the product liability laws of different states vary greatly, a product liability lawsuit will typically be based on any combination of the following theories: (i) strict liability; (ii) negligence; and (iii) breach of warranty.

Strict liability

Under strict liability, the defendant is liable when it is shown that a manufacturer's defective product caused the injury of the plaintiff. The three types of product defects that may incur liability in manufacturers include design defects, manufacturing defects and warning/marketing defects.

Design defects are inherent; they exist before the product is manufactured. Thus, even if the product serves its purpose well, a manufacturer can be liable if the product is "unreasonably dangerous" to use due to a design flaw. Depending on the state, a design is considered defective if its risks outweigh its utility, or if it fails to meet the reasonable expectations of consumers.

Manufacturing defects occur during the construction or production of the product, and exist when the product is not produced as intended by the manufacturer. That is, the product does not conform to design specifications or performance standards, or otherwise deviates in some material way from other units in the same product line.

Warning/marketing defects occur when a manufacturer fails to provide proper instructions or adequate warnings of latent dangers in a product.

Negligence

Negligence claims require a plaintiff to prove that the defendant owed a duty of care to the plaintiff, that the defendant breached that duty of care, that the defendant's breach of that duty caused the plaintiff's injury and that the defendant's actions caused the plaintiff to incur damages. The defendant is said to have breached its duty when it failed to exercise reasonable care during any phase of getting the product to the public. Negligence claims can be brought against any entity that owes a duty of care to the product user.

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Breach of warranty

Breach of warranty actions are governed by contract law. Generally speaking, a warranty is any promise, claim or representation made by the manufacturer of a product about the product's quality, performance or use. Most claims of breach of warranty will be governed by the Uniform Commercial Code, which recognises both express and implied warranties.

Employment of minors and child labor laws

The laws regulating the employment of minors are a combination of federal and state laws and regulations. The federal Fair Labor Standards Act (the "**FLSA**") defines a "child" for the purposes of child labor laws as an individual under the age of 18. The FLSA restricts the use of child labor. Some of these restrictions regulate working conditions and hours for minors. All states have child labor provisions regulating or prohibiting the use of child labor.

The FLSA prohibits the employment of "oppressive child labor" in the production of goods for interstate or foreign commerce. The Act does not directly prohibit the employment of child labor but rather prohibits the shipment or delivery in interstate or foreign commerce of goods produced by manufacturers that have employed oppressive child labor. "Oppressive child labor" includes nearly any work by children under the age of 16.

State laws typically involve both the local Labor Code and Education Code. Several states require that an employer who employs a minor who is in school and under 18 years of age obtain a work permit from the minor's school. Many states also limit the number of hours or the time of day a minor may work.

The federal Alien Tort Statute provides broad federal court jurisdiction for any tort committed in violation of customary international law. In some instances, child labor constitutes a violation of an international legal norm. For example, a federal district court in Indiana held in 2007 that adults and children who had worked on a rubber plantation in Liberia could sue Liberian, Japanese, and American companies under the Alien Tort Statute for alleged violations of the Convention Concerning the Prohibition and Immediate Elimination of the Worst Forms of Child Labor, an international child labor convention.

Trade laws and regulations

(i) Customs laws and regulations

Our products being sold to our US customers are subject to US statutes and regulations that impose requirements and procedures for importing goods into the US. Our products being imported for sale in the US may be subject to tariff duties as provided in the Harmonized Tariff Schedule of the United States (the "**HTSUS**"). Under section 484 of the Tariff Act of 1930, as amended (the "**Tariff Act**"), at the time of importation, importers of our product, namely our customers or their agents, must submit entry documentation with US Customs and Border Protection ("**CBP**"), report the value of the imported merchandise, identify the country of origin of the products, assign tariff codes to the merchandise and pay tariff duties in accordance with the HTSUS so that the merchandise can be released from CBP to be sold on the US market. Our products must also be properly marked with the country of origin.

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CBP is the principal administrative and enforcement agency of US customs laws. CBP may stop goods at US ports of entry or impose penalties on persons who fail to comply with the laws and regulations governing the importation of foreign products. Section 592 of the Tariff Act imposes penalties on any person who, by fraud, gross negligence, or negligence, introduces or attempts to enter or introduce any merchandise into the commerce of the US by means of any document or electronically transmitted data or information, written or oral statement, or act which is material and false, or any omission which is material. Any person who aids or abets any other person, including foreign producers of exports, to commit such violations may also be penalised. In addition, CBP has the authority to seize and forfeit merchandise that is unlawfully imported into the US.

Our customers or their agents act as the importers of our products and therefore are primarily responsible for the importation process. However, we as their supplier play a role in ensuring that the importation of our products to the US complies with US laws, which include providing our customers with documentation or information required for the customs entry process and properly marking our products with the country of origin.

(ii) Anti-dumping and countervailing duty laws

US laws offer protection for US businesses that suffer from injurious, unfair competition through dumping or subsidisation of foreign products. Dumping occurs when a foreign producer sells a product in the US at a price that is below that producer's sales price in its home market, or at a price that is lower than the cost of production. Foreign governments subsidise their domestic industries when they provide financial assistance to benefit the production, manufacture or exportation of goods. Forms of subsidies include direct cash payments, tax incentives, and loans at terms that do not reflect market conditions. The US anti-dumping and countervailing statutes establish specific standards for determining when dumping has occurred or a subsidy has been conferred.

If a US industry believes it is being materially injured or threatened with material injury by dumped or subsidised imports of a foreign product, it may request the imposition of anti-dumping or countervailing duties by filing a petition with both the US Department of Commerce ("**Commerce**") and the US International Trade Commission (the "**Trade Commission**"). Commerce determines the dumping margins and the subsidy rates (the amount of impermissible subsidies received by the foreign producers) for foreign producers and exporters. The Trade Commission determines whether the US industry is suffering material injury or threat of material injury as a result of the dumped or subsidised imports. If both Commerce and the Trade Commission make affirmative findings of dumping and/or subsidisation and injury, Commerce issues anti-dumping and countervailing orders and instructs CBP to assess anti-dumping and countervailing duties against imports of that product into the US. The anti-dumping and countervailing duties are duties in addition to the regular tariff duties that are assessed under the HTSUS. In some cases, the anti-dumping and/or countervailing duties are substantial and in effect prohibit imports of the product.

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(iii) Tariff Act of 1930

Under section 337 of the Tariff Act, the Trade Commission conducts investigations into allegations of certain unfair practices in US import trade. Most section 337 investigations typically involve allegations of patent infringement by imported products. Section 337 also protects companies from other types of unfair competition such as misappropriation of trade secrets and infringement of registered trademarks. If the Trade Commission determines that section 337 has been violated, the Trade Commission may issue an exclusion order banning infringing products from being imported into the US. The Trade Commission may also issue a cease and desist order directing the infringing party to cease certain unlawful activities. Section 337 is frequently used by US companies to try to stop allegedly infringing products from being imported into the US. Products imported from China to the US, including electronic products, frequently are subject to Section 337 investigations and some products have been barred from entering the US market by the Trade Commission's exclusion orders.

(iv) Export controls and sanctions

The US government controls exports and re-exports of goods, services, software and technology and also restricts transactions with various countries, entities and individuals. While the US export controls and sanctions apply primarily to US items, US individuals and US entities (wherever located), they reach certain foreign produced goods with US content as well as foreign individuals and entities in certain circumstances. US export controls are imposed for various reasons, including foreign policy and national security goals. Violations of US export controls and sanctions laws may result in civil and criminal penalties, which include denial of export privileges, fines and imprisonment.

Intellectual property

(i) Trade secrets

In the US, trade secrets are generally governed by state law. A "trade secret" is typically defined as all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialised physically, electronically, graphically, photographically, or in writing. A trade secret is protected if the owner has taken reasonable measures to keep such information secret and the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public. In order to preserve rights in a trade secret, a company must take reasonable measures to keep such information secret. We are obligated to maintain the confidentiality of any trade secrets we may gain access to in the course of our business with US customers.

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(ii) Patent

US patents are governed by federal law. In the US, a patent is a right to exclude others from making, using, selling, or offering for sale an invention throughout the US or importing the invention into the US. Persons or entities who engage in activities that infringe upon patent rights without a license or consent from the patent holder may be liable to the patent holder for compensation and may be enjoined from engaging in further infringing activities.

(iii) Trademark

Under applicable US trademark and trade dress law, a trademark includes any word, name, symbol, slogan, or device (such as a design), or any combination of these, used to identify goods or services and to distinguish them from those manufactured, sold, or serviced by others. Trade dress generally relates to the distinctive packaging or design of a product that promotes the product and distinguishes it from other products in the marketplace. Persons or entities that utilise trademarks or trade dress on their products that are confusingly similar to the earlier-utilised trademarks or trade dress of others commit trademark or trade dress infringement. The remedies for trademark or trade dress infringement can include injunctions, lost profits, and damages.

Other miscellaneous US regulations

Foreign Corrupt Practices Act (the “FCPA”)

The FCPA has two parts, the anti-bribery provisions that prohibit individuals and businesses from bribing foreign government officials in order to obtain or retain business, and the accounting provisions that impose certain record keeping and internal control requirements on issuers, and prohibit individuals and companies from knowingly falsifying an issuer’s books and records or circumventing or failing to implement an issuer’s system of internal controls. The US Department of Justice and the US Securities and Exchange Commission share FCPA enforcement authority.

A foreign national or company may be liable under the FCPA if it aids and abets, conspires with, acts as an agent of a US person, regardless of whether the foreign national or company itself takes any action in the US. The FCPA imposes severe civil and criminal penalties on violating corporations and individuals, including heavy fines, imprisonment and disgorgement of profits resulting from illegal conduct.

REGULATORY OVERVIEW

REGULATORY REQUIREMENTS IN ENGLAND AND WALES

Our sales to UK customers have been and are currently made on a free on board basis (“**FOB**”). FOB means the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer pays for the cost of marine freight transport, insurance, unloading, and transportation from the arrival port to the final destination. The passing of property in the goods occurs when the goods are loaded on board at the port of shipment. Based on the aforesaid, our English legal advisers are of the opinion that:

- (i) as manufacturers of goods for import to the UK, criminal and civil liabilities may arise if the goods do not comply with EU/UK health and safety requirements. However, the more likely target for any proceedings were there to be a breach of the requirements, would be our customers, responsible for importing the goods into the UK or, if different, the importer into the EU. Proceedings against us are unlikely unless the goods create serious risk of injury or actually injure anyone; and
- (ii) in reality, a consumer that has suffered injury or damage is likely to commence proceedings against the EU or UK based importer given the difficulties of enforcing proceedings against companies in Hong Kong. There may be claims for an indemnity for any compensation paid, back up the contractual chain to our Group but these are not always pursued.

Product safety

(i) *Health and Safety at Work etc. Act 1974 (the “**HSWA**”)*

Where products are used in a place of work in England and Wales (the “**Jurisdiction**”), the HSWA imposes a number of duties on employers in the Jurisdiction, and on anyone who designs, manufactures, imports or supplies the products. Breach of the duties gives rise to a criminal offence under section 33 of the HSWA, punishable normally by fines (which are not insurable), cost orders, and, on occasions by imprisonment. Section 6 HSWA imposes duties (among others) on anyone who designs, manufactures or supplies any article for use at work to ensure that the products are as safe as they can be both in use and during any maintenance required of the products. The Health and Safety Executive (the “**HSE**”) and the Local Authorities (the “**LAs**”) are together responsible for regulating work related health and safety in Great Britain and they will police and enforce the provisions of the HSWA. Although the HSE and the LAs can prosecute a company based outside the European Economic Community (the “**EEC**”) if products are in breach of criminal provisions and are in use in England and Wales, the procedure for doing so is not straightforward and is unlikely to be pursued. Due to jurisdictional issues, our English legal advisers are of the opinion that the possibility of our Group being prosecuted by the HSE and the LAs is low.

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If a product is implicated in a death then manslaughter charges may be considered by the police both against any company implicated, and any individual in a company whose actions are regarded as grossly negligent. The police can arrange for extradition of individuals on these charges to stand trial but again, it is more likely that they would pursue the importer and immediate supplier of a product responsible for a death unless we have affixed a CE or other similar mark to our products as an assurance of compliance with local health and safety regulation.

(ii) Consumer Protection Act 1987 (the “CPA”) and General Product Safety Regulations 2005 (the “GPSR”)

When products are not used for work purposes, product safety is regulated by part II of the CPA and the GPSR. Section 10 of the CPA was intended to reflect for non-work products, the duties imposed by section 6 HSWA and made it a criminal offence to supply any consumer goods which fail to comply with a “general safety requirement”. For most products this section has been superseded by European Council Directives implemented by the GPSR. The GPSR do not apply to second hand products supplied as a product to be repaired or reconditioned prior to being used, provided the supplier clearly informs the person to whom he supplies the product to that effect.

The “general safety requirement” now enshrined in part 2 of the GPSR is that no “producer” shall place a product on the market which is intended for or likely to be used by consumers, or offer or agree to place on the market or agree to supply a product unless it is a safe product. The term “producer” includes the manufacturer. The general safety requirement is that products are “reasonably safe having regard to all the circumstances” which include the manner and purpose of the goods, the instructions available for their use, safety standards and the existence of any means by which it would have been reasonable for goods to have been made safer. If a product conforms to published national standards in the UK or carries CE certification, it is deemed safe.

Section 11 of the CPA allows the Secretary of State to make other regulations to secure that goods are safe and appropriate information is provided with goods. Regulations of limited 12 month duration may be made where the Secretary of State is satisfied that the need to protect the public requires them without delay. Safety regulations made under this provision now cover a wide range of types of products. Non-compliance with any relevant regulation is an offence punishable by a fine and/or imprisonment although as with potential HSWA offences, are unlikely to be enforced against businesses outside the European Union (the “EU”) as focus would normally be upon those importing to the EEC, and the immediate supplier to the consumer.

Our English legal advisers are of the opinion that the fact that we conduct our business outside the EU and are not the immediate supplier to the consumer does not mean we will have no obligations or liabilities but it does mean that they are less likely to be pursued or enforced against us.

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(iii) Consumer Protection from Unfair Trading Regulations 2008

The Consumer Protection from Unfair Trading Regulations 2008 prohibit unfair commercial practices which include misleading or false information intended to induce purchase – information may be misleading if it is material and is omitted. Aggressive commercial practices likely to impair a consumer’s freedom or choice are also prohibited. Any breach of these regulations is also a criminal offence punishable on conviction by a fine and in some circumstances by imprisonment. We conduct our business outside the EU and are not responsible for import to the EU. Based on the aforesaid, our English legal advisers are of the opinion that enforcement against our Group is unlikely.

Product liability

(i) Claims in contract

If a product is purchased in England and Wales which is unfit for purpose or of unsatisfactory quality, then the purchaser (but no one else) will have a remedy against the seller irrespective of any fault. The Sale of Goods Act 1979 will imply terms into a consumer contract if they are not expressly included, regarding fitness for purpose of the product and that it is of satisfactory quality. Any products that become defective within 6 months of delivery are deemed to have been defective at the time of supply, unless the producer can prove otherwise. A purchaser need not prove fault, only a breach of an express or implied term of the contract. We do not make direct sales to consumers, but only commercial sales outside of the UK. Based on the aforesaid, our English legal advisers are of the opinion that these provisions should not apply directly to us, however, they may lead to liabilities on the purchaser from us, which it in turn may be able to recover from us depending on the terms of the commercial contracts between the purchaser and us.

(ii) Claims in negligence

Where defective goods cause personal injury or damage to property then anyone injured in the jurisdiction (whether or not they purchased the goods) can claim compensation against a manufacturer out of the jurisdiction. The claimant must prove that a duty was owed to him, that the duty was breached and that breach caused his loss. Defences include contributory negligence (which if successful will reduce the compensation. E.g. where warnings are not heeded), time limitation (normally an injury claim in negligence must be issued within 3 years of injury or knowledge of the defect), and state of the art defence for manufacturers. It is also a defence if a product is not used in an appropriate manner or in an unexpected way. Compensation will be for the foreseeable damage actually caused by the defective product. It may be possible for a negligence claim to be pursued in England and Wales and served out of the jurisdiction upon our Group if a defect is attributed to negligent manufacture. We are though more likely to face such a claim when liability has been established against another in the supply chain and they in turn seek an indemnity for compensation they have to pay.

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(iii) Claims under the Consumer Protection Act 1987

Part 1 of the Consumer Protection Act 1987 implemented the provisions of the EU Product Liability Directive 85/374/EEC and imposes strict liability for injury caused to a consumer by defective products on anyone who held themselves out to be or was the producer of the product.

The term “producer” includes the manufacturer or assembler of the product, and anyone responsible for a process the product has gone through. The direct supplier of the product (retailer, installer or distributor) is not liable under the Act though they are obligated to provide details of their supplier and can be liable if they fail to do so.

The claimant needs to prove that the product was defective and that the damage caused was due to the defect. Although strict liability applies, the claim can be defended on the following basis: the defect was due to compliance with UK or EU law; the product was not supplied by the defendant in the course of his business or was not supplied for a profit; the defect did not exist at the time of supply; the defect was not in the component supplied but only in the finished product; the claimant consented to the risk; the claim is out of time (it must be issued within 3 years), and the development risks defence. This last defence is that a producer is not liable if he proves that the state of scientific and technical knowledge at the time when he put the product into circulation was not such as to enable the existence of the defect to be discovered. Contributory negligence will also reduce the claim. Compensation will be limited to compensation for injury caused. It is possible for such claims to be pursued in England and Wales and served out of the jurisdiction.

In relation to the civil claims for compensation which can be made against our Group, it is more likely that an injured consumer would pursue their claim against their UK or EU supplier. However, if the issue is more likely than not to have been one which arose from manufacture, then even if the final supplier is liable to the consumer, there is nothing (other than commercial contract terms) which will prevent that supplier from seeking an indemnity for his liability back up the supply chain to the manufacturer of the goods. The contract between our Group and our UK customers has a jurisdiction clause requiring any contractual claim to be interpreted in accordance with Hong Kong laws and that there is an arbitration clause. That being the case the English court would not generally accept jurisdiction to determine any such dispute.

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Other relevant product regulations

Waste Electrical and Electronic Equipment Regulations 2013 and Waste Electrical and Electronic Equipment and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (Amendment) Regulations 2014

The Waste Electrical and Electronic Equipment Regulations 2013 (effective from 1st January 2014) as amended by The Waste Electrical and Electronic Equipment and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (Amendment) Regulations 2014 (effective from 25th July 2014) (together referred to as the “**WEEE Regulations**”) are aimed at reducing the amount of waste electrical and electronic equipment that ends up in landfill and eradicating certain hazardous substances from new electrical and electronic equipment.

The WEEE Regulations apply to all electrical and electronic equipment (the “**EEE**”) placed on the market in the UK. From 1st January 2019 the categories of EEE change so all EEE falls within six numbered categories set out in the WEEE Regulations.

The WEEE Regulations impose obligations in terms of the EEE that producers sell, and in terms of financing the collection, treatment, recovery and environmentally sound disposal of WEEE. Producers are defined as anyone who manufactures and sells EEE under his own brand, who resells under his own brand equipment produced by others or who imports or exports EEE into an EU state. Our English legal advisers have advised that we are a “producer” under the WEEE Regulations but are not responsible for placing EEE onto the UK market due to the fact that goods are sold FOB in Hong Kong and, consequently, while that remains the business model, we are not required under the regulations to be a member of a Producer Compliance Scheme in the UK or appoint an authorised representative to fulfil obligations that would otherwise arise to finance the collection, treatment, recovery and environmentally sound disposal of household and non-household WEEE.

Other relevant UK regulations

(i) UK Bribery Act 2010

General offence of bribing means offering or giving a financial or other advantage to a person (1) intending to induce them, or another, improperly to perform a public function or business activity, or as a reward for the same; or (2) knowing or believing the acceptance would in itself constitute improper performance.

REGULATORY OVERVIEW

Being bribed means (1) Requesting or accepting an advantage intending personally or through another, improperly to perform a public function or business activity, or as a reward for the same, (2) Requesting or accepting such advantage when the request or acceptance would itself constitute an improper performance of a public function or business activity; or (3) Improperly performing such a function or activity in anticipation of receiving such an advantage.

Individuals

- Imprisonment for up to 10 years

Companies

- Unlimited fine
- Debarment from public contracts
- A confiscation order under the Proceeds of Crime Act 2002 (POCA)

Therefore, the offences of bribing another person, being bribed, and bribery of foreign public officials may be committed by any person if any of the constituent acts or omissions take place in the UK. Therefore, so long as any of the constituent acts or omissions take place in the UK, it does not matter where any of the people involved reside, are domiciled or are incorporated. If an offence is proved to have been committed with the “consent or connivance” of a “senior officer” of the body corporate, or a person purporting to act in such a capacity, then the senior officer (as well as the body corporate) is guilty of an offence. Consequently, if any acts or omissions giving rise to offences take place in the UK, then all senior officers or persons purporting to act in such a capacity could commit an offence whether or not they have a close connection with the UK. Consequently our Group and potentially our senior officers may be liable for a bribery offence in the UK if any of the constituent acts or omissions take place in the UK. We do not conduct our business in the UK. Based on the aforesaid, our English legal advisers are of the opinion that bribery charges made against our Group are unlikely.

(ii) Child labour laws

The EU legislative framework is the Council Directive 94133/EC of 22 June 1994 on the protection of young people at work. The Directive only applies to all young people under the age of 18 who have an employment contract or an employment relationship defined by the law in force in a Member State and/or subject to the law in force in a Member State. We do not have any employment contracts or employment relationships defined by the law in force in a Member State and/or subject to the law in force in a Member State, Council Directive 94133/EC of 22 June 1994. Based on the aforesaid, our English legal advisers are of the opinion that such directive will not apply to us.

REGULATORY OVERVIEW

(iii) Import tariffs and quotas

Depending upon their classification for import duty purposes, our various products may be subject to import tariffs when imported into the UK. Goods imported into the UK will also generally attract value added tax (VAT) at the UK rate of 20%. In addition, in certain cases goods imported into the EU may be subject to specific anti-dumping levies. In both cases, as we are not responsible for the direct importation of goods into the UK, we will not be liable for the payment of import duties or any anti-dumping levies which are or may become applicable to its goods.

REGULATORY REQUIREMENTS IN GERMANY

Product safety and product-related requirements

As a general rule, according to product-related EU and German law, every product must be designed, manufactured and usable in a way that it does not pose inadequate risks to its user. In addition, products must comply with certain technical specifications for environmental protection reasons and/or in order to avoid inadequate interference with other products (e.g. in terms of electromagnetic compatibility and radio waves).

Normally, the following product-related regulations are relevant to our products: Directive 2006/95/EC (“**Low Voltage Directive**”), Directive 2004/108/EC (“**EMC-Directive**”), Directive 2011/65/EU (“**RoHS Directive**”), Directive 1999/5/EC (“**R&TTE Directive**”), Directive 2012/19/EU (“**WEEE-Directive**”), Directive 2009/48/EC (“**Toy Safety Directive**”), regulations for batteries and accumulators (e.g. Directive 2006/66/EC), General Product Safety Directive 2001/95/EC (“**GPSD**”), each as amended, and their German law equivalents including, in particular, the German Product Safety Act (Produktsicherheitsgesetz) (the “**ProdSG**”), and supplementary regulations. Briefly summarised those regulations, amongst others, provide for requirements regarding (i) product properties (e.g. restrictions on substances, requirements regarding product construction and design or other material product qualities), (ii) product labelling (e.g. regarding product and manufacturer/importer identification, marking, for example CE-marking), (iii) registration and notification obligations (e.g. the obligation to register for a recycling system for electronic equipment), (iv) take-back obligations at end of product’s life (e.g. taking back batteries), (v) procedural obligations, such as drawing up specific documentation (e.g. technical obligation comprising testing reports, expert opinions and design drawings, declaration of conformity), and (vi) proper instruction and information to users (e.g. user manual, warnings affixed to the product).

In principle, product-related EU and domestic laws are applicable when a product is placed (*Inverkehrbringen*) or made available (*Bereitstellen*) on the German market irrespective of the acting legal or natural person being considered as manufacturer, importer or distributor. With regard to some product-related EU and domestic laws (e.g. the ProdSG), a specific legal feature applies: product-related responsibility is not only triggered by placing or making a product available on but also by someone importing a product to the German market. Thus,

REGULATORY OVERVIEW

under German law, responsibility for product compliance requires a product being placed, made available on or imported to the German market whereby responsibility under certain product-related EU and domestic laws is assigned to an economic operator already at the earlier time of offering a product. A product is placed or made available when it is supplied on the German market for distribution, consumption or use which requires the transfer of ownership or possession. This (not mandatorily physical) transfer must take place on the German market. Taking as a basis that we deliver any product on FOB basis from Hong Kong or the PRC, we do not place or make any products available on the German market since control and possession of the products is transferred to our customers in Hong Kong or the PRC. As a consequence, we are not directly obliged to comply with any product-related EU and German domestic regulations. We have been advised by our German legal advisers that, since we are solely acting as ODM, we are not to be regarded as manufacturer under product-related EU and German law; rather the customers in Germany attaching their names or trademarks are deemed manufacturers of the products placed or made available by them on the German market and are bound by the legal obligations for manufacturers. However, product-related regulations may have an indirect impact on our business to the extent our customers require our assistance for the fulfilment of the legal obligations applying to them, certain obligations are contractually passed on to us or statutory commercial law requires us to fulfil them.

Product liability

We are subject to liability under the German Product Liability Act (Produkthaftungsgesetz) (the “**ProdHG**”). Liability under the ProdHG is mandatory, strict and can neither be restricted nor excluded in advance. Liability may occur if, as a result of a defective product, a human being is killed, injured, affected in its health, or a thing (other than the defective product) is damaged. If more than one person is liable for damages caused by a defective product, each person is jointly and severally liable for the damages attributable to any person. The maximum liability for damages relating to a human being killed, injured or affected in his/her health as a consequence of one certain defect in a product is EUR 85 million. The ProdHG applies to us if (i) the aggrieved party has its habitual residence in Germany and the defective product was placed on the German market or (ii) if the defective product was bought in Germany and was placed on the German market or (iii) if the harm arose in Germany and the defective product was placed on the German market according to Article 5 Regulation (EC) 864/2007. It is sufficient that we could reasonably foresee that a product might be placed on the German market by another market participant, e.g. one of our customers, to be liable under the ProdHG; thus it is not necessary that the defective product was imported to Germany by us.

We are also potentially subject to product liability under section 823 of the German Civil Code (Bürgerliches Gesetzbuch) (the “**BGB**”) which is a provision under German tort law. As ODM we have to fulfil various obligations such as constructing and producing products without defects, instructing the users about the use and/or potential residual risks in a proper way and monitoring the products after they have been placed on the market. Any negligent or intentional breach of such obligation causing damage to property, life, body, health or freedom of a third party or any violation of a protective law causing such damage may result in a

REGULATORY OVERVIEW

liability towards the harmed party. Our liability under section 823 BGB is in principle unlimited and we would therefore be liable for all damages caused by the defective product. According to Article 4 Regulation (EC) 864/2007, section 823 BGB applies if the damage occurs in Germany.

Intellectual property

(i) Trade secrets

In Germany, there is no particular statute for the protection of trade secrets or confidential information. Rather, different provisions from various areas of law apply (first and foremost, trade secrets are protected by sections 17-19 of the German Act against Unfair Competition (Gesetz gegen den unlauteren Wettbewerb, UWG)). Generally speaking, these provisions provide for criminal sanctions if someone exploits trade secrets of a third person without being authorised to do so. To preserve rights in a trade secret, a company must take reasonable measures to keep the information confidential. We may be obliged to maintain the confidentiality of any trade secrets we gained access to in the course of business with customers in Germany.

(ii) Patents

In Germany, under the German Patent Act (Patentgesetz, PatG) a patent is a right to exclude a third party from making, using, selling, or offering for sale a technical invention throughout Germany or importing the invention into Germany. Germany has a “first to file” system which means that the right to a patent for a given technical invention lies with the person who first filed the patent application (regardless of the date the actual invention was made). Another category of intellectual property rights similar to patents are utility models in accordance with the German Utility Model Act (Gebrauchsmustergesetz, GebrMG). If patent or utility rights are infringed by third parties, the owner can claim, in particular, injunctive relief, disclosure and compensation for damages.

REGULATORY REQUIREMENTS IN THE NETHERLANDS

None of our entities are established in the European Economic Area (the “EEA”). We (i) do not have a subsidiary or branch in the EEA; (ii) have not appointed any authorised representative in the EEA; (iii) sell our products to our customers based in the Netherlands who, to the best knowledge of our Directors, directly or through their own distribution network or sales channels, on-sell our products to their own customers either in their domestic market or internationally; accordingly, we do not sell, deliver or market products to end-consumers in the Netherlands; (iv) do not affix our name, trademark or other distinctive mark to the products to be placed on the market in the Netherlands; and (v) we ship our products on FOB basis from Hong Kong or the PRC (“FOB” means that the passing of title to the products occurs when the products are loaded on board at the port of shipment, i.e. in Hong Kong or the PRC). Based on the aforesaid, our Netherlands legal advisers have advised us that no authorisation, license, approval, permit, consent, resolution, exemption, filing, registration or notarisation or other requirement of governmental, judicial or public bodies or authorities in the Netherlands is required by our Group in connection with our sale of products to customers in the Netherlands.

REGULATORY OVERVIEW

The following summarises certain aspects of Dutch law and the underlying legislation of the European Union (“EU”) to the extent applicable in connection with the sale and delivery of our products to customers in the Netherlands.

Product regulations

Our products are sold in the Netherlands to consumer electronics, communication and outdoor living products companies headquartered in the Netherlands who sell the products to their own customers either in their domestic market or internationally. In order for our Group to be able to sell the products to customers who place the Products on the market in the Netherlands, all products have to comply with all Dutch rules and regulations in relation thereto. Those rules and regulations are EU and domestic Dutch laws, with the latter to a large extent being derived from EU law. In particular, the products can be subject to product safety laws, requiring that every product must be designed, manufactured and usable in a way that it does not pose a risk to its user. In addition, products must comply with certain technical specifications for environmental protection reasons and in order to avoid interference with other products (e.g. in terms of electromagnetic compatibility and radio waves). In relation to the products sold to customers in the Netherlands, the following product-related regulations are relevant: Directive 2006/95/EC (“**Low Voltage Directive**”), Directive 2004/108/EC (“**EMC-Directive**”), Directive 2011/65/EU (“**RoHS Directive**”), Directive 1999/5/EC (“**R&TTE Directive**”), Directive 2002/96/EC (“**WEEE-Directive**”), Directive 2009/48/EC (“**Toy Safety Directive**”), General Product Safety Directive 2001/95/EC (“**GPSD**”), Directive 85/374/EEC (“**EU Product Liability Directive**”), and Directive 2009/125/EC and EC Regulations 1275/2008 and 278/2009 (together, the “**Ecodesign Directive**”), each as amended from time to time, and their Dutch law equivalents and supplementary regulations.

Briefly summarised, those regulations, amongst others, provide for requirements regarding (i) product properties (e.g. restrictions on substances, requirements regarding product construction and design or other material product qualities), (ii) product labelling (e.g. regarding product and manufacturer/importer identification, marking, for example CE-marking), (iii) registration and notification obligations (e.g. the obligation to register for a recycling system for electronic equipment), (iv) procedural obligations, such as drawing up specific documentation (e.g. technical obligation comprising testing reports, expert opinions and design drawings, declaration of conformity), and (v) proper instruction and information to users (e.g. user manual, warnings affixed to the product). This in some instances requires involving independent laboratories (e.g. for certification purposes).

In principle, product-related EU and domestic laws apply when a product is placed or made available on the Dutch market irrespective of the acting legal or natural person being considered as manufacturer, importer or distributor. With regard to product safety law under the Dutch Civil Code (“**DCC**”), a specific legal feature applies: product liability is not only triggered by placing or making a product available on the market, but also exists on the part of any person manufacturing a product, even without importing it itself onto the Dutch market. Both the manufacturer and the importer are jointly and severally liable.

REGULATORY OVERVIEW

Thus, under Dutch law, responsibility for product compliance (with the exception of the Dutch product safety laws) requires a product being placed, made available on the market or imported to the Dutch market. A product is placed or made available when it is supplied on the Dutch market for distribution, consumption or use which requires the transfer of ownership or possession. Such transfer must take place on the Dutch market. Since our Group delivers our products “free on board (FOB)” within the meaning of the Incoterms of the International Chamber of Commerce (ICC), our Group does not place or make any Products available on the Dutch market since control and possession of our products are transferred in Hong Kong or the PRC. Our Netherlands legal advisers have advised that, as a consequence, product-related EU and domestic Dutch regulations do not directly apply to our Group and therefore our Group is not directly responsible for compliance therewith. Our Netherlands legal advisers have further advised as we do not affix our name or trademark to our products and are consequently not to be regarded as manufacturer under product-related EU law; rather, the customers in the Netherlands attaching their names or trademarks are deemed manufacturer and are bound by the legal obligations for manufacturers. For fulfilling those, the customers require our assistance and several obligations may contractually be passed on to us.

Product liability

From a Dutch law perspective, our Group is subject to liability under the EU Product Liability Directive and the DCC (together, the “**Dutch Product Liability Regulations**”). A product is defective under the Dutch Product Liability Regulations if it fails to provide the safety which a person is entitled to expect, taking into account all circumstances, including the presentation of the product, the use to which it could reasonably be expected that the product would be put and the time when the product was put into market circulation. The injured person carries the burden of proof and must prove: (a) the actual damage; (b) the defect in the product; and (c) the causal relationship between the defect and the damage. However, the injured person does not have to prove a fault or negligence on the part of the producer or importer. When the damage, the defect in the product and the causal relationship between the two have been established, any person that can be considered a producer or importer under said regulations shall be liable for the damage, except as set forth immediately below. The producer or importer would not be held liable if: (a) the producer did not put the product into circulation; (b) it is likely, considering all circumstances, that the defect appeared after the product was put into circulation; (c) the product was not manufactured to be sold or distributed for profit; (d) the product was neither manufactured nor distributed in the course of his business; (e) the defect is caused by the product’s compliance with mandatory regulations specified by the public authorities; (f) the state of scientific and technical knowledge at the time when the product was put into circulation was insufficient to identify the defect (at that time); and/or (g) in the case of a manufacturer of a component: the defect is attributable to the design of the product in which the component has been fitted or to the instructions given by the manufacturer of the product. The burden of proof or, as the case may be, of making a reasonable case for the circumstances (a)-(g) above will, in principle, lie with the producer c.q. the importer. The Dutch Product Liability Regulations apply to damage such as death or personal injuries or damage that was caused to an item of property intended or mainly used for private use or consumption. If the injured person is at fault, the producer’s liability can be reduced in full or in part.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

BUSINESS HISTORY

Our history can be traced back to 2001 when Mr. Tam (our chairman, chief executive officer and executive Director) and Mr. Tsang Wan Loi (the “**Ex-Shareholder**”) established On Real in Hong Kong, all the funds of establishing On Real came from the own resources of Mr. Tam and the Ex-Shareholder. Our Directors confirmed that the Ex-Shareholder is a longtime friend of Mr. Tam and they have known each other since they worked together in 1991. The Ex-Shareholder invested in On Real in support of the establishment of our Group, but seldom participated in the daily operations and management of our Group. Mr. Hsu (our executive Director) joined our Group in 2003. Since Mr. Hsu’s joining On Real in 2003, Mr. Tam and Mr. Hsu had been acting in concert with each other in operating each member of our Group as confirmed by the Acting in Concert Confirmation. In 2013, the Ex-Shareholder decided to retire and leave Hong Kong. For this reason, he disposed of all his interests in On Real to Mr. Tam and Mr. Hsu and left our Group (see “— Corporate structure — (iii) On Real” for details of the disposal). As confirmed by our Directors, the Ex-Shareholder had no dispute or disagreement with the management of our Group, and since he seldom participated in the management of our Group during the Track Record Period, there was no impact on our Group’s operations as a result of his departure from our Group. Save as being the former shareholder and director of On Real, the Ex-Shareholder is an Independent Third Party. Since then, Mr. Tam and Mr. Hsu have remained in control of our Group.

Both of Mr. Tam and Mr. Hsu have vast experience in electronic products industry. Mr. Tam has over 20 years of experience in the consumer electronic products industry and Mr. Hsu has over 20 years of experience in production management. See “Directors and Senior Management — Directors — Executive Directors” for details.

In September 2002, our Songgang Factory commenced production. Our business has expanded since 2006 by designing and manufacturing two-way radio products for large consumer electronics companies with international brands, such as CEC, Binatone Electronics International Limited, Tristar Europe B.V. and Hesdo B.V.. In 2008, our Group started to build the Xinxing Production Facility and the Xinxing Factory commenced production in May 2009.

Over the years, we had established three operating subsidiaries in the PRC, namely On Real (Shenzhen), Xinxing On Time and Xinxing Great Success. In order to consolidate and focus on our business, certain assets, liabilities and employees of Xinxing On Time were transferred to Xinxing Great Success, and Xinxing On Time was disposed of out of our Group. See “— Corporate structure — Disposal of Xinxing On Time” for details.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

BUSINESS MILESTONE

The following table illustrates certain key milestones of the development of our business since establishment:

- | | |
|------|---|
| 2001 | <ul style="list-style-type: none">• Our first operating subsidiary, On Real, was incorporated |
| 2002 | <ul style="list-style-type: none">• On Real (Shenzhen) was established• Our Songgang Factory commenced production |
| 2003 | <ul style="list-style-type: none">• Mr. Hsu joined our Group |
| 2004 | <ul style="list-style-type: none">• The management system of On Real (Shenzhen) was accredited with the ISO 9001:2008 certification |
| 2006 | <ul style="list-style-type: none">• We started business relationship with CEC, our largest customer for the Track Record Period. CEC procured our two-way radios for the European market |
| 2007 | <ul style="list-style-type: none">• CEC placed orders with us for two-way radios for the US market |
| 2009 | <ul style="list-style-type: none">• The Xinxing Factory commenced production• We launched our digital video baby monitor (signified by receipt of orders) |
| 2011 | <ul style="list-style-type: none">• Xinxing Great Success was established |
| 2012 | <ul style="list-style-type: none">• We launched our marine handheld floating radio (signified by receipt of orders) |
| 2013 | <ul style="list-style-type: none">• We started business relationship with Delta Enterprise Corporation, for our baby monitor products• We launched our digital audio baby monitor (signified by receipt of orders) |
| 2014 | <ul style="list-style-type: none">• We launched our dPMR digital two-way radios (signified by receipt of orders)• On Real (Shenzhen) was awarded as High and New Technology Enterprise |
| 2015 | <ul style="list-style-type: none">• The management system of Xinxing Great Success was accredited with the ISO 9001:2008 certification |

CORPORATE STRUCTURE

As at the Latest Practicable Date, our Group comprises our Company, On Real (BVI) and our main operating subsidiaries, being On Real, On Real (Shenzhen), Onward, Xinxing Great Success and Starian.

Set out below is the brief corporate history of each of the members of our Group:

(i) Our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 30 June 2014 with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each, with one fully-paid subscriber Share being allotted and issued to the initial subscriber, an Independent Third Party. On the same day, such subscriber Share was transferred to Mr. Tam for par value consideration and 6,922 and 3,077 fully-paid Shares were allotted and issued to Mr. Tam and Mr. Hsu for par value consideration, respectively. After the aforesaid allotment of Shares, the issued share capital of our Company was owned by Mr. Tam as to 69.23% and Mr. Hsu as to 30.77% respectively.

As at the Latest Practicable Date, all the allotted and issued Shares were held by Mr. Tam (as to 49.85%), Mr. Hsu (as to 22.15%), Solution Smart (as to 18.67%) and Pacific Able (as to 9.33%).

As a result of the Reorganisation, our Company, through On Real (BVI), indirectly holds all of the equity interests in our subsidiaries, which are mainly engaged in the design and manufacture of two-way radios and baby monitor products. See “— Corporate Reorganisation” for further details about the Reorganisation.

Our Company is the investment holding company of our subsidiaries.

(ii) On Real (BVI)

On Real (BVI) was incorporated in the BVI on 4 July 2014 as a limited liability company which was, at its date of incorporation, authorised to issue a maximum of 50,000 shares of a single class without par value. On its date of incorporation, one share was allotted and issued as fully paid to our Company.

As part of the Reorganisation, Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able on 31 October 2014 transferred their respective 49.85%, 22.15%, 18.67% and 9.33% interests in the share capital of On Real to On Real (BVI) in consideration of our Company's allotment and issue of 3,047 Shares, 1,353 Shares, 3,734 Shares and 1,866 Shares all credited as fully paid up to them, respectively. In consideration of our Company's allotment and issue of a total of 10,000 consideration shares to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able, On Real (BVI) allotted and issued one fully paid up share to our Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Since then and up to the Latest Practicable Date, there had not been any change in the shareholding of On Real (BVI). As at the Latest Practicable Date, On Real (BVI) was a direct wholly-owned subsidiary of our Company.

On Real (BVI) is an investment holding company.

(iii) On Real

On Real was incorporated in Hong Kong on 29 January 2001 with limited liability. The authorised share capital of On Real was, at its date of incorporation, HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

On 29 January 2001, each of Gateway Secretarial Limited and Gateway Nominees Limited (as initial subscribers and being Independent Third Parties) subscribed for one share in On Real.

On 13 February 2001, each of Gateway Secretarial Limited and Gateway Nominees Limited transferred one share in On Real to Mr. Tam and the Ex-Shareholder at par value respectively. On the same day, 4,499 shares and 5,499 shares in On Real were allotted and issued to Mr. Tam and the Ex-Shareholder respectively, for a consideration of HK\$4,499 and HK\$5,499 respectively. As a result, the entire issued share capital of On Real was held by Mr. Tam (as to 45%) and the Ex-Shareholder (as to 55%).

On 24 October 2003, the Ex-Shareholder transferred his 2,000 shares in On Real to Mr. Hsu at par value when Mr. Hsu joined our Group.

On 2 February 2007, On Real increased its authorised share capital to HK\$2,000,000 divided into 2,000,000 shares of HK\$1.00 each. On 18 May 2007, On Real allotted 895,500 shares to Mr. Tam, 398,000 shares to Mr. Hsu, and 696,500 shares to the Ex-Shareholder.

On 28 May 2013, the Ex-Shareholder transferred 484,600 shares and 215,400 shares in On Real to Mr. Tam and Mr. Hsu respectively, for a consideration of approximately RMB2,769,000 and RMB1,231,000 respectively. Our Directors confirmed that the considerations were determined based on the mutual agreement between the parties by taking into account the Ex-Shareholder's investment in our Group, the dividend payments received from On Real, the good term relationship between the Ex-Shareholder and Mr. Tam and the business performance and prospect of our Group at the time of the said share transfer. As confirmed by our Directors, at the time of the said share transfer, the Listing was not contemplated and was therefore not taken into account in determining the considerations. As a result, the entire issued share capital of On Real was held by Mr. Tam as to 69.23% and Mr. Hsu as to 30.77%. After the aforesaid share transfer, the Ex-Shareholder left our Group and ceased to have any interest in our Group or any other relationship with our Group.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 30 October 2014, two subscription agreements were entered into among On Real, our Controlling Shareholders and two independent investors, namely Solution Smart and Pacific Able, pursuant to which Solution Smart and Pacific Able subscribed for 518,614 and 259,167 new shares of On Real, being their non-refundable investments to our Group, for a consideration of US\$1,000,000 and US\$500,000 respectively, resulting in Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able holding 49.85%, 22.15%, 18.67% and 9.33% of the total issued share capital of On Real, respectively. See “— Pre-IPO investments” for details.

As part of the Reorganisation, Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able on 31 October 2014 transferred their respective 49.85%, 22.15%, 18.67% and 9.33% interests in the share capital of On Real to On Real (BVI) in consideration of our Company’s allotment and issue of 3,047 Shares, 1,353 Shares, 3,734 Shares and 1,866 Shares all credited as fully paid up to them, respectively. As a result of such allotment and issue, together with the existing 6,923 Shares and 3,077 Shares owned by Mr. Tam and Mr. Hsu at the time of the incorporation of our Company, there were in aggregate 9,970 Shares, 4,430 Shares, 3,734 Shares and 1,866 Shares beneficially owned by Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able, representing 49.85%, 22.15%, 18.67% and 9.33% of the enlarged issued share capital of our Company respectively. In consideration of our Company’s allotment and issue of a total of 10,000 consideration shares to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able, On Real (BVI) allotted and issued one fully paid up share to our Company. See “— Corporate reorganisation” for details.

Since then and up to the Latest Practicable Date, there had not been any further change in the shareholding of On Real. As at the Latest Practicable Date, On Real was an indirect wholly-owned subsidiary of our Company.

On Real is principally engaged in trading of two-way radios and baby monitors and provision of repair and technical services business.

(iv) On Real (Shenzhen)

On Real (Shenzhen) was established by On Real as a wholly foreign-owned enterprise in the PRC on 9 May 2002.

At the date of incorporation, the registered capital of On Real (Shenzhen) was HKD1,000,000. In February 2005, the registered capital of On Real (Shenzhen) was increased to HKD3,500,000. In May 2007, its registered capital was further increased to HKD5,000,000. All of the registered capital of On Real (Shenzhen) was fully paid up by On Real from its resources.

Since its incorporation and up to the Latest Practicable Date, there had not been any change in the shareholding of On Real (Shenzhen). As at the Latest Practicable Date, On Real (Shenzhen) was an indirect wholly-owned subsidiary of our Company.

On Real (Shenzhen) is principally engaged in manufacturing and sale of two-way radios and baby monitors.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(v) Onward

Onward was incorporated in Hong Kong on 28 September 2004 with limited liability. The authorised share capital of Onward was, at its date of incorporation, HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

On 28 September 2004, one subscriber share was allotted and issued to Company Kit Secretarial Services Limited (as initial subscriber and being an Independent Third Party).

On 12 February 2005, Company Kit Secretarial Services Limited transferred one subscriber share in Onward to Ms. Tang Yin Ping (“**Ms. Tang**”) at par value. On the same day, 5,049 shares, 3,150 shares and 1,800 shares in Onward were allotted and issued to Ms. Tang, Ms. Chang Gen Gi (“**Ms. Chang**”) and Ms. Chan Nga Fun (“**Ms. Chan**”) respectively, for a consideration of HK\$5,049, HK\$3,150 and HK\$1,800 respectively. As a result, the entire issued share capital of Onward was held by Ms. Tang (as to 50.50%), Ms. Chang (as to 31.50%) and Ms. Chan (as to 18%). Ms. Tang, Ms. Chang and Ms. Chan are the spouses of Mr. Tam, the Ex-Shareholder and Mr. Hsu respectively.

On 29 May 2013, Ms. Chang transferred her 2,322 shares and 828 shares in Onward to Ms. Tang and Ms. Chan, for a consideration of approximately RMB958,000 and RMB342,000, respectively. The considerations were agreed between the parties on commercial basis. As a result, Onward was owned by Ms. Tang as to 73.72% and Ms. Chan as to 26.28%.

Pursuant to two separate trust arrangements (the “**trust arrangements**”) (i) between Mr. Tam and Ms. Tang; and (ii) between Mr. Hsu and Ms. Chan, Ms. Tang and Ms. Chan were nominees of Mr. Tam and Mr. Hsu in holding all the shares of Onward on trust in their favour, respectively during the period between 12 February 2005 and 9 December 2013.

On 9 December 2013, On Real acquired all shareholding interests in Onward from Ms. Tang and Ms. Chan, for a consideration of approximately RMB3,211,000 and RMB1,145,000 respectively. The considerations were calculated with reference to the net asset value of Onward on the date of the said acquisition.

Since then and up to the Latest Practicable Date, there had not been any further change in the shareholding of Onward. As at the Latest Practicable Date, Onward was an indirect wholly-owned subsidiary of our Company.

Onward is principally engaged in trading of plastic casings and plastic parts to On Real and its subsidiaries.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(vi) Xinxing Great Success

Xinxing Great Success was established by Onward as a wholly foreign-owned enterprise in the PRC on 24 March 2011.

At the date of incorporation, the registered capital of Xinxing Great Success was HKD1,000,000. On 13 February 2012, its registered capital was increased to HKD3,000,000. All of the registered capital of Xinxing Great Success was fully paid up by Onward from its resources.

Since its incorporation and up to the Latest Practicable Date, there had not been any change in the shareholding of Xinxing Great Success. As at the Latest Practicable Date, Xinxing Great Success was an indirect wholly-owned subsidiary of our Company.

Xinxing Great Success is principally engaged in manufacturing and sale of plastic casings, plastic parts, two-way radios and baby monitors.

(vii) Starian

Starian was incorporated in Hong Kong on 24 October 2013 with limited liability. The authorised share capital of Starian was, at its date of incorporation, HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Upon its incorporation, 10,000 shares of HK\$1.00 each were allotted and issued as fully paid to On Real.

Since its incorporation and up to the Latest Practicable Date, there had not been any change in the shareholding of Starian. As at the Latest Practicable Date, Starian was an indirect wholly-owned subsidiary of our Company.

Starian is principally engaged in trading of baby monitors.

Disposal of Xinxing On Time

Xinxing On Time was established by On Real as a wholly foreign-owned enterprise in the PRC on 24 May 2007 with a registered capital of USD1,200,000. On 16 November 2009, the registered capital of Xinxing On Time was increased to USD3,200,000. All of the registered capital of Xinxing On Time was fully paid up by On Real from its resources.

Prior to its transfer of assets to Xinxing Great Success, Xinxing On Time was principally engaged in manufacturing and sale of two-way radios and baby monitors and possessed the land use right of a parcel of land located at B2-02, Xincheng Industrial Zone, Xinxing County, China of approximately 37,000 sq.m (the “**Xinxing Land**”). Two factory blocks (block A factory and phase two factory), three staff quarters and one warehouse were constructed on the Xinxing Land (the “**Xinxing Buildings**”).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

As confirmed by our Directors, in view of the Listing, the Controlling Shareholders intended to retain the beneficial ownership of the land use right of the Xinxing Land and the ownership of the Xinxing Buildings for their personal investment purpose and not to leave them with our Group. Our Controlling Shareholders considered that the Xinxing Land and Xinxing Buildings have considerable values for investment purpose. On the other hand, our Group is principally engaged in the design, manufacturing and selling of two-way radios and baby monitor products and our Group does not need to own the Xinxing Land and Xinxing Buildings in order to carry on its business. The business of our Group would not be affected for the reason that the Xinxing Production Facility has already been leased from our Controlling Shareholders. In that situation, our Controlling Shareholders consider that our Group's existing assets level is sufficient and it is not necessary to retain the Xinxing Land and Xinxing Buildings in our Group. For this reason, the land use right of the Xinxing Land and the Xinxing Buildings would be disposed of before the Listing. However, as advised by our PRC Legal Advisers, the Opinions on Regulating Entry and Administration of Foreign Investment in Real Estate Market (《關於規範房地產市場外資準入和管理的意見》) promulgated on 11 July 2006 provide restrictions on foreign entities and individuals to hold PRC properties directly. The alternative is to incorporate foreign-owned PRC entities to act as PRC property investment companies to hold PRC properties. At present, there are legal uncertainties as to whether PRC approval will be granted for the incorporation of such foreign-owned PRC property investment companies. Accordingly, in view of efficiency in terms of the time and costs involved, in a transaction involving transferring a PRC property held by a PRC company to a foreign entity or individual, it is a commonly adopted practice in the PRC that the shares of the PRC company which holds the PRC properties are to be transferred to the foreign entity or individual rather than the direct transfer of the PRC property interests between the parties. In this regard, the Controlling Shareholders and our Group agreed that the existing business production line of Xinxing On Time would be retained by our Group, while Xinxing On Time holding the beneficial ownership of the land use right of the Xinxing Land and ownership of the Xinxing Buildings would be disposed of to Shine View. For the purpose of our continuing operation of business, the Controlling Shareholders agreed to lease back the Xinxing Production Facility to our Group. As part of the Reorganisation, by an asset transfer agreement dated 28 August 2014 but effective on 22 May 2014, Xinxing On Time transferred its entire business of manufacturing and sale of two-way radios and baby monitors and assets which were essential to the continuing operation of the business of our Group, including the production equipment and the operational staff in relation to the business, to Xinxing Great Success for a consideration of approximately RMB2,298,000 which was determined based on market value of such production equipments with reference to a valuation report issued by an independent valuer. The assets (including the land use right of the Xinxing Land and the Xinxing Buildings) and liabilities in the net asset value of approximately HK\$17.8 million were retained by Xinxing On Time and not transferred to Xinxing Great Success under the said asset transfer. The assets and liabilities not transferred by Xinxing On Time under the said asset transfer are set out in note 1(b)(iv) to the Accountant's Report. By a share transfer agreement dated 28 April 2014, On Real disposed of its 100% interests in Xinxing On Time to Shine View for a consideration of USD3,200,000, which was determined with reference to the registered capital of Xinxing On Time. All the requisite approvals from the relevant PRC governmental authorities were obtained and the disposal was properly and legally completed and settled on 31 August 2014.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 12 January 2011, Xinxing On Time as landlord and Xinxing Great Success (which was signed by its shareholder, On Real on its behalf) as tenant had entered into a lease agreement (the “**Initial Tenancy Agreement**”), pursuant to which the Xinxing Factory was leased to Xinxing Great Success for use as factory, at a monthly rental of RMB5,000 for a term commencing from 1 February 2011 and ending on 31 January 2016. The Initial Tenancy Agreement was confirmed and enforced by Xinxing Great Success after its incorporation on 24 March 2011. Our PRC Legal Advisers are of the view that such arrangement would not affect the validity of the Initial Tenancy Agreement under the PRC laws. The Initial Tenancy Agreement was amended and supplemented by a supplemental agreement entered into between Xinxing On Time and Xinxing Great Success on 31 July 2012 (collectively, the “**Final Tenancy Agreement**”), pursuant to which a simple warehouse with an aggregate area of about 1,476.8 sq.m was further leased to Xinxing Great Success for use as warehouse and the new rent under the Final Tenancy Agreement was RMB20,000 per month. The Final Tenancy Agreement was terminated with effect from 30 June 2014. Further, according to a confirmation letter dated 4 September 2014, Xinxing On Time confirmed it had allowed Xinxing Great Success to use (i) 6th Floor of staff quarters and (ii) 5th and 6th Floors of No. 2 staff quarters situated at B2-02, Xincheng Industrial Zone, Xincheng Town, Xinxing County, Yunfu City, Guangdong Province, the PRC as dormitories of its staffs during the period from 1 February 2011 to 30 June 2014. On 25 June 2014, Xinxing On Time and Xinxing Great Success entered into two new tenancy agreements, pursuant to which Xinxing On Time agreed to lease the Xinxing Production Facility to Xinxing Great Success for our Group’s operation for a term commencing from 1 July 2014 and ending on 30 June 2017. See “Continuing Connected Transactions” for details.

During the Track Record Period, Xinxing On Time and On Real had sold transistors to On Time (HK). On Time (HK) was principally engaged in the business of trading of electronic components. Xinxing On Time and On Real sourced transistors from suppliers to support our Group’s manufacturing of two-way radios and baby monitors. For the purpose of enhancing logistic efficiency and saving transportation costs, Xinxing On Time and On Real would purchase transistors from the suppliers and sell to On Time (HK) at cost. The sales amounts were approximately HK\$4,076,000 and HK\$4,234,000 for each of the two years ended 31 March 2015, respectively. Our Directors confirmed that in order to focus on our Group’s core business in manufacturing and sale of two-way radio and baby monitors after the Listing, such transactions had been ceased since January 2015. As such, due to the trading nature of On Time (HK), our Company decided not to include it in our Group. Since On Time (HK) is wholly owned by our Controlling Shareholders, the sale of transistors to On Time (HK) and On Real by Xinxing On Time before the disposal of Xinxing On Time on 31 August 2014 constituted discontinued related party transactions of our Company. For further details, see Note 31 of the Accountant’s Report. As On Time (HK) is engaged in trading of electronic components which is of a different nature to the core business of our Group (i.e. manufacturing of two-way radios and baby monitors), our Directors are of the view that there is no competition between the businesses of our Group and On Time (HK). Further, our Group sold transistors to two customers only during the Track Record Period, including (i) On Time (HK); and (ii) CEC under a sourcing arrangement (for details, please see “Business — Suppliers — Sourcing

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

arrangement with CEC). As the sales of transistors to On Time (HK) by our Group had been discontinued and the amount of sales to CEC under the sourcing arrangement was insignificant that we only use such transistors for manufacturing products for CEC, our Directors considered that there is no competition between the businesses of our Group and On Time (HK).

Following the disposal, Xinxing On Time holds the Xinxing Land and the Xinxing Buildings.

Deregistration of Onward Plastic (Shenzhen) Limited

安信塑膠(深圳)有限公司 (Onward Plastic (Shenzhen) Limited*), was established by Onward in the PRC on 31 March 2005 as a wholly foreign-owned enterprise with a registered capital of HKD1,000,000, which was fully paid by Onward. Prior to deregistration, its business scope was manufacture and sale of plastic parts and two-way radios.

Due to a change of operating environment and with a view to save costs, Onward Plastic (Shenzhen) Limited was deregistered on 31 July 2012.

PRE-IPO INVESTMENTS

Solution Smart

On 30 October 2014, On Real, our Controlling Shareholders and Solution Smart, entered into a subscription agreement (the “**Subscription Agreement A**”), pursuant to which Solution Smart subscribed 518,614 shares, representing 18.67% of the issued share capital, of On Real, for a consideration of US\$1,000,000.

A summary of key particulars of the pre-IPO investment is set out below:

Name of investor:	Solution Smart Holdings Limited, an investment holding company wholly-owned by SW Venture Asia and ultimately owned by Mr. Yeung, which has no substantive business activities as at the Latest Practicable Date other than the pre-IPO investment
Date of the Subscription Agreement A:	30 October 2014
Number of shares subscribed and approximate percentage of shareholding of On Real:	518,614 shares, representing 18.67% of the issued share capital of On Real

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Amount of investment:	US\$1,000,000, equivalent to approximately HK\$7,800,000, was funded by Mr. Yeung
Date of full payment of the consideration:	3 April 2014
Investment cost per Share (<i>Note 1</i>):	approximately HK\$0.1161
Use of proceeds from the investor:	the proceeds have been used for the working capital of our Group and they have not been fully utilised
Strategic benefit:	the capital investment from the investor provides an immediate fund available for our Group's expansion and working capital of the business. The pre-IPO investment would also strengthen the shareholder base of our Group upon Listing
Number of Shares and approximate percentage of shareholding upon Listing (<i>Note 2</i>):	67,212,000 Shares, representing 14.00% of the issued share capital of our Company upon Listing
Lock up:	pursuant to the Subscription Agreement A, Solution Smart should, during the period starting from the date immediately following the completion of the Subscription Agreement A and up to six months from the Listing Date, be restrained to sell, transfer, charge, pledge or otherwise dispose of (including without limitation the creation of any options, rights, interests or encumbrance in respect of) any of the Shares or other securities of our Company which are derived from the shares subscribed by it under the Subscription Agreement A (pursuant to any rights issue, Capitalisation Issue, capital reorganisation, conversion, sub-division, consolidation or otherwise)
Special right:	there was no special rights granted to Solution Smart

Notes:

1. For illustration purposes only. Based on the indicative Placing Price range, the investment cost per Share represents a discount of approximately 71.0% to HK\$0.4 per Share, being the lower end of the indicative Placing Price range, and a discount of approximately 80.7% to HK\$0.6 per Share, being the higher end of the indicative Placing Price range.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

2. Assuming completion of the Placing and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme).

The said investment amount was arrived at after arm's length negotiations between On Real and Solution Smart with reference to the valuation and the growth potential of our Group's business.

Solution Smart is an investment holding company incorporated under the laws of the BVI and a subsidiary of SW Venture Asia. SW Venture Asia is also an investment holding company incorporated under the laws of the BVI and is wholly-owned by Mr. Yeung. Mr. Yeung is the ultimate shareholder of Global Leader Enterprises Limited ("**Global Leader**"), a wholly-owned subsidiary of SW Venture Asia engaging in the provision of accounting consultancy services. Other than being our Shareholder, Solution Smart, SW Venture Asia and Mr. Yeung are Independent Third Parties.

Global Leader had provided accounting consultancy service to On Real in August, September and November 2014. This arrangement has ceased since December 2014. Since SW Venture Asia is a substantial shareholder of our Company since 31 October 2014, the transaction between Global Leader and On Real for the period from 31 October 2014 to November 2014 constituted a discontinued related party transaction of our Company and the total service fee paid by On Real to Global Leader during the period was approximately HK\$2,000. Details of the related party transaction is set out in Note 31 to the Accountant's Report.

Save as the aforesaid, Mr. Yeung did not have any other relationship with our Company and/or our Controlling Shareholders or any business transaction with our Company as at the Latest Practicable Date.

Pacific Able

On 30 October 2014, On Real, our Controlling Shareholders and Pacific Able (wholly owned by Mr. Law), entered into a subscription agreement (the "**Subscription Agreement B**"), pursuant to which Pacific Able was allotted and issued 259,167 shares, representing 9.33% of the issued share capital of On Real, for a consideration of US\$500,000.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

A summary of key particulars of the pre-IPO investment is set out below:

Name of investor:	Pacific Able Limited (恒寶有限公司), an investment holding company wholly-owned by Mr. Law, which has no substantive business activities as at the Latest Practicable Date other than the pre-IPO investment
Date of the Subscription Agreement B:	30 October 2014
Number of shares subscribed and approximate percentage of shareholding of On Real:	259,167 shares, representing 9.33% of the issued share capital of On Real
Amount of investment:	US\$500,000, equivalent to approximately HK\$3,900,000, was funded by Mr. Law
Date of full payment of the consideration:	11 April 2014
Investment cost per Share (<i>Note 1</i>):	approximately HK\$0.1161
Use of proceeds from the investor:	the proceeds have been used for the working capital of our Group and they have not been fully utilised
Strategic benefit:	the capital investment from the investor provides an immediate fund available for our Group's expansion and working capital of the business. The pre-IPO investment would also strengthen the shareholder base of our Group upon Listing
Number of Shares and approximate percentage of shareholding upon Listing (<i>Note 2</i>):	33,588,000 Shares, representing 7.00% of the issued share capital of our Company upon Listing
Lock up:	there is no lock up provision for Pacific Able
Special rights:	there was no special rights granted to Pacific Able

Notes:

1. For illustration purposes only. Based on the indicative Placing Price range, the investment cost per Share represents a discount of approximately 71.0% to HK\$0.4 per Share, being the lower end of the indicative Placing Price range, and a discount of approximately 80.7% to HK\$0.6 per Share, being the higher end of the indicative Placing Price range.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

2. Assuming completion of the Placing and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme).

The said investment amount was arrived at after arm's length negotiations between On Real and Pacific Able with reference to the valuation and the growth potential of our Group's business.

Pacific Able is an investment holding company incorporated under the laws of the BVI and is wholly-owned by Mr. Law, who controls and operates a number of companies which provide a wide range of corporate services including accounting and taxation services, company secretarial services, valuation services and marketing services to corporations in Hong Kong. Brilliant Norton Holdings Company Limited, a company controlled and operated by Mr. Law, provides company secretarial services to us at a monthly fee of HK\$35,000. For details, see "Directors and Senior Management — Company secretary". Save as the aforesaid, Mr. Law did not have any other relationship with our Company and/or our Controlling Shareholders or any business transaction with our Company as at the Latest Practicable Date.

Following completion of the Reorganisation and immediately before completion of the Placing, Solution Smart and Pacific Able became interested in 18.67% and 9.33% of the issued share capital of our Company respectively. Upon Listing, Solution Smart and Pacific Able would be interested in 14.00% and 7.00% of the issued share capital of our Company respectively. Considering that upon Listing, Solution Smart will become a substantial shareholder of our Company, the Shares held by Solution Smart are not considered as part of the "public float" for the purpose of Rule 11.23 of the GEM Listing Rules. However, since Pacific Able (i) is not a connected person of our Company; (ii) the acquisition of its interest in the Shares was not financed directly or indirectly by any connected person of our Company; and (iii) is not accustomed to take instructions from a connected person in relation to the acquisition, disposal, voting or other disposition of the Shares held by it, the Shares held by Pacific Able are considered as part of the public float.

The Sponsor is of the view that the pre-IPO investments are in compliance with the Guidance Letters HKEx-GL29-12, HKEx-GL43-12 and HKEx-GL44-12 in respect of guidance on pre-IPO investments issued by the Stock Exchange, as the pre-IPO investments have been completed on 30 October 2014, which is more than 28 clear days before the date of our Company's first submission of the listing application.

CORPORATE REORGANISATION

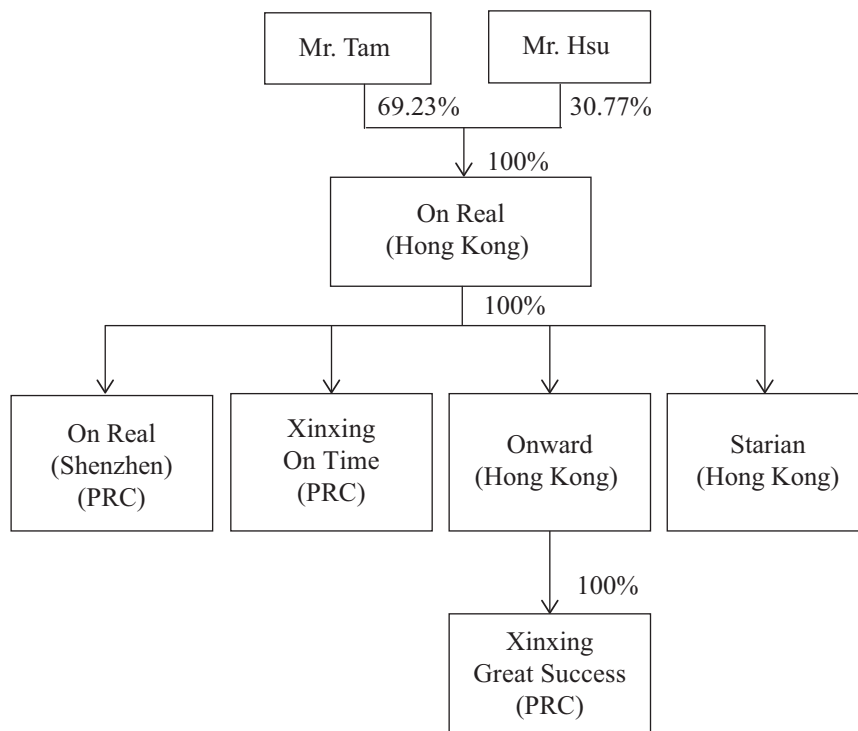
A series of restructuring steps have been taken to rationalise the structure of our Group:

- (i) By an asset transfer agreement dated 28 August 2014, Xinxing On Time transferred its entire business of manufacturing and sale of two-way radios and baby monitors and assets which were essential to the continuing operation of the business of our Group, including production equipment and the operational staff in relation to the business, to Xinxing Great Success at a consideration of approximately RMB2,298,000 based on valuation. On Real disposed of its 100% equity interests in Xinxing On Time to Shine View at a consideration of US\$3,200,000 being the registered and paid up capital of Xinxing On Time. See “— Corporate structure — Disposal of Xinxing On Time” for details.
- (ii) On 30 June 2014, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. On the same day, one subscriber’s Share was transferred to Mr. Tam, and 6,922 Shares and 3,077 Shares were allotted and issued as fully paid to Mr. Tam and Mr. Hsu respectively. Accordingly, our Company was owned as to 69.23% by Mr. Tam and as to 30.77% by Mr. Hsu.
- (iii) On 4 July 2014, On Real (BVI) was incorporated in the BVI with limited liability. On the same day, one share of On Real (BVI) was allotted and issued as fully paid to our Company.
- (iv) Declaration of a special dividend payment of a total of approximately HK\$35.0 million, (HK\$10.0 million in cash and approximately HK\$25.0 million (equivalent to US\$3,200,000 for settlement of On Real’s account receivable arising from the disposal of its 100% equity interest in Xinxing On Time to Shine View)), by On Real to its shareholders whose names appear on the register of members of On Real as at the close of business on 16 September 2014.
- (v) On 30 October 2014, On Real and our Controlling Shareholders entered into Subscription Agreement A and Subscription Agreement B with the pre-IPO investors, two independent investors, namely Solution Smart and Pacific Able, pursuant to which Solution Smart and Pacific Able subscribed for 518,614 and 259,167 new shares of On Real at considerations of US\$1,000,000 and US\$500,000 respectively, being their non-refundable investments to our Group with reference to the valuation and the growth potential of our Group’s business, resulting in Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able holding 49.85%, 22.15%, 18.67% and 9.33% of the total issued share capital of On Real respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

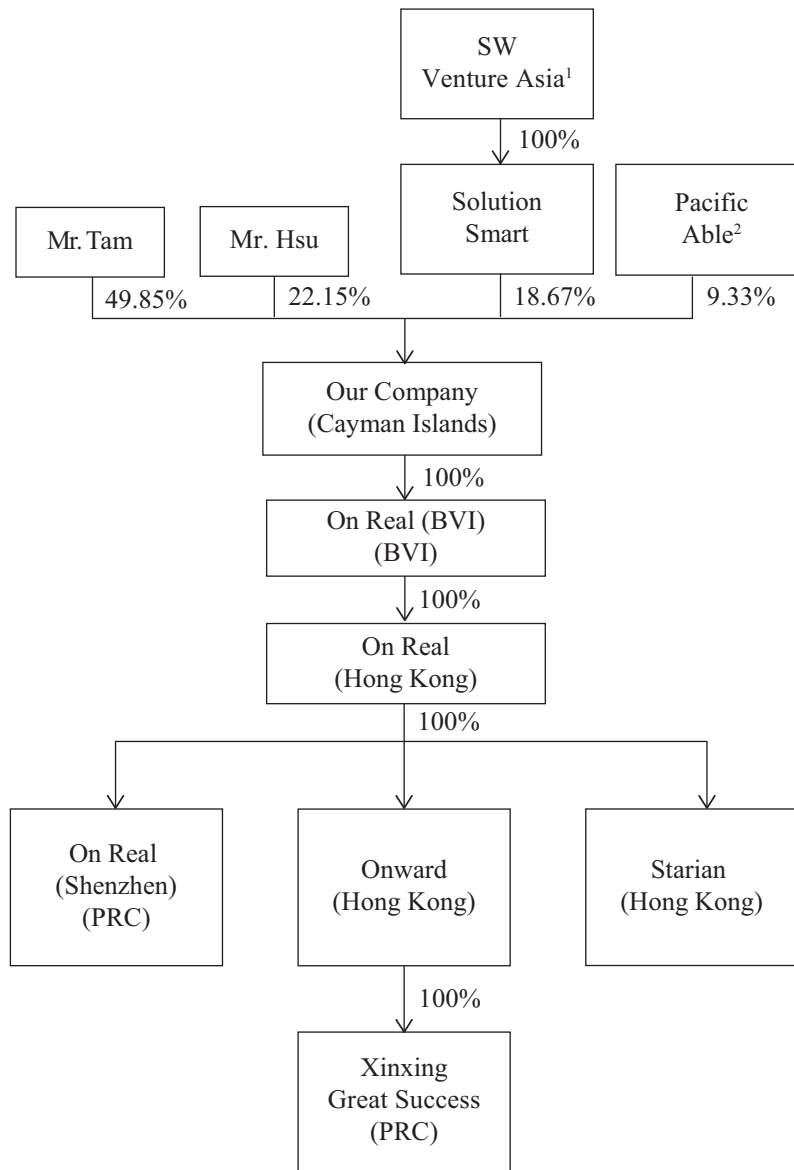
- (vi) On 31 October 2014, Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able entered into a sale and purchase agreement with On Real (BVI) and our Company, pursuant to which On Real (BVI) acquired 49.85%, 22.15%, 18.67% and 9.33% interests in the share capital of On Real from Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able respectively, the considerations of which were satisfied by the allotment and issue of 3,047 Shares, 1,353 Shares, 3,734 Shares and 1,866 Shares in our Company to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able respectively. In consideration of our Company's allotment and issue of a total of 10,000 consideration shares to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able, our Company was allotted and issued one share of On Real (BVI).
- (vii) On 16 September 2015, the authorised share capital of our Company increased from HK\$390,000 to HK\$7,800,000 by the creation of an additional 741,000,000 shares of HK\$0.01 each in the share capital of our Company.
- (viii) On 16 September 2015, our Company capitalised an amount of HK\$3,599,800 from the amount standing to the credit of the share premium account of our Company and that the said sum be applied in paying up in full for 359,980,000 Shares, representing 99.994% of the enlarged issued share capital of our Company, such shares were allotted and issued, credited as fully paid to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able as to 179,450,030 Shares, 79,735,570 Shares, 67,208,266 Shares and 33,586,134 Shares respectively, in proportion to their then respective shareholdings in our Company of 49.85%, 22.15%, 18.67% and 9.33%.

Corporate structure immediately prior to the Reorganisation:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Corporate structure immediately upon completion of the Reorganisation but prior to the Placing and the Capitalisation Issue

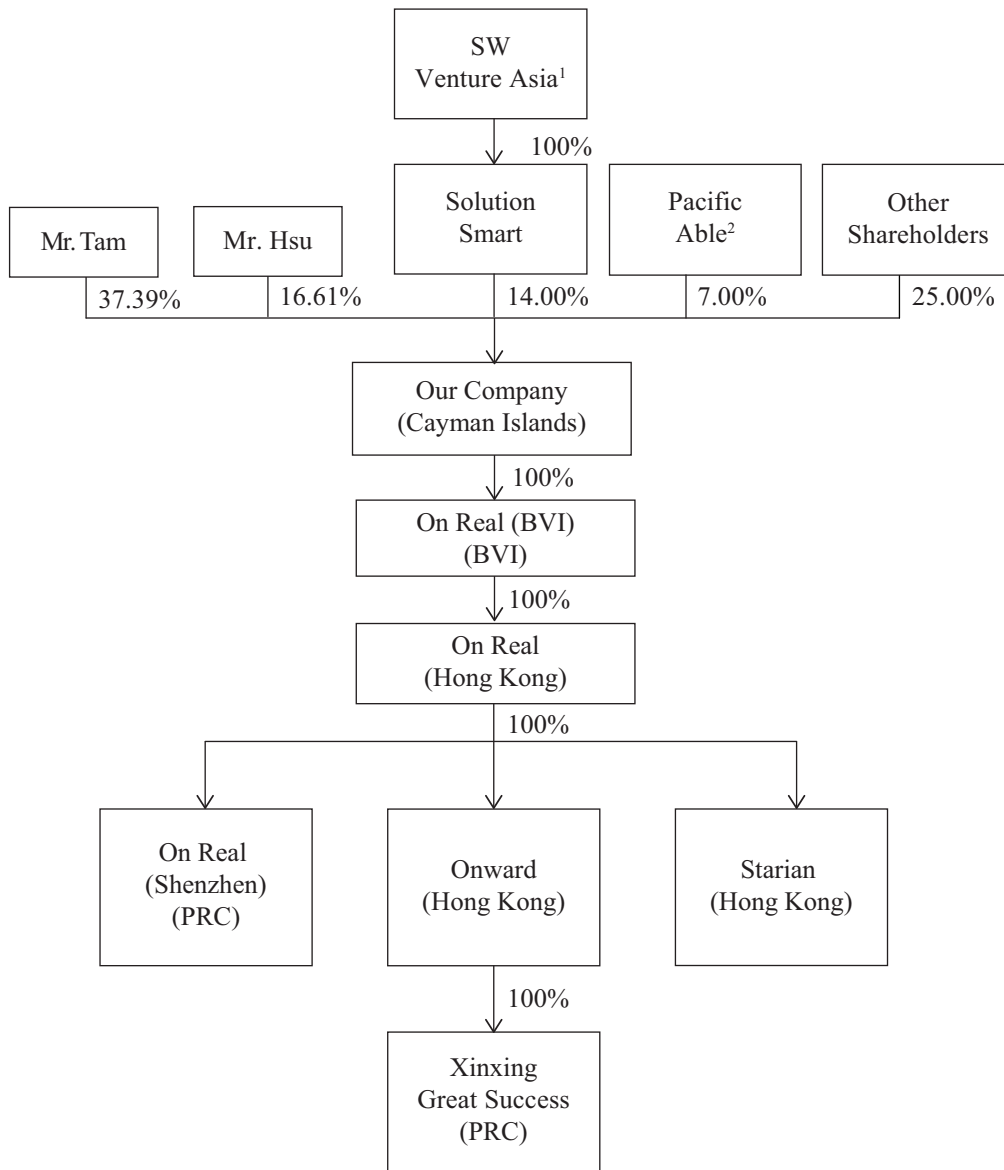


¹ SW Venture Asia is wholly owned by Mr. Yeung.

² Pacific Able is wholly owned by Mr. Law.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Corporate structure immediately upon completion of the Placing and the Capitalisation Issue



¹ SW Venture Asia is wholly owned by Mr. Yeung.

² Pacific Able is wholly owned by Mr. Law.

OVERVIEW

We are a two-way radio product designer and manufacturer established in 2001. We derive our revenue principally from designing, manufacturing and selling two-way radios and baby monitor products for the European, US and Asian markets on ODM basis. With years of experience in RF technology, product design and development and engineering know-how, we have established a proven track record and built up strong customer relationships with our customers. Our major customers are mainly large consumer electronics companies with international brands including CEC (its Cobra brand ranked second and seventh in the US and EU personal market, respectively, in terms of sales volume of two-way radio products in 2014, according to the CBRE Report), Customer A (its Brand A ranked first in the global market in terms of sales volume of two-way radio and baby monitor products in 2014, according to the CBRE Report), Binatone Electronics International Limited, Tristar Europe B.V. and Hesdo B.V.. As at the Latest Practicable Date, we had a total staff size of 959.

Unlike mobile phones which are generally used as one-to-one devices by individual end-users, two-way radios, with built-in sophisticated product designs and features, could also be used as vital communication tools in the production flow of goods and/or services by industrial, commercial or other institutional users in specific environments. Over the years, we have seen the evolution of the two-way radio from a simple communication device into an advanced intelligent product for a broad spectrum of personal and business uses. Unique features of two-way radios include:

- Direct and free-of-roaming charge communications – no base station is required and therefore no geographical limitation
- PTT communications – no dialling is required
- One-to-many configuration – allows quick, instant group conversations on a given channel
- Immediate use – no waiting time for a free line is required as a channel is designated for use
- Private networks – two-way radio networks can be configured to be private networks so as to allow closed communications within a group of persons
- Security – two-way radio networks can be encrypted to offer secure communications

Our principle line of business is the design and manufacture of two-way radios and baby monitor products. We offer one-stop services covering product design and development, sourcing and procurement, production and assembly, sales, marketing and logistics and after-sales services. We generally seek orders from our customers through promoting product ideas to them directly and through responding to their RFPs. Our operation and production base in the PRC occupied a total gross floor area of 17,599.4 sq.m as at the Latest Practicable Date.

BUSINESS

We have been engaged in the design and manufacture of two-way radios since our establishment. Throughout the years in our history, we have devoted significant efforts to capitalise on our product design and production capabilities by continuing to launch new products and product models and expand into new markets and segments. In 2006, CEC, our largest customer for the Track Record Period, procured our two-way radios for the European market. In 2007, CEC placed orders with us for the US market. In 2009, we launched our digital video baby monitor. In 2012, we launched our marine handheld floating radio. In 2013, we launched our digital audio baby monitor and Delta Enterprise Corporation placed orders for such product with us. In 2014, we launched our dPMR digital two-way radio. As at the Latest Practicable Date, our two-way radio product range includes consumer grade radios (covering FRS/GMRS radios and PMR radios) and commercial grade radios (covering emergency and weather alert radios (analog), marine handheld floating radios (analog) and dPMR radios (digital)); and our baby monitor product range covers analog audio baby monitors, digital audio baby monitors and digital video baby monitors. During the Track Record Period, we also generated revenue from the sales of certain other products. For details, see “— Our products — Other products”.

Our achievements in product development have garnered recognition. We are recognised as a High and New Technology Enterprise (高新技術企業) with a certificate dated 30 September 2014 issued by The Committee of Science and Technology Innovation of Shenzhen* (深圳市科技創新委員會), Finance Commission of Shenzhen Municipality* (深圳市財政委員會), Shenzhen Provincial State Administration of Taxation* (深圳市國家稅務局), Shenzhen Provincial Local Taxation Bureau* (深圳市地方稅務局) for a validity period of three years. The certificate entitles us to apply for a preferential income tax rate of 15% instead of a statutory rate of 25% in the PRC during the period of validity period of the certificate.

During the Track Record Period, we were not engaged in the branding of our own products and we sold our two-way radio and baby monitor products exclusively on ODM basis. We concentrate our efforts in growing our business by generating sales, diversifying our product range and improving our design and development capabilities.

To the best knowledge of our Directors, our customers purchase our products for onward sales to their local or overseas markets, covering the US, Europe and the Asia Pacific regions. As at the Latest Practicable Date, our business relationships with our five largest customers ranged from over three to over 11 years and we had maintained over nine years of relationship with our largest customer. We have been engaged to sell baby monitor products to Delta Enterprise Corporation, a manufacturer of children’s products based in the US and another company which is a consumer electronics designer, developer and manufacturer based in the UK (“**Customer C**”), since December 2013 and August 2014, respectively. For details, see “— Customers — Reliance on major customers — (1) Our ability to adjust our business model — (i) Attract new customers to expand sales”.

BUSINESS

The table below sets forth a breakdown of our revenue as derived from our sales of products by geographical location of the shipment destination of our products covering all our business segments (*Note 1*) and as a percentage of our revenue for the periods indicated.

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
US	125,684	35.1	148,606	42.9
Europe (<i>Note 2</i>)	52,614	14.7	54,857	15.9
The Netherlands	38,068	10.6	41,675	12.0
Asia (<i>Note 3</i>)	42,940	12.0	37,745	10.9
UK	28,452	7.9	23,002	6.6
Germany	37,851	10.6	18,858	5.5
Others (<i>Note 4</i>)	32,520	9.1	21,448	6.2
Total	358,129	100.0	346,191	100.0

Notes:

1. The geographical breakdown was prepared based on shipping destination without taking into account the re-export or onward sales (if any) of our products by our customers.
2. Europe includes but is not limited to France, Italy and Belgium but excludes UK, Germany and the Netherlands.
3. Asia includes but is not limited to the PRC and Hong Kong.
4. Others include but is not limited to Brazil, Canada and Russia.

The table below sets forth a breakdown of our revenue as derived from each business category and as a percentage of our total revenue of the periods indicated.

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>
Two-way radios	324,523	90.6	322,619	93.2
Baby monitors	7,237	2.0	7,346	2.1
Other products (<i>Note</i>)	23,860	6.7	14,588	4.2
Total	355,620	99.3	344,553	99.5

Note: Other products include DECT phones, transistors, ICs, plastic casings, rechargeable battery chargers, ultrasonic cleaners, inductive emergency flashlights and accessories such as headsets, belt clips, chargers and power adaptors.

COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths of our Group have enabled us to compete effectively in the industry we operate in.

Strong product design and development capabilities

We consider that product design, development and innovation are key factors for a competitive edge in the industry we operate in. Our strong product design and development capabilities enable us to continuously provide competitive products in a market categorised by rapid technological changes and short product life cycles. Our product development costs capitalised as intangible assets or prepayments for research and development were approximately HK\$3.6 million and HK\$7.6 million for each of the two years ended 31 March 2015, respectively. Our costs include design and engineering fees, staff costs and other related costs and prepayments.

Our products are premised on the use of RF technology, which our Directors consider a niche area in the design of consumer electronic products. We consider that high quality electronic radio design is complex due to the sensitivity of radio circuit and the accuracy of components and layouts required to achieve operations on specific performance and frequency levels. We consider a reliable RF communication circuit requires careful monitoring of the manufacturing process to ensure that the sensitive radio circuit is not adversely affected. We have accumulated strong expertise and know-how in this area through years of operations in the industry. We are experienced in designing complex, reliable radio circuits for wireless communications and customising RF modules for specific uses in applications requiring radio communication. We understand the specific functions of our components, are able to source suitable components for our products and are experienced in connecting and incorporating them in our products accurately. We are capable of meeting the product and technical specifications of our customers, which we understand are formulated based on, and could be more stringent than, the relevant regulatory requirements to which they are subject.

As at the Latest Practicable Date, our product development team comprised 75 staff and was led by the department head who joined us in October 2004 and has over 25 years of experience in designing and developing electronic products. We believe our ability in recruiting and retaining experienced product development staff enhances our capabilities to expand our product range. New entrants into this market would require investment in resources and time to match our level of know-how and experience.

Our achievements in product development have garnered recognition. We are recognised as a High and New Technology Enterprise (高新技術企業) with a certificate dated 30 September 2014 issued by The Committee of Science and Technology Innovation of Shenzhen* (深圳市科技創新委員會), Finance Commission of Shenzhen Municipality* (深圳市財政委員會), Shenzhen Provincial State Administration of Taxation* (深圳市國家稅務局), Shenzhen Provincial Local Taxation Bureau* (深圳市地方稅務局) for a validity period of three years. The certificate entitles us to apply for a preferential income tax rate of 15% instead of a statutory rate of 25% in the PRC during the period of validity period of the certificate.

Established and long-standing business relationships with our customers

We have a strong and loyal customer base, which we believe is critical in differentiating ourselves from our competitors. Our customers comprise large consumer electronics companies with international brands including CEC (its Cobra brand ranked second and seventh in the US and EU personal market, respectively, in terms of sales volume of two-way radio products in 2014, according to the CBRE Report), Customer A (its Brand A ranked first in the global market in terms of sales volume of two-way radio and baby monitor products in 2014, according to the CBRE Report), Binatone Electronics International Limited, Tristar Europe B.V. and Hesdo B.V.. As at the Latest Practicable Date, our business relationships with our five largest customers ranged from over three to over 11 years and we had maintained over nine years of relationship with our largest customer. Our Directors believe that our established and long-term business relationships with our customers cannot be easily replicated by other consumer electronic designers and manufacturers.

We maintain close communication with our major customers and meet them throughout the year. We attend trade fairs and exhibitions in Hong Kong and overseas where we would meet our customers, exchange ideas on market trends and latest technology updates, and discuss their business needs. We believe that our consistent ability to meet our customers' design and quality requirements and deliver products on time is key to maintaining existing customer relationships. We believe that by being able to offer our customers a wide range of products, they are less likely to look elsewhere when the need to expand their own product line arises, which increases the likelihood that they will continue to place orders with us and is conducive to maintaining long-term business relationships.

Proven track record on product quality and delivery

We maintain stringent quality control and assurance tests throughout the manufacturing process from the procurement of raw materials to conducting incoming quality assurance of raw materials and to performing in-process quality controls during production and outgoing quality assurance of finished products. We have obtained the ISO 9001:2008 certification for quality management system (the current certification in respect of On Real (Shenzhen) is valid until 2016 and in respect of Xinxing Great Success until 2018). The ISO certification process involves subjecting our production processes and quality management system to annual reviews. We acknowledge the importance of product functionality and reliability and we perform checks on our products in our product quality test laboratory before they are delivered to our customers. During the Track Record Period, we did not receive material complaints from our customers in relation to the quality of our products and none of our customers made any material warranty claims against us.

We believe that we are able to provide our customers with safe and reliable products with our production process and quality control and assurance systems. With our ERP system, we are able to control and manage our master production schedule under a centralised system where we track customer orders, manage procurement of raw materials, monitor the progress of manufacturing and keep records of quality control and assurance tests throughout the production process to ensure timely delivery. Gaining and maintaining a reputation for delivery reliability and consistency is important to us as our customers may have scheduled product launch dates to meet.

Vertically-integrated production capabilities

We operate on a vertically-integrated business model under which we control and manage our supply chain functions from product design and development, procurement, production to after-sales services. We base our critical production operations primarily in-house and we have outsourcing capabilities. We currently engage independent subcontractors for certain of our manufacturing and engineering processes. For details, see “— Production — Subcontracting”. With our inhouse production facilities, we can produce within a short lead time and are flexible in adjusting production time and volume. Our outsourcing capabilities on the other hand enable us to focus on our core strengths, streamline our production flow and be more responsive to market demands. We have implemented flexible production strategies in our production. We generally operate on a built-to-order basis. We make most of our purchases of raw materials and components after we receive customers’ purchase orders. Our machinery, assembly lines and production team are capable of two-way radio and baby monitor manufacturing operations interchangeably. We believe that these strategies enable us to adjust our product mix and production operations in response to changing market needs and in turn enhance our operational scalability and cost-effectiveness.

With our vertically-integrated production capabilities, we are able to effectively collaborate on and materialise innovations into new product designs, fulfil customers’ orders requiring customised designs, specific quantities and tight production lead times, and implement stringent quality control at each major production process for our products. In particular, our vertical integration enables our centralised and strict control over all the major control points of our production, which we consider helps to maintain the certainty and consistency of our products’ quality standards.

Experienced and stable management team with extensive industry experience

We have been supplying two-way radios to large consumer electronics companies with international brands over the years under the leadership of our experienced management team including our founder, Mr. Tam, who has over 20 years of experience in consumer electronics industry, and Mr. Hsu, who has over 20 years of experience in production management. Since our establishment in 2001, Mr. Tam and Mr. Hsu (who joined us in 2003) have been leading us through the growth and expansion of our business. Our executive Directors and most of our senior management have been working in the consumer electronics industry for over 15 years and have acquired knowledge and experience in this industry and in business management. Our Directors believe that the extensive knowledge and expertise in RF technology of our management team will enable us to maintain and grow our market share and to design and manufacture products which use similar technology to expand our product range.

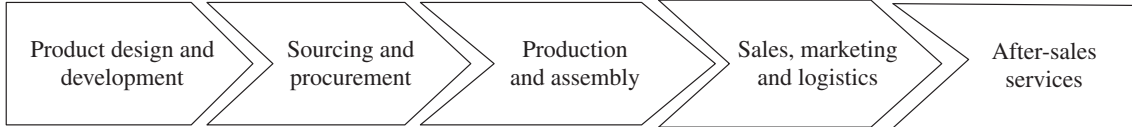
OUR DESIGN AND MANUFACTURING BUSINESS

We derive our revenue principally from designing, manufacturing and selling two-way radio and baby monitor products on ODM basis. We offer one-stop services covering product design and development, sourcing and procurement, production and assembly, sales, marketing and logistics and after-sales services. We also generate a small revenue from the provision of repair and technical services and selling of other products.

BUSINESS

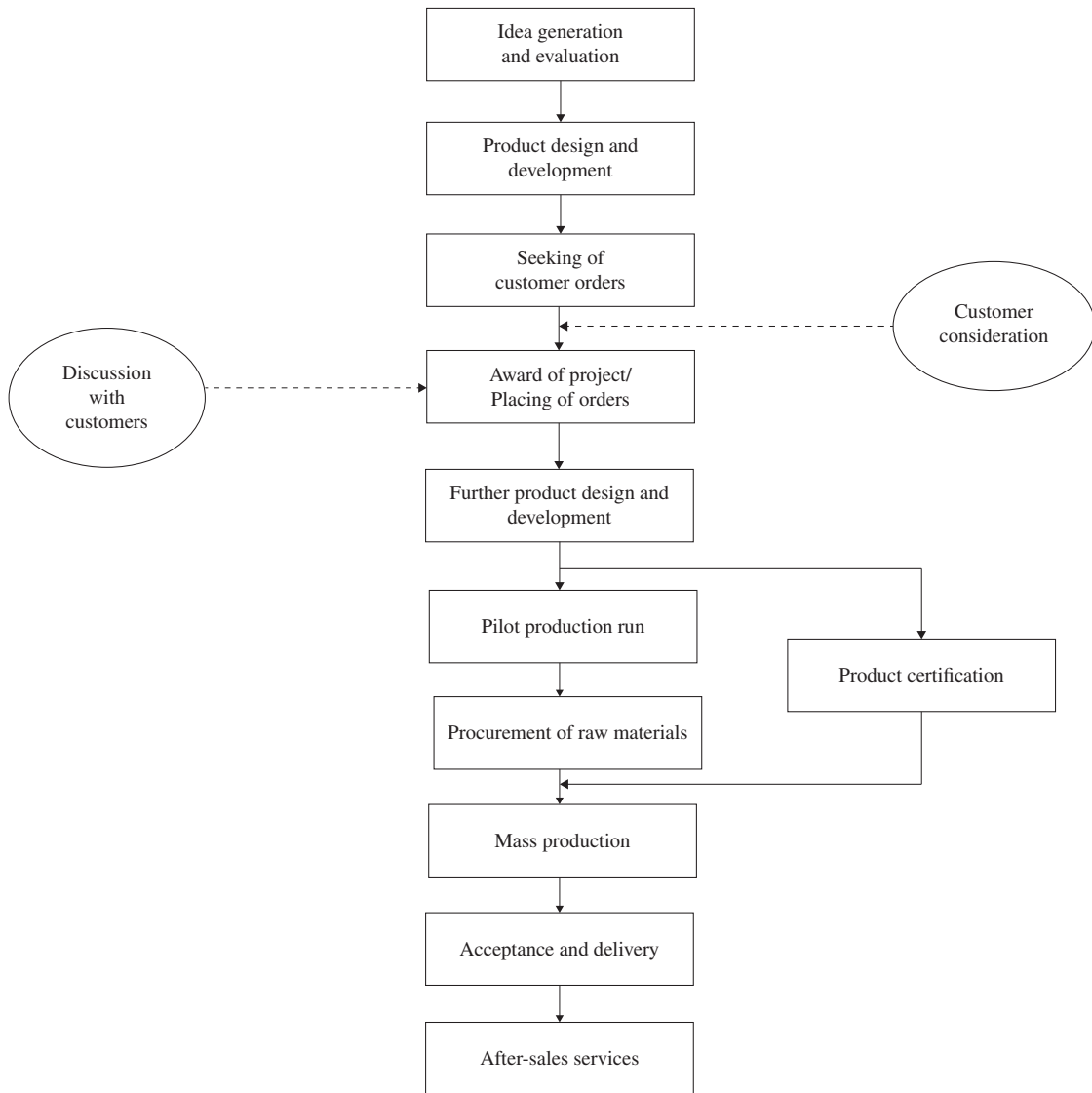
Business model

The following diagram illustrates the business model of our design and manufacturing business:



Business workflow

The following diagram illustrates the key steps of our business workflow for our products (*Note*).



Note: Depending on the customer's request and product specification, the steps carried out in our business operations may not proceed in the same order as described above.

Idea generation and evaluation

We generate and evaluate ideas for new product designs or improved product features based on our understanding of the needs of the customers, market information, industry trends or new technology. Our ideas may also be prompted by customers' RFPs, which usually state the required product features or functions, expected quantity, delivery time and cost estimates and which are usually sent to us electronically.

Product design and development

When considering the development of a new project or product, managers from various departments will discuss the functionality and feasibility of the product design and the availability of resources. If approved by our senior management, we will commence the development of the project. Depending on the specification of each design, the internal approval process normally takes two to three months to complete. When considering a RFP, managers from various departments will review the RFP and consider factors including scope and complexity of work, project specifications and availability of components, resources and expertise. We may make clarifications with the customer before preparing a response.

Our product development team is divided into sub teams focusing on different aspects of product design, including components and circuitry planning, product functionality and features, application software development and the design of mechanical structure.

Seeking of customers' orders

Our two main approaches to seek customers' orders are as follows:

- **Approaching customers:** We learn about the product needs and preferences of our potential customers from meetings with them and by attending trade fairs and exhibitions in Hong Kong and overseas. We also keep abreast of market and industry trends. Thus we are often able to identify our target customers for our products. We generally approach our customers with our new product designs through setting up of sales pitches and presentation meetings and sending pictures, specifications and other details electronically.
- **Responding to RFP:** Our response will usually include a price quotation, our suggested product specifications and whether we could meet other criteria of our customers. We consider a number of factors in determining our quotation such as the availability of resources, the features and specifications required and our expected profit margin.

Award of project/Placing of orders

If the customer wishes to engage our services, they will award us the project. The award of the project does not create any commitments on either party until a purchase order is placed by the customer and accepted by us. After agreeing on the key terms such as unit price, quantity and delivery date, a purchase order will be issued.

BUSINESS

Further product design and development

Our product development team will generally conduct at least two rounds of engineering pilot test runs to produce product samples. At the final round, our quality assurance team will carry out a series of quality assurance reliability tests on the samples. The engineering pilot test runs normally take approximately three to six months to complete. We will send drawings or images of the product designs to customers for review and discussion. Our product development team will review and approve the final product technical specifications. When we reach an agreement on the design with the customer, we can start the casing manufacturing process and will send product samples to the customer for review and approval.

Product certification

Once the test runs are completed, we will send the sample to external laboratories for testing to obtain certification. The contracts we enter into with our customers may stipulate that our products are required to comply with certain relevant local safety standards and regulatory requirements such as CE, R&TTE Directive, FCC rules and/or RoHS depending on our customers' local countries.

Pilot production run

We will carry out a pilot production run, for which we generally produce approximately 50 samples, in order to identify latent defect in the product which may not be discovered during the design and development stage. We will discuss with our customers on resolving the defects and upon rectification, our customers will approve the product for mass production.

Procurement of raw materials

We generally operate on a built-to-order basis. We make most of our purchases of raw materials and components after we receive customers' purchase orders.

Mass production

In accordance with our master production schedule, manufacturing can start shortly after we receive raw materials and components from our suppliers. For details of our production process, see “— Production — Production process”.

Acceptance and delivery

As our customers' purchase orders are generally on FOB terms, we are responsible for delivery of the finished products from our production facilities to the port of shipment or the warehouse of the customer, where the customer or their agent accepts the finished products. Our customers generally inspect goods at our production facilities prior to delivery.

BUSINESS

After-sales services

We also provide after-sales services, including but not limited to technical support and product warranty, to customers. For further details, see “— After-sales services”.

During the Track Record Period, we did not engage any third party to assist in soliciting new customers and our in-house staff performed the tasks of soliciting customers’ orders. During such period, we subcontracted certain manufacturing and engineering processes to independent subcontractors (for details, see “— Production — Subcontracting”) and except for the aforesaid (which do not fall within our core product design and development work) our in-house staff performed all product design and development. We plan to engage external design partner to assist us in developing new products and external sales agents to solicit new customers in the future. For details, see “Future Plans and Use of Proceeds”.

Provision of repair and technical services

We repair customers’ products so that the products could conform to original specifications. Some customers will request us to provide replacement parts for their products such as headsets, belt clips, chargers and power adaptors. For technical service, we charge our customers a one-off fee in designing and developing the initial concept and artwork of the products that we later manufacture and sell to them. We consider that the provision of our repair and technical service enables us to build a stronger relationship with our customers. During the Track Record Period, customers who sought our repair and technical services were mainly our two-way radio customers.

OUR PRODUCTS

Two-way radio

Consumer grade

(1) FRS/GMRS (Analog)



- **Channels**: Access to FRS channels and GMRS channels
- **Frequency**: FRS or GMRS frequency with a maximum transmission power of up to 0.5 watt (FRS) and 5 watts (GMRS)
- **Service**: Able to communicate with FRS, GMRS and other FRS/GMRS radios
- **Basic features**: Adjustable volume control, one ringtone, squelch, key lock function and up to 22 channels
- **Additional features**: Some models are equipped with auto channel scanning, a wider choice of ringtones, LED flashlight, vibration alert and NOAA receiver

- **Product series:** Main series are basic/entry model series (some models have VOX function), regular CTCSS series (these models allow encryption of conversations for privacy purpose), mini series with CTCSS (these models are more compact in size) and long range series (some models cover a longer range and up to 8km)

(2) PMR (Analog)



PMR446 radios:

- **Channels:** Eight channels
- **Frequency:** Around 446 MHz with a maximum transmission power of up to 0.5 watt
- **Basic features:** Auto channel scan, automatic squelch and monitor
- **Additional features:** Some models feature group call function, VOX function and/or allow encryption of conversations for privacy purpose

Other PMR radios:

Other PMR radios operate at different frequencies for different markets and have similar features as our PMR446 radios

Commercial grade

(1) **Emergency and weather alert radios**
(Analog)



- **Channels**: seven channels
- **Frequency**: Around 162.400 MHz to 162.550 MHz
- **Basic features**: NOAA radio receiver (which broadcasts weather information from weather channels), NOAA weather alert (which provides both visual and audible alerts on bad weather conditions) and SAME capability (which allows users to program the radio specific to location to receive location-specific weather and emergency alerts)
- **Additional features**: Some models feature a three-level alert LED indicator (signifying “warning”, “watch” and “advisory”) and tornado button mode which alerts users on tornados

(2) **Marine handheld floating radios**
(Analog)



- **Channels**: 88
- **Frequency**: Around 156 to 163 MHz
- **Features**: Features are designed for use near water such as bright colour casing, floating capability, flashlight, built-in NOAA receiver, a choice of between one, three and six watts for short and long range communication, external speaker, IPX-7 waterproof standard, microphone jack and a unique function which vibrates water out of the speaker grill to improve performance in extreme conditions

(3) dPMR (Digital)



- **Channels:** 16 or 64 channels
- **Frequency:** Around 403 to 470 MHz
- **Features:** Ability to automatically switch to receive analog or digital signal, allow texting of messages using Chinese and English canned text (a pre-programmed text), has a group call function and allow recordings of up to 15 minutes in total
- **Additional features:** Display screen (which can show Chinese characters), radio-to-radio cloning (which allows the loading of configuration from a different radio to expedite the set-up process and designed especially for users with various sets of radios), nuisance channel deletion (which allows users to temporarily remove a channel that continually generates unwanted calls or noise from a scan list)

Baby monitor

(1) Analog audio baby monitor



- **Frequency:** PMR446 frequency
- **Features:** One-way communication, soft glow night light, date and time display, feeding alarm, sound level indicator and VOX function

(2) Digital audio baby monitor



- **Frequency:** 2.4GHz
- **Modulation method:** DSSS
- **Features:** One-way or Two-way communication, lullabies, soft glow night light, date and time display, feeding alarm, sound level indicator and VOX function

(3) Digital video baby monitor



- **Frequency:** 2.4GHz
- **Modulation method:** DSSS/FHSS
- **Basic features:** Two-way communication, TFT LCD display, lullabies, soft glow night light, date and time display, feeding alarm, sound level indicator and VOX function
- **Additional features:** Advanced models can also offer zoom-in and zoom-out capabilities and support for up to four cameras
- **Enhanced features:** A recently launched model comes equipped with temperature sensor, infrared illumination, video and sound recording, motion detect alarm and remote control

Other products

Some of the products we produced during the history of our business are not seen as areas of growth for our business and many of these product lines have been discontinued or are not actively pursued by our management. These products include: DECT phones, transistors, ICs, plastic casings, rechargeable battery chargers, ultrasonic cleaners, inductive emergency flashlights. We had ceased to sell DECT phone products to Customer B, one of our five largest customers for the year ended 31 March 2014 since September 2013. As part of our business strategy, we decided to discontinue our DECT phone product line. For details, see “— Customers”. In addition, our sales of transistors to On Time (HK) had been ceased since January 2015. For further details, see “History, Reorganisation and Corporate Structure — Corporate structure — Disposal of Xinxing On Time”.

BUSINESS

During the Track Record Period, to complement our product portfolio, some of our two-way radio products were sold with accessories such as headsets, belt clips, chargers and power adaptors. These accessories were bought straight from our suppliers and sold to our customers without any modification. These accessories undergo our quality assurance checks to ensure that our customers' quality standards are met.

New products

In order to maintain our competitiveness and to appeal to a broader customer base, our Directors believe that we should enhance our existing products and develop new products. For the year ended 31 March 2015, we launched eight new product models of two-way radios and five new product models of baby monitors and had generated a total revenue of approximately USD3.1 million.

New product models

Since the date after the Track Record Period, we have been developing various potential product models and have received or expect to receive purchase orders by the end of 2015. Details of such product models and the relevant product development plan are set forth below. As at the Latest Practicable Date, we recorded sales revenue for these products in the amount of approximately HK\$92,000.

- *Two-way radio with built-in Bluetooth.* The product allows communication with various types of smart devices with the Bluetooth pairing function. Smart device users can download a smart application to his smart device to pair with this product. This enables text or voice messaging even if the smart device is far from a Wi-Fi or cellular signal. In addition, the product can pair with a small, wireless ear piece for users who prefer not to be seen with the radio, such as security personnel or retail shop personnel.

Product development plan

Current stage:	We developed a demo sample and conducted presentation to customers to arouse interest and solicit orders
Sales and marketing activities:	From June 2014 to the last quarter of 2015
Expected time for first award:	The last quarter of 2015
Production and testing:	Approximately eight weeks from the date of purchase order
Delivery:	Approximately 12 weeks from the date of purchase order

BUSINESS

- *High-end two-way radio.* The product is designed to be compact in size and is equipped with advanced features such as front panel programming which enables users to view the settings on the screen while pushing the buttons on the device to program the radio; group caller identification which displays the identification of specific sets of group members; repeater capability which allows the product to extend range by receiving and re-transmitting a signal with increased power.

Product development plan

Current stage: We received the project award for such product from Customer A in December 2014 and received the first purchase order in March 2015

Production and testing: June 2015

Delivery: July 2015

- *Waterproof high-end two-way radio.* The product is designed to achieve IPX-7 waterproof standard and be protected from total dust ingress. It will float in water with the front display side facing upwards. It will be equipped with white and red LED which can emit light continuously or in blinks.

Product development plan

Current stage: We received the project award for such product from Customer A in June 2015

Production and testing: February 2016

Delivery: March 2016

Baby monitor products

- *Digital audio baby monitors with non-invasive movement sensing capability.* The product can detect baby movement and measure temperature and humidity. The receiving unit used by parents comes in two designs: one has reminder functions and can be worn like a wrist-band and the other a desktop receiver with liquid crystal display (LCD).

Product development plan

Current stage: We received the first order from a new customer in April 2015 and are developing a final sample in preparation for mass production

Production and testing: October 2015

Delivery: October 2015

- *Digital video baby monitors with non-invasive movement sensing capability.* In addition to the features described above, the product is equipped with a camera and is able to record directional sound to extract minor audible details of the baby.

Product development plan

Current stage: We are developing a demo sample in order to present to potential customers

Sales and marketing activities: From April 2015 to the last quarter of 2015

Expected time for first purchase order: The last quarter of 2015

Production and testing: Approximately eight weeks from the date of purchase order

Delivery: Approximately 12 weeks from the date of purchase order

Other products

- *IoT connectivity accessory*: The product is an accessory to two-way radio which enables communication with IoT-enabled devices such as smart devices.
- *Power bank with built-in RF module*: The product enables smart devices to behave like a two-way radio when users charge up their smart devices.

Two-way radio has unique features which differentiate it from other wireless products in the market. With the growth potential in our current market segments and our expansion into the commercial market as discussed in “— Customers — Reliance on major customers — (2) Our ability to reduce the level of reliance in the future”, we believe that our two-way radio products which are upgraded with advanced features taking into account the needs of the modern world, smart device-user behaviour and changes in the information technology environment will help us achieve sustainable business growth. We recognise the ubiquitousness of IoT connectivity with smart devices in the market and thus our two-way radio with Bluetooth function and the accessory products listed in the above which offer expanded capabilities and higher product utilisation will help us increase our market share in the two-way radio market. We also recognise that users tend to look for efficiency and device miniaturisation in information technology products. We believe that our high-end two-way radio and two-way radio with display products will appeal to users with such needs. We consider that baby monitor users will continue to look for high quality, reliable products with higher functionality to suit the needs of baby-monitoring and our potential baby monitor products will offer us expanding opportunities in the market. Our Directors believe that the changes in the information technology environment present new opportunities for product innovation and our continued efforts in developing products with capabilities that ascend from traditional product boundaries will help us grow our business.

Product life cycle and seasonality

We consider that the product life cycle of a particular model of two-way radio or baby monitor depends on the level of competition, the launching of new substitute products and the pace of technological development. According to the CBRE Report, two-way radios generally have a product cycle of two to four years due to new product models or upgrades by brand owners. Generally, shipment of two-way radio product in terms of volume will increase gradually from the year of first launch and reach maturity in the second year. A decrease in shipment in terms of volume is generally experienced in the third or fourth year. According to the CBRE Report, two-way radio personal users usually replace their two-way radios every two years and baby monitor users tend to upgrade or replace their baby monitors after 18 months of their purchase for use during the growth and development of the baby in its early childhood as baby monitors are widely used for monitoring toddlers and young children as well and baby monitor users who are parents may purchase new baby monitors in case of further childbearing.

Our sales are sensitive to seasonality. For example, during the Track Record Period, we experienced lower sales in the fourth quarter of our financial year (i.e. from January to March) which, our Directors believe, is attributable to lower end-consumer purchasing desire after the major holidays, including Thanksgiving and Christmas. We consider that the demand for our products is influenced by the product launch and plans of our customers.

BUSINESS

PRODUCTION AND OPERATION FACILITIES

Our head office is located in Xixiang Sub-district, Baoan District, Shenzhen, China. In addition, we have two other production facilities in Songgang Sub-district, Baoan District, Shenzhen, China (namely, the Songgang Production Facility) and Xinxing County, Yunfu City, Guangdong Province, China (namely, the Xinxing Production Facility). Our operation and production base (including office, factories and staff quarters) had a total gross floor area of approximately 17,599.4 sq.m as at the Latest Practicable Date. We have obtained the ISO 9001:2008 certification for our quality management system (the current certification in respect of On Real (Shenzhen) is valid until 2016 and in respect of Xinxing Great Success until 2018).

The table below sets out the general information about our production and operation facilities as at the Latest Practicable Date.

	Approximate total gross floor area (<i>m</i> ²)	Leased or owned	Number of staff as at the Latest Practicable Date	Functions by department	Number of production lines	Manufacturing processes	Machinery and equipment	Products
Shenzhen head office	797	Leased	70	Management, product design and development, finance, sales and marketing, procurement	N/A	N/A	Testing equipment	Two-way radio, baby monitor, other products
Songgang Production Facility	8,843.3	Leased	435	Administration, product design and development, production, finance, quality control and assurance	9 SMT lines, 8 COB lines, 2 PCBA assembly lines, 2 plastic casing assembly lines, 2 packaging lines	SMT, COB, PCBA assembly and testing, plastic casing assembly, packaging	SMT machine, AOI machine, COB machine, testing equipment	Two-way radio, baby monitor, other products
Xinxing Production Facility	7,959.1	Leased	436	Administration, production, finance, quality control and assurance	43 injection molding lines, 2 PCBA assembly lines, 2 plastic casing assembly lines, 2 packaging lines	Injection moulding, PCBA assembly and testing, plastic casing assembly, packaging	Plastic injection machine, testing equipment	Two-way radio, baby monitor, other products

During the Track Record Period, we did not encounter any accidents causing significant personal injuries or death at our production base. As advised by our PRC Legal Advisers, save as disclosed in “— Non-compliance”, our production facilities were in full compliance with the relevant PRC laws and regulations during the Track Record Period.

BUSINESS

PRODUCTION

Production team

As at the Latest Practicable Date, our production team comprised 645 staff. Our production team is mainly responsible for ensuring the smooth operation of our SMT and COB lines, controlling non-automated parts of the SMT machines used, assembly of the plastic casing, packaging and storage of finished products and overseeing the production process. Our production lines are generally led by our head of production, a supervisor and a foreman.

Production capacity

The following table sets forth the estimated maximum production capacity, actual production volume and approximate actual utilisation rate of the Songgang Factory for the periods indicated.

	Year ended 31 March	
	2014	2015
Estimated maximum production capacity ('000 pieces) (Note 1)	7,669	7,669
Actual production volume ('000 pieces) (Note 2)	5,223	4,197
Approximate utilisation rate (%) (Note 3)	68	55
		(Note 4)

Notes:

1. The computation of the estimated maximum production capacity during the Track Record Period is based on a number of assumptions, which include the daily operation time, the number of working days, the capacity of each production line per hour and the total number of our production lines for each of the two years ended 31 March 2015.

We consider our overall production capacity is largely constrained by our SMT process in the Songgang Factory as SMT is a major manufacturing process of our products. The SMT process for the production of two-way radios, baby monitors and other products are similar. We calculate the estimated maximum production capacity by dividing the estimated maximum operation time of our SMT machine (i.e. assuming nine SMT lines (comprising 31 SMT machines) operate 20 hours a day and 22 days per month during the Track Record Period) by the average cycle time required for one SMT line to complete the SMT process for one piece of product (i.e. approximately 22.3 seconds). The average cycle time is calculated by assuming there are 284 components in one piece of product which is the average number of electronic components required in our products. Since our machinery can be used interchangeably for producing two-way radios, baby monitors and other products, the production capacity for each major product varies and depends on the actual mix of products produced in a period.

2. Actual production volume is the number of pieces of final products produced by us.
3. We calculate the approximate utilisation rate by dividing the actual production volume by the estimated maximum production capacity.
4. The utilisation rate for the year ended 31 March 2015 is lower than that in 2014 mainly because of (i) the discontinuation of DECT phone (for details, see “— Customers”); (ii) the decrease in sales volume of two-way radios (for details, see “Financial Information — Description and analysis of principal items in the consolidated income statements — Revenue”); and (iii) the outsourcing of a small part of SMT process to subcontractors (for details, see “— Subcontracting — SMT and COB processes”).

BUSINESS

Machinery and equipment

As at the Latest Practicable Date, our production machinery included 31 SMT machines, eight COB machines, 10 AOI machines, and 43 plastic injection machines. Our maintenance staff carries out periodic inspections, repair and maintenance on our machinery and other equipment.

The following table sets forth certain details of the major machinery used in our production process as at the Latest Practicable Date.

<u>Name of machine</u>	<u>General life span (Note)</u>	<u>Year in commencement of operation</u>
SMT machine	Over 10 years	2001 – 2010
COB machine	Over 10 years	2000 – 2010
AOI machine	Over 10 years	2009 – 2010
Plastic injection machine	Over 10 years	2005 – 2013

Note: Based on our Directors' knowledge, the actual life span of a machine is largely affected by a number of factors such as maintenance practices, the loading of the machinery, preventive maintenance activities, supplies of the spare and consumable parts as well as the availability of maintenance service in case of major failures found, and the stated general life span is presented for reference only.

As at the Latest Practicable Date, the weighted average age of our plant and machinery (which is the age of a fixed asset) was approximately six years. Our Directors estimate that the weighted average remaining actual useful lives of our plant and major machinery (which is the estimated lifespan of a depreciable asset) were four years as at the Latest Practicable Date. Our Directors are of the view that our aged plant and machinery would not affect our production efficiency and costs to a material extent given: (1) we expect that our major machinery to have a longer actual life span as compared to the estimated useful life (due to: (i) our production machinery was not fully loaded during the Track Record Period; and (ii) we have reserved sufficient time to perform preventive maintenance); (2) the products manufactured with our machinery have continuously been sought by our customers; (3) we have maintained proper maintenance practices (such as renewing the consumable parts and conduct routine calibrations periodically); and (4) we have flexibility in outsourcing parts of our manufacturing and engineering processes to independent subcontractors (for details, see “— Production — Subcontracting”). During the Track Record Period, our capital expenditure incurred for purchase of property, plant and equipment amounted to approximately HK\$2.6 million and HK\$6.9 million for the two years ended 31 March 2015, of which our Directors consider to have no material impact to the financials to our Group.

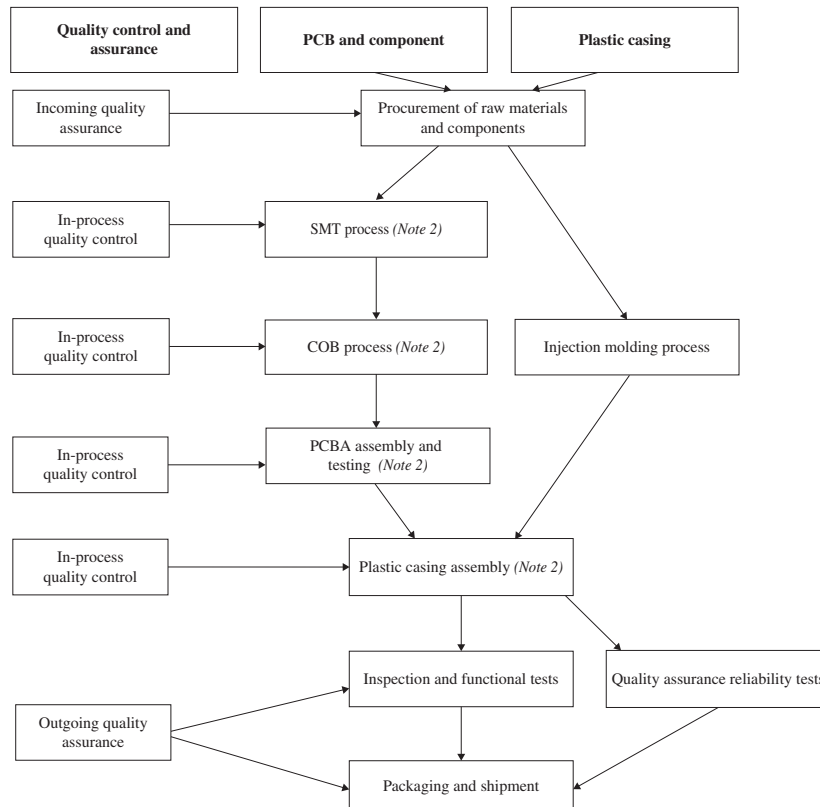
BUSINESS

We maintain a list of approved vendors from whom we could purchase the machinery and equipment we require. We may not replace an equipment or machinery merely because it is fully depreciated as depreciation is an accounting concept in connection with the allocation of the cost of an asset and we may keep using such equipment or machinery as long as it is in satisfactory working order. We may replace an aged equipment or machinery and those at a stage of wear and tear that it is no longer advantageous to keep it in our production line if it results in higher maintenance costs, lowering of product quality and reduction in production capacity. We may replace an equipment or machinery which has become obsolete in view of latest technology innovations for the needs of modernisation subject to our production needs. We do not have plans to have any material replacement of plant and machinery for at least 12 months from the date of this prospectus. Accordingly, we consider that there would not be any material impact on the potential additional depreciation charges of our plant and machinery. We plan to fund our replacement of equipment and machinery from internal resources or external financing if required.

During the Track Record Period, we did not experience any material mechanical failures of any of our machinery and equipment.

Production process

The following diagram illustrates the key steps of our manufacturing workflow for our products (*Note 1*).



Notes:

1. Depending on the design and production requirements, the manufacturing process for different types of products may not proceed in the same order as described above.
2. We currently engage independent subcontractors for certain of these processes. For details, see “— Production — Subcontracting”.

Procurement of raw materials

Our procurement team will procure the requisite raw materials, components, parts and packaging materials according to our production schedule which is generated by the MRP module of our ERP system. Procurement lead time (from placement of orders to delivery of raw materials) varies for different types of raw material and generally ranges from several days to 11 weeks. We also purchase raw materials as buffer stock. Our quality control team inspects raw materials and components used in our manufacturing process upon delivery on a sample basis. The inspection looks to ensure that, among other things, the raw materials and components are not damaged and are in compliance with order specifications before acceptance. Raw materials and components which fail our quality assurance tests are returned to the relevant supplier. We manufacture plastic casings and a few other plastic parts for our products.

SMT processes

We carry out our SMT processes in the Songgang Factory. Our key SMT processes include:

- **Solder paste printing:** Solder paste (which is powdered metal solder suspended in a thick medium flux) is applied to all the solder pads of the PCB to supply solder alloy for the solder joints with a stainless steel or nickel stencil using printing procedures, such as a screen printing procedure or a jet-print mechanism.
- **SMT mounting:** Electronic parts and components are mounted onto the surface of PCB by SMT machines, being numeric control pick and place machines with simulated motion, using electric circuits.
- **Reflow soldering:** The PCB with mounted components is sent to the reflow soldering oven to melt solder particles in the solder paste by high temperature and the surface tension of molten solder will help to keep all the electronic parts and components intact and aligned on the PCB.
- **AOI:** The PCB is sent to the AOI machine for an automated visual inspection which compares the scanned PCB with a pre-defined PCB image for any visual differences. In the event of such a difference, the AOI machine will alert the staff of the location of the defect for further checking.

COB processes

We carry out our COB processes in the Songgang Factory. Our key COB processes include:

- **Cleaning and cutting:** After completion of the SMT process, the PCB is placed in a rubbing machine which removes the oxide layer of the metallic connecting points of the PCB. The cleansed PCB is then sent to a cutting machine to cut the PCB into individual boards for chip attachment.
- **Chip attachment:** Chip attachment is applying a chip attach adhesive to the PCB. Adhesive application may be in the form of dispensing, stencil printing, or pin transfer.
- **Wirebonding:** Our ultrasonic bonding machines connect wires between the chip and the PCB or substrate.
- **Tensile testing and inspection:** A bonded PCB is tested for tensile strength by using a static needle (which is attached to a tension meter) to pull the bond wire until it breaks. We will compare our standard figures against the meter readings and will adjust the COB machine if the reading falls out of margin. The bond wires will also be inspected in detail under a microscope for defects such as misplacement, bent or excess wires. The metallic connecting points of a PCB will also be inspected for improper welding or unconnected wires.
- **Encapsulation:** The chip and bond wires are encapsulated for protection against mechanical and chemical damage. Encapsulation is done by dispensing a liquid encapsulant material over the chip and wires. The PCB is then placed in a pre-heated oven for one hour in order to set the encapsulant. Once cooled, a label bearing a lot number will be stuck on the PCB.

Injection molding process

We manufacture plastic casings and a few other plastic parts for our products with an injection molding process in the Xinxing Factory, where the plastic resin is placed in a heated barrel, mixed and forced into a mold cavity where it cools and hardens to the shape of the cavity. If the customer requests to have their logo on the casing, we can print this for them.

PCBA assembly and testing

We assemble odd-shaped or non-standardised electronic components onto a PCBA by hand and we conduct such hand assembly processes in both the Songgang Factory and Xinxing Factory. Depending on the particular product being manufactured, some components may need to be welded or soldered manually onto the PCB. Tests are carried out on the PCBAs to check, among others, the position of components, the functionality of the PCBA specific to the product it is manufactured for, the bandwidth and the transmission power.

Plastic casing assembly

Once the plastic casings are ready for assembly, they are moved to our casing assembly lines in the Xinxing Factory or the Songgang Factory. Our plastic casing assembly line includes preparatory work on the casing which involves inserting a keypad into position and applying waterproof glue to the connecting joints. Auxiliary components such as LED lights or speakers are then connected, before the casing is joined together manually.

Inspection and functional tests

Our products are inspected for visual defects and are tested for functionality including communication and audio functions. Some customers may send their staff to our production facilities to carry out their own quality checks. They would select an agreed sample size to check for compliance of the products against agreed specifications. Rejected products would be returned to the production lines for re-work or scrapped if the re-worked product failed to pass our quality tests.

Quality assurance reliability tests

For details of the quality assurance reliability tests we conduct on our finished products, see “— Quality control and quality assurance — Quality control on finished products”.

Packaging and shipment

Products that pass our quality tests are then packed into boxes for delivery. Packaging of our finished products is carried out by packing into a box or using a thermoforming process whereby a plastic sheet is heated to form a specific shape in a mold and trimmed into a blister clamshell. We normally have a production lead time (from commencement of SMT process to completion of plastic casing assembly process) of approximately two weeks and our sales team communicates with our production team to arrange transportation logistics.

Subcontracting

During the Track Record Period, we engaged independent subcontractors for certain of our manufacturing and engineering processes. We consider that such processes could be readily subcontracted as there are replacement subcontractors with the necessary skills and capabilities on the market. Our business relationship with our manufacturing subcontractors ranged from over six months to over one year as at the Latest Practicable Date. For the risks associated with subcontracting arrangement, see “Risk Factors — Risks relating to our business — We outsource certain manufacturing and engineering processes to independent subcontractors. Any disruption to their manufacturing operations could adversely affect our production schedule and in turn affect our business operations and financial results.”.

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We generally select our subcontractors through quotation. We will conduct site visits to their facilities to inspect their equipment and machinery. A site visit report will be prepared for our senior management to decide whether to approve or reject the subcontractor based on our selection criteria. A subcontractor agreement will then be entered into with the subcontractor to formalise the terms of engagement. Our selection criteria for subcontractors generally include proximity of their location to our production facilities, their technical and manufacturing capabilities, their capacity to complete our orders on time and their ability to comply with our quality requirements. To monitor the performance of the subcontractors, we (in respect of the subcontractors for the PCBA and plastic casing assembly processes and the SMT and COB processes) assign staff to station at the subcontractors' facilities, our production managers visit their facilities from time to time and our quality manager conducts monthly reviews of their performance. All finished products are inspected by our quality control personnel upon delivery. For substandard products, it is our policy that we will require our subcontractors to undergo rework if the products fail to meet the agreed AQL standard and will not accept the products until the products pass our acceptance procedures.

PCBA and plastic casing assembly processes

We outsource a large part of our PCBA and plastic casing assembly processes to two independent subcontractors engaged in electronic products processing services and located in Guangdong Province, China. We consider that these manufacturing processes are labour-intensive in nature and the subcontracting arrangement would allow us to focus on and build our core competencies and enable us to achieve greater flexibility in allocating our resources with minimal capital commitment. These two subcontractors are our five largest suppliers for the year ended 31 March 2015.

Our fees paid to these two subcontractors accounted for approximately 7.5% of our total cost of sales for the year ended 31 March 2015. We entered into written agreements with such subcontractors in February 2014 and June 2014, respectively. The agreements have a fixed term of three years and do not impose commitments on us to place orders. Each order is confirmed by way of purchase order which sets out the quantity, price and delivery time. We provide raw materials and components for the manufacturing processes and conduct testing of the finished goods using AQL measures, while the subcontractors are responsible for ensuring the order is completed on-time and conducting in-process quality control. The subcontractors will be liable to a penalty or pay the costs incurred by us as a result of delay in delivery caused by them. Our payment to the subcontractors are on 30-day credit terms after the issuing of monthly statement. The subcontractors are prohibited from disclosing our confidential information and are required to adhere to our quality requirements, including RoHS. The agreements can be terminated by either party thereto with three months' notice. If the relevant subcontractor wishes to renew the agreement upon its expiry, we may enter into a new subcontracting agreement with it upon three months' notice prior to expiry of the agreement being given to us and subject to our approval.

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Due to certain defects in our Songgang Production Facility, we have established a relocation plan pursuant to which we will relocate the staff, machinery and assets in the Songgang Production Facility to another location (the “**Relocation Facility**”) should the need arise. We entered into a pre-lease agreement in respect of the Relocation Facility pursuant to which we have the right to request for the leasing of the Relocation Facility. For details, see “— Property — Contingency arrangements for our production and business operation — (iii) Relocation arrangement in respect of the Songgang Production Facility”. The Relocation Facility is currently leased to one of our PCBA and plastic casing assembly subcontractors. Pursuant to an agreement entered into between Xinxing On Time and the subcontractor, the subcontractor will vacate from the Relocation Facility within one month upon written notice issued by Xinxing On Time. Our Directors consider that our business operations will not be materially affected if such subcontractor is required to vacate the premises as: (i) the Relocation Facility is capable to accommodate substantially all our production needs based on the production capacity of the Songgang Factory (for details, see “— Production — Production capacity”) even without our subcontracting out of production processes; and (ii) we do not expect any material obstacle in sourcing an alternative subcontractor as our PCBA and plastic casing assembly processes do not require a high skills set and there is an abundant pool of subcontractors offering similar services in the market.

SMT and COB processes

We outsource a small part of SMT and COB processes to two independent subcontractors engaged in electronic products manufacturing services located in Shenzhen, China, one of which being the same subcontractor with whom we later entered into the Contingent Manufacturing Agreement (the “**Contingent Subcontractor**”). For details of the Contingent Manufacturing Agreement, see “— Property — Contingency arrangements for our production and business operation — (ii) Outsourcing arrangement”. We currently engage their services mainly for contingent purpose to meet urgent orders.

Our fees paid to such subcontractors accounted for approximately 0.4% of our total cost of sales for the year ended 31 March 2015. We started using the services of the Contingent Subcontractor in September 2014. We entered into a written agreement with it (a separate agreement from the Contingent Manufacturing Agreement) in December 2014 which has a fixed term of one year and does not impose commitments on us to place orders. For the other subcontractor, we entered into a written agreement with it in January 2015 which has a fixed term of one year and does not impose commitments on us to place orders. Other terms of the agreements are similar to those of the agreements we have entered into with the subcontractors for PCBA and plastic casing assembly.

As we only subcontract assembly processes to our subcontractors for PCBA and plastic casing assembly process and SMT and COB processes, such subcontractors are not involved in the design of our products or the development of any technical know-how, and as such no development of intellectual property will be resulted therefrom.

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Engineering processes

We outsource some of our engineering processes relating to our baby monitor products to three independent subcontractors engaged in the provision of engineering services for electronic consumer products located in Hong Kong. Baby monitors are home-based products and, compared to two-way radio products, require shorter-range and lower-power RF applications and the engineering processes involved are less complicated in nature. We generally outsource two types of engineering processes relating to baby monitors: (i) standardised processes relating to the design of PCB layout, mechanical structure and user interface software; (ii) processes relating to a specific product feature where a unique technology which is not within our core competences (such as breath monitoring system) is required. We retain our core competencies by being fully responsible for system architecture design. Our specific responsibilities cover CPU software design (such as defining encoding and decoding protocols), defining the protocols for RF tuning for receiving and transmitting signals, as well as adjusting the PCB layout and component for implementation to ensure our product specifications and quality requirements are met.

Our payments made to these subcontractors were approximately HK\$3.2 million and HK\$5.5 million for the two years ended 31 March 2015. During the Track Record Period, we entered into a number of written agreements with such subcontractors. The agreements generally provide for a term of two or three months from commencement of the project or one year for the development of a particular product feature or component. Under the agreements, we generally agree with the subcontractors to use our specified IC chip and will provide the technical specifications and protocols for the subcontractors to adopt and process. We are entitled to receive re-provision of services in case of reported material deficiencies within a specified period after receipt of products. The agreements generally state that each of the parties shall own all intellectual property developed solely by such party and all intellectual property developed jointly by the parties will be owned by both parties jointly. The agreements require both parties to hold all confidential information about the other party in confidence. The agreements generally cannot be terminated unless there is a material breach by the other party which is not remedied within the specified period.

PRODUCT DESIGN AND DEVELOPMENT

We believe that our product design and development capabilities are crucial to our sustained success in the two-way radio and baby monitor markets. Our product development costs capitalised as intangible assets or prepayments for research and development were approximately HK\$3.6 million and HK\$7.6 million for each of the two years ended 31 March 2015, respectively. Our costs include design and engineering fees, staff costs and other related costs and prepayments.

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Our achievements in product development have garnered recognition. We are recognised as a High and New Technology Enterprise (高新技術企業) with a certificate dated 30 September 2014 issued by The Committee of Science and Technology Innovation of Shenzhen* (深圳市科技創新委員會), Finance Commission of Shenzhen Municipality* (深圳市財政委員會), Shenzhen Provincial State Administration of Taxation* (深圳市國家稅務局), Shenzhen Provincial Local Taxation Bureau* (深圳市地方稅務局) for a validity period of three years. The certificate entitles us to apply for a preferential income tax rate of 15% instead of a statutory rate of 25% in the PRC during the period of validity period of the certificate. For the risks relating to our application for the preferential income tax rate, see “Risk Factors — Risks relating to our business — The preferential income tax rate we are entitled to could be changed or discontinued, which could adversely affect our profitability.”.

Product development team

As at the Latest Practicable Date, our product development team comprised 75 staff and was led by the department head who joined us in October 2004 and has over 25 years of experience in designing and developing electronic products. Our product development team consists of hardware, software and mechanical engineering sub teams. The hardware team is responsible for the components and circuitry in our products and builds hardwares based on conceptual designs. The software team is responsible for product functionality and features and focuses on designing programmes and developing application software. The mechanical engineering team is responsible for designing the mechanical structure of our products. We outsource some industrial design works relating to the aesthetics and ergonomics of our products to third-party external designers. We incurred design fees of approximately HK\$0.4 million and HK\$0.2 million to such external designers for each of the two years ended 31 March 2015, respectively.

Product design and development capabilities

Our product development team’s core expertise are RF, hardware, software and mechanical engineering development. This means finding solutions, through the design of circuits, to enable our products to function in a desired manner. We consider that high quality electronic radio design is complex due to the sensitivity of radio circuit and the accuracy of components and layouts required to achieve operation on specific performance and frequency levels. For this reason, a different placement or choice of electronic components will affect a product’s performance. We believe that our knowledge in RF circuit design, RF module customisation and component usage and application is difficult to acquire or replicate. Our product development team is also able to monitor the manufacturing process to ensure that the circuits have a reliable RF sensitivity as required in the specifications. Our product development team is also familiar with the relevant local or international safety requirements that our products are subject to and will help to ensure that our designs can constantly meet with these requirements.

PROCUREMENT AND RAW MATERIALS**Procurement**

It is the usual practice of our procurement department to keep track of the market situation of our major raw materials, and solicit quotations of relevant raw materials from our approved suppliers. To ensure that our specifications are met, our quality control team will conduct various tests on the delivered raw materials and components on a sample basis. Raw materials and components which fail our quality assurance tests are returned to the relevant supplier. During the Track Record Period, we had not discovered any significant disparity which may indicate serious quality problems with our raw materials procured, nor had we been in any serious disputes with any of our raw materials suppliers.

We maintain a list of approved vendors from whom we could purchase the machinery and equipment we require.

Raw materials

Our principal types of raw materials and components are PCBs, ICs, MCUs, LCDs, capacitors, resistors, keypads, plastic resins, batteries, power adaptors, boxes for packaging and user manuals. We do not rely on a sole supplier for any of our key types of raw materials or components and we consider, generally, our raw materials and components are readily available in the market and are easy to replace. For some components, such as MCUs, different suppliers may produce different versions with different peripheral features to perform specific tasks. When we design a product which utilises a component from a particular supplier who is no longer able to supply that component, we will try to source a different version or type of component and our product development team can alter the design of the products depending on the version or feature of the component while ensuring that the product meets the functionality requirements. For the associated risk, see “Risk Factors — Risks relating to our business — Fluctuations in the price, availability and quality of components and underlying raw materials could result in increased costs for us.” For raw materials that our product is specifically based on or is critical to its functionality, we will confirm the availability of such raw materials with our suppliers before confirming the purchase order with our customers. We also keep buffer stock of raw materials. During the Track Record Period, we did not experience any material shortage of critical raw materials or components which led to a material adverse impact on our business operations.

For each of the two years ended 31 March 2015, the costs of raw materials and components were approximately HK\$199.2 million and HK\$182.3 million, respectively, representing approximately 65.7% and 63.9% of our total cost of sales, respectively, for the corresponding periods.

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For the hypothetical sensitivity analysis on the impact of changes in our cost of inventories, which represented the purchase cost of raw materials for the manufacturing of our products, on our profit for each year and period during the Track Record Period, see “Financial Information — Sensitivity and breakeven analysis — Sensitivity analysis”.

We also manufacture plastic casings and a few other plastic parts for our products. For each of the two years ended 31 March 2015, the production volume of our plastic casings and plastic parts was approximately 46.5 million pieces and 39.0 million pieces, respectively. For the same periods, approximately 98.7% and 99.3% of the plastic casings and other plastic parts manufactured by us are consumed in our production and the remaining are sold to customers.

SUPPLIERS

For each of the two years ended 31 March 2015, we had a total of 382 and 370 suppliers, respectively. Our five largest suppliers for the Track Record Period consisted of battery, charger, power adaptor, metal accessories, PCB and IC suppliers and our subcontractors to whom we outsource a large part of our PCBA and plastic casing assembly process. As at the Latest Practicable Date, our business relationship with our five largest suppliers (save as two independent subcontractors) ranged from over two to over five years and we had maintained over five years of business relationship with our largest supplier. Our major suppliers are located in either China or Hong Kong.

For each of the two years ended 31 March 2015, the aggregate percentages of purchases attributable to our five largest suppliers were less than 30%. Our purchases from our five largest suppliers for each of the two years ended 31 March 2015 amounted to approximately HK\$48.2 million and HK\$57.1 million, respectively, representing approximately 15.9% and 20.0% of our total cost of sales, respectively. Our purchases from our largest supplier for each of the two years ended 31 March 2015 amounted to approximately HK\$16.4 million and HK\$14.4 million, respectively, representing approximately 5.4% and 5.1% of our total cost of sales, respectively.

We maintain a list of approved suppliers for each of our principal types of raw materials and components and review the list annually. In general, the list contains a minimum of two to three suppliers for each principal type of raw materials and components. In selecting suppliers, we will consider factors such as price, their manufacturing capacity, technical expertise, their acceptance level of our payment terms and their reliability. For new suppliers, we will usually request a sample of the raw material and component and an indication of price. Our quality control staff and production staff will decide whether the sample meets our manufacturing and product requirements before approving or rejecting the new supplier. If the new supplier is approved, we enter into a written procurement agreement to agree on the general terms of the procurement arrangement. We will add the new supplier to our approved supplier list and open an account for it in our ERP system.

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During the Track Record Period, we generally entered into written agreements with our major suppliers which have no fixed term and do not specify any purchase obligations. The terms of actual orders are set out in purchase orders which we place with suppliers. Our procurement agreements will usually set out our quality requirements, the credit terms of payment, the currency of payment, the documents required to be included in the packing list, the place and time of delivery and the incoming quality assurance process.

Our Directors confirm that there has been no material change in our procurement strategy during the Track Record Period. Our Directors also confirm that we did not experience any material delay or interruption or substantial difficulties in securing raw materials or components and we did not have any material dispute with any of our major suppliers during the Track Record Period.

None of our Directors, their respective close associates or any Shareholder (whom to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers for the Track Record Period.

Credit terms and pricing

During the Track Record Period, all our purchases were denominated in US\$, HKD or RMB and we generally enjoy a credit term of 30 to 90 days from the date of monthly statement (meaning that shipments during a given month are settled at the end of the month with payment of the invoice(s) due in 30 to 90 days of the settlement date).

Prices of our principal raw materials vary based on the prevailing market prices. The prevailing market prices can be affected by general economic conditions and market demand and supply. Our contracts and pricing policy with our customers generally allow us to pass on any increased purchase cost of raw materials to our customers. We often seek price quotes from different suppliers and compare them before placing order so as to secure a favourable rate. Our Directors are of the view that the prices of the raw materials we obtained during the Track Record Period were consistent with market prices, and believe that the purchase prices of our principal raw materials will continue to follow market prices under normal operating and market conditions.

Our sensitivity and breakeven analysis which illustrates the impact of fluctuations in cost of inventories on our net profit for the Track Record Period is set out in “Financial Information — Sensitivity and breakeven analysis”.

During the Track Record Period, we entered into hedging arrangements including foreign exchange forward contracts, details of which are set out in notes 3.1 and 22 to the Accountant’s Report. For details, also see “Financial Information — Description and analysis of principal items in the consolidated income statements — Other gains – net”.

Sourcing arrangement with CEC

During the Track Record Period, we on a few occasions purchased certain IC chips and transistors from CEC, our largest customer. We generally will recommend to CEC the materials required to fulfil its forecasted orders. As we generally operate on a built-to-order basis, for certain product-specific materials which require longer procurement lead time, CEC agrees that we will purchase the materials required with reference to the forecasted orders from our suppliers and sell them back to CEC at cost. The materials will be first delivered to us (as we may have ordered materials from the same supplier for our production use at the same time and the supplier may ship all the materials in the same shipment) and we will arrange for the relevant materials to be delivered to CEC's designated location in Hong Kong. We will subsequently purchase these materials back at cost as and when needed to fulfil CEC's purchase orders for two-way radio products. We recognise the purchase of materials from suppliers, sales of materials to CEC and repurchase of materials from CEC similar to the normal sales and purchases transactions with other suppliers and customers.

During the Track Record Period, we also purchased from CEC a small amount of miscellaneous materials (such as accessory badges for specific two-way radio products) which are generally product-specific in nature and for which we do not maintain an approved supplier. Such amounts of our purchases are also offset with the amounts due to us recorded in the settlement account.

We did not enter into any written agreement with CEC in relation to the above arrangement (the "**Arrangement**") (except that our supply agreement entered into with it provides that a settlement account be created to handle routine business expenses).

The sales and purchases of material to/from CEC under the Arrangement represented approximately 0.6% and 0.6% of our sales and approximately 0.7% and 0.9% of our cost of sales for the two years ended 31 March 2015, respectively. Such amounts of our material purchases will be offset with certain amounts due to us (comprising pilot samples sales and servicing income from provision of repair and technical services) recorded in a settlement account. During the Track Record Period, we had repurchased all materials sold to CEC under the Arrangement.

Our Directors confirm that all transactions with CEC were conducted on normal commercial terms. Our Directors consider that the Arrangement is a normal industry practice to help manufacturers and suppliers to reduce the risk of shortage of materials.

Our Directors consider that the Arrangement is mutually beneficial to our Group and CEC as (i) CEC could better secure its commitments with its customers with the assurance that the relevant materials are in place; and (ii) we could manage material planning more efficiently whilst enjoy greater inventory flexibility.

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For the two years ended 31 March 2015, our amounts of purchases attributable to materials purchased from CEC under the Arrangement were approximately HK\$2.2 million and HK\$2.6 million, respectively. For the same periods, revenue generated from our sales to CEC were approximately HK\$162.0 million and HK\$161.5 million, respectively. For the same periods, the gross profit margins of sales to CEC were approximately 15.8% and 16.8%, respectively.

Given that (i) the purchase amounts attributable to the materials purchased from CEC under the Arrangement were insignificant; (ii) we only used such specific materials for manufacturing products for CEC, our Directors consider that the Arrangement does not pose any material risk to our business and operations.

Our Directors confirm that, save as disclosed above, we did not enter into similar arrangement with any of our customers or our suppliers during the Track Record Period.

SALES AND MARKETING

Sales

For a breakdown of our revenue by business category, see “Financial Information — Description and analysis of principal items in the consolidated income statements — Revenue”. For a breakdown of our revenue by geographical location of the shipment destination of our products, see “— Overview”.

During the Track Record Period, we sold our products mainly through direct sales to a number of international brands through our own sales and marketing team, without engaging agents or distributors. Our products were mainly shipped to Europe and the US during the Track Record Period.

Sales and marketing team

As at the Latest Practicable Date, our sales and marketing team comprised nine staff members being responsible for handling orders, liaising with our customers, working closely with our product development team to ensure product designs meet our customer’s specifications and providing after-sales services. They also conduct marketing activities including attending exhibitions (such as the International Consumer Electronics Show in the US, the CeBIT and the Hong Kong Electronics Fair in Hong Kong) and setting up meetings with our customers to promote new product ideas. During the Track Record Period, we met with our largest customer regularly to discuss product development and with our other major customers from time to time.

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RFP

For each of the two years ended 31 March 2015, we received six and four RFPs, respectively (which came from two of our five largest customers), and we were awarded the projects for all such RFPs. Sales attributable to these RFPs were approximately USD1.2 million and USD1.2 million for each of the two years ended 31 March 2015, respectively, representing approximately 2.6% and 2.8% of our revenue for the same periods. For details of our workflow in handling RFPs, see “— Our design and manufacturing business — Business workflow”.

CUSTOMERS

For each of the two years ended 31 March 2015, we had a total of 43 and 42 customers, respectively. As at the Latest Practicable Date, our business relationships with our five largest customers ranged from over three to over 11 years and we had maintained over nine years of business relationship with our largest customer for the Track Record Period.

Our major customers, including all of our five largest customers for the Track Record Period, comprise large consumer electronics companies with international brands. To the best knowledge of our Directors, our customers would directly or through their own distribution networks/sales channels on-sell our products to their own customers either in their domestic market or internationally.

Russia is one of our shipment destinations of our products. Our revenue generated from the sales of our products shipped to Russia represented approximately 4.2% and 2.6% in terms of our total revenue for each of the two years ended 31 March 2015, respectively. Following Russia’s military intervention in Ukraine in 2014, certain economic sanctions were imposed on, among others, certain Russian individuals and businesses under the relevant sanction laws and regulations of the United States, the European Union and Australia. Based on the advice of our legal advisers as to the sanction laws in the United States, the European Union and Australia, our Directors and the Sponsor confirm that, to the best of their knowledge, (a) none of our customers, who purchased our products with the shipment destination to Russia during the Track Record Period, are included in the sanctioned lists maintained by the United States, the European Union and Australia as at the Latest Practicable Date and our sales to these customers do not fall within the scope of sanctioned activities as at the Latest Practicable Date; and (b) the sanction risks regarding our Company, our investors and Shareholders, and the persons who might, directly or indirectly, be involved in permitting the Listing, trading and clearing of our Shares including the Stock Exchange and related group companies are low.

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Our Company undertakes that upon the Listing (i) the Listing proceeds and any other funds raised through the Stock Exchange would not be applied, directly or indirectly, to finance or facilitate any projects or businesses in Russia or pay any damages for terminating or transferring the contracts in Russia (if any) and for the purpose of ensuring the observance of this undertaking, we would open and maintain separate bank accounts which would be designated for the sole use of deposit and deployment of the proceeds from the Listing or any other funds raised through the Stock Exchange; and (ii) we would disclose on the Stock Exchange's and our own website if we believed that the transactions we entered into in Russia would put ourselves or our investors and shareholders to risks of being sanctioned, and in the annual reports/interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Russia and our business intention relating to Russia.

To control risks in relation to sanctions laws under the United States, the European Union and Australia, we endeavour to continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders. In particular, we have adopted the following policies:

- (i) we will maintain an updated log on the publicly available sanction lists maintained by the United States, the European Union and Australia (together the “**Sanction Lists**”) and will disseminate the updated Sanction Lists to all relevant staff on a regular basis to promote staff awareness in general and to facilitate effective monitoring of sanctions laws;
- (ii) any existing and/or potential business dealings that become suspected of sanctions risks exposure is required to be ceased and reported to our Directors immediately, whereupon our Directors should forthwith investigate and consult with legal advisers with necessary expertise and experience in international sanctions law matters and take appropriate actions;
- (iii) our executive Director, Mr. Tao Hong Ming, will be responsible for overseeing our compliance with sanctions laws and will consult legal advisers with necessary expertise and experience in international sanctions law matters as and when required in respect of our compliance with sanction laws;
- (iv) we will evaluate the sanctions risks prior to determining whether we should embark on new business opportunities. Our senior management will conduct relevant customer due diligence including, without limitation, identity and background of customers and their principal business activities and check against the Sanction Lists to identify any possible exposure to sanction risks. If any potential sanctions risk is identified, we will seek advice from legal advisers with necessary expertise and experience in international sanctions law matters. Semi-annual review of active customers against the Sanction Lists will also be conducted to ascertain our active customers do not fall under any named entities or individuals under the Sanction Lists; and

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- (v) our senior management will review on a semi-annual basis our internal control policies and procedures with respect to sanctions law matters.

With regard to the internal control measures above, our Directors are of the view and the Sponsor concurs that such measures will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material risk relating to sanctions laws.

The information below sets out our five largest customers for the Track Record Period, our years of relationship with them and their background information (*Note*).

Five largest customers for the year ended 31 March 2014	Approximate percentage of revenue
CEC	45.2%
Binatone Electronics International Limited	10.7%
Customer A	8.4%
Tristar Europe B.V.	6.0%
Customer B	4.0%

Five largest customers for the year ended 31 March 2015	Approximate percentage of revenue
CEC	46.7%
Binatone Electronics International Limited	9.9%
Tristar Europe B.V.	6.5%
Customer A	6.1%
Hesdo B.V.	5.4%

Note: Revenue from our sales to the relevant customer's subsidiaries are also included when calculating the revenue of our five largest customers for the Track Record Period.

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<u>Name of customer</u>	<u>Approximate years of relationship as at the Latest Practicable Date</u>	<u>Background information</u>	<u>Main products sold</u>
CEC (<i>Note 1</i>)	Over 9	A leading global designer and marketer of mobile communications and navigation products in markets including the US, Canada and Europe and headquartered in the US	FRS/GMRS radio, PMR446 radio, marine handheld floating radio, emergency and weather alert radio
Binatone Electronics International Limited	Over 11	A manufacturer of a wide range of consumer communications products including DECT phones, baby monitors and two-way radios and headquartered in Hong Kong and London	PMR446 radio
Tristar Europe B.V.	Over 3	A manufacturer of home appliances, consumer electronics, communication and outdoor living products and headquartered in the Netherlands	PMR446 radio, analog audio baby monitor
Hesdo B.V.	Over 6	An importer, developer and distributor of consumer electronics under its own brands throughout Europe and based in the Netherlands	PMR446 radio, analog audio baby monitor, digital audio baby monitor, digital video baby monitor
Customer A	Over 6	A multinational telecommunications company providing, among others, two-way radios, smartphones, networking systems and wireless broadband networks and headquartered in the US	PMR446 radio, dPMR radio
Customer B (<i>Note 2</i>)	Over 3	A diversified technology company and a provider of consumer electronic goods and based in the Netherlands	DECT phone

Notes:

1. We have entered into a sourcing arrangement with CEC under which, among others, we place purchase orders for raw materials with a subsidiary of CEC and settle such transactions with CEC. For details, see “— Suppliers — Sourcing arrangement with CEC”.
2. Sales to Customer B had ceased in September 2013. For details, see “— Customers”.

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Our sales to our five largest customers for each of the two years ended 31 March 2015 amounted to approximately HK\$266.7 million and HK\$258.2 million, respectively, representing approximately 74.3% and 74.6% of our total revenue for the same periods. Our sales to our largest customer for each of the two years ended 31 March 2015 amounted to approximately HK\$162.0 million and HK\$161.5 million, respectively, representing approximately 45.2% and 46.7% of our total revenue for the same periods.

We generally do not enter into long-term agreements with purchase obligations with our customers. According to the CBRE Report, it is an industry practice that two-way radio brand owners generally engage manufacturers through placing purchase orders instead of entering into long-term agreements with purchase obligations. Our customer's orders are confirmed by purchase orders placed with us, which include terms such as the product model, quantity, price, payment term and method and delivery date and location. Our Directors, to their best knowledge, are not aware of any events or circumstances during the Track Record Period and up to the Latest Practicable Date, except for the cessation of sales to Customer B (for details, see “— Customers”), which would lead to any failure by us to secure orders from our major customers or any obstacle in sourcing new customers. Our Directors also consider that we will not encounter any such failure or obstacle in the future due to our solid and stable relationships with our customers, our proven track record and the quality of our products. See “— Customers — Reliance on major customers” for details of our strategy in mitigating our reliance on major customers.

As at the Latest Practicable Date, we entered into Supply Agreement A with a five largest customer, Supply Agreement B with Customer A and Supply Agreement C with a subsidiary of Customer A for the Track Record Period. The salient features and terms of such agreements are set out below.

Supply agreement A with a five largest customer

- **Term and termination:** The agreement has no fixed term. It is terminated by either party by giving written notice and the date of termination shall be 180 days from the date of notice, provided that the customer may select a date of termination more than 180 days if it elects to terminate. The customer has the right to terminate the agreement immediately if, among others, we become insolvent or enter into any liquidation or other voluntary proceedings with our creditors.
- **Payment terms:** Payment will be made by letter of credit at sight.
- **Purchase orders:** During the term, we are obligated to accept orders and the customer is entitled to cancel accepted purchase orders up to 45 days in advance of production date.
- **Delivery and shipping:** We will provide updated delivery schedules to the customer on a weekly basis, or within 24 hours upon request. Delivery will be on FOB terms and the FOB point will be the port of sailing. We will pay the customer penalties for any delay caused by us or our subcontractors or vendors.

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- **Quality requirements:** Specifications, performance and appearance requirements will be agreed upon separately. We are responsible for establishing proper quality control procedures for components and finished goods to meet the customer's requirements. Products manufactured for the customer are subject to ex-factory inspection arranged by the customer before shipment. We will pay the customer the costs of inspection for samples re-submitted for inspection. The customer is entitled to access the relevant parts of our facilities and our staff involved in the design, production and shipment of products for the customer. We will also allow the customer to conduct facility reviews or audit.
- **Confidentiality and exclusivity:** We will keep all matters relating to the business conducted with the customer confidential. All designs and models developed for the customer, unless approved otherwise, shall remain exclusive to the customer.
- **Spare parts:** We will, subject to availability, make service parts available to the customer for a period of five years after the last shipment of each model supplied.
- **Insurance:** We are to secure and maintain product liability insurance in the minimum amount of US\$2,000,000, to cover certain range of products supplied to this customer.
- **Warranty:** We offer a warranty period of up to one year after the date of the last manufacture of each product supplied to the customer during which we will accept returns of products.
- **Others:** The agreement does not specify minimum purchase requirements, restrictions on the geographical scope of the on-selling of products or exclusivity arrangements for the customer to only contract with us as its supplier.

Supply agreement B with Customer A

- **Term and termination:** The agreement has a term of five years which is automatically renewable for successive terms of one year, unless written notice of intention of not to renew is received from either party. Either party has the right to terminate the agreement upon written notice upon a breach of a material obligation under the agreement by the other party which remains uncured for 30 days or, among others, the other party becomes insolvent or goes into receivership etc. The customer has the right to terminate the agreement at any time upon written notice.
- **Payment terms:** Payment will be due 75 calendar days from the date of the customer receiving the goods or our invoice, whichever occurs later.
- **Delivery and shipping:** Unless a delivery point is specified in the purchase order, the delivery point will be the closest major airport or seaport from our factory. If we fail to delivery timely, we will pay the customer its costs incurred as a result and damages.

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- **Quality requirements:** All products must satisfy the customer's test and quality standards, meet applicable industry quality and performance standards, comply with all applicable legal and regulatory requirements and be merchantable and fit for the purpose intended by the customer. We will cooperate with the customer in implementing a quality assurance programme satisfactory to the customer. We will pay the customer repair, replacement and other costs for any defective products delivered.
- **Confidentiality and exclusivity:** Each party will keep each other's confidential information confidential except as authorised in writing. We are prohibited from developing products developed for the customer for other party.
- **Insurance:** We are required to maintain a range of business-related insurance policies, including statutory worker's compensation, employer's liability, broad form commercial general liability, business automobile liability, excess liability on behalf of ourselves and our subcontractors and insurance covering our assets and operations.
- **Warranty:** We offer a warranty period of 15 months from the date of delivery of the products.
- **Service and support:** We will provide service and support for our products for a period of seven years.
- **Others:** The agreement does not specify minimum purchase requirements, restrictions on the geographical scope of the on-selling of products or exclusivity arrangements for the customer to only contract with us as its supplier.

For supply agreement B, we enter into separate development and supply agreements with the relevant customer for different projects and the terms and conditions of supply agreement B will be incorporated into such development and supply agreements. The development and supply agreements also set out, among others, project schedule, specifications, pricing and lead time in general.

Supply agreement C with a subsidiary of Customer A

- **Term and termination:** The agreement has no fixed term. It is terminated by either party by giving 45 days' written notice.
- **Payment terms:** Payment will be made within 75 days by telegraphic transfer of the customer receiving the goods and passing inspection thereof.
- **Delivery and shipping:** Place of delivery will be confirmed by purchase order and delivery term will be FOB Hong Kong. We are required to respond to the customer any enquiries relating to delivery time within three days. Our lead time for delivery of products is generally eight to 10 weeks but it will be confirmed by purchase order.

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- **Quality requirements:** All products must satisfy the specification and quality standard agreed by both parties and comply with relevant regulatory requirements in the PRC. A sample product will be chosen as a benchmark to check whether the customer's requirements have been met. If there is a quality issue with a particular batch of goods supplied, a new sample product will be chosen. The customer will conduct spot checks based on an agreed AQL level. We will be responsible for repair, replacement and other costs for all nonconforming products. The customer has the right to return the product to us if we are unable to resolve the quality issues.
- **Geographical restriction:** We will be considered in breach of contract if we manufacture and sell a product that has the same appearance as the customer's product in certain specified countries.
- **Warranty:** We offer a warranty period of 18 months from the date of delivery of the product from factory.
- **Service and support:** We will provide technical training and support for all products manufactured by us free of charge. We will provide the necessary tools and equipment to repair the products and charge a repair fee for products that fall outside the warranty period.
- **Others:** The agreement does not specify minimum purchase requirements or exclusivity arrangements for the customer to only contract with us as its supplier.

With respect to the protection of intellectual property provisions under the above supply agreements, our Directors confirm that it is the mutual understanding between our Group and our customers and the common business practice in the ODM industry that (i) our customers generally own the intellectual property of the tooling design and product outlook design of the products sold to them and/or we are refrained from selling products with the same tooling design and product outlook design to other customers; and (ii) we retain ownership of the intellectual property of PCB design in such products. We consider PCB design is our core expertise.

During the Track Record Period, we did not record any bad debt provisions for any of our major customers, and we were able to maintain a relatively steady and stable cashflow to further develop our business. Our Directors confirm that we have not had any material dispute with any customer during the Track Record Period.

Sales to Customer B, one of our five largest customers for the year ended 31 March 2014, had ceased in September 2013. Customer B purchased DECT phones from us under an agreement entered into with us in June 2010. We later consented to the assignment of such agreement by Customer B to its then subsidiary (the "**Assignee**") in November 2013. To our understanding, such assignment was part of Customer B's business disposal plans. We consented to such assignment to the Assignee, which was Customer B's subsidiary at the time, as certain payment matters under the agreement entered into with Customer B had yet to be

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settled. We subsequently terminated business with the Assignee due to (i) the product would soon reach end-of-life status; and (ii) we decided to discontinue our DECT phone product line as part of our business strategy. Our Directors consider that (i) our key resources should be invested in our core products which are two-way radio and baby monitor; (ii) Customer B was then our largest customer for our DECT phone products and, with its plans to first assign the DECT phone agreement to and later dispose the Assignee, we strategised to focus our then resources on servicing our other major customers for our core products; (iii) our DECT phone products have relatively lower gross profit margins compared to our core products; and (iv) our Directors consider that the DECT phone market is characterised with low entry barriers (such as requiring lower technology skills) and is saturated with high competition, thus it would be difficult to excel as market leader with differentiating products. In view of the above, our Directors consider that the exit of Customer B together with the product reaching its end-of-life was an opportune time for our Group to discontinue our DECT phone product line and readjust our product portfolio. We entered into a settlement agreement with the Assignee in December 2013, under which the Assignee shall pay us a lump sum of approximately US\$0.41 million for release from contract. We received such payment in March 2014. Our sales to Customer B comprised only sales of DECT phones accounted for approximately 4.0% of our total revenue for the year ended 31 March 2014. For the associated risks, see “Risk Factors — Risks relating to our business — We derive a significant portion of our revenue from sales to our major customers. If our major customers were to terminate their respective relationships with us entirely and if we fail to develop new customers, our business would be adversely affected.”.

Our Directors are of the view that the cessation of sales to Customer B did not pose any material adverse impact on our financial and operational conditions as (i) the design and manufacture of DECT phone had not been our core business and we already discontinued our DECT phone product line as part of our business strategy; and (ii) our total revenue for the year ended 31 March 2014 was not affected significantly.

During the Track Record Period, we sold transistors to On Time (HK) and such sales had been ceased since January 2015. For further details, see “History, Reorganisation and Corporate Structure — Corporate structure — Disposal of Xinxing On Time”.

None of our Directors, their respective close associates or any Shareholder (whom to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers for the Track Record Period.

Pricing policy and credit terms

The pricing of our products and services is determined by reference to the product specifications required by our customers, the flexibility of the customer’s delivery dates, the price of raw materials and components and by market demand. Our price quotations are in USD.

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We discuss with our suppliers regarding price of raw materials and components when required. In doing so, our ability to keep our pricing policy up to date is enhanced. We also maintain communications with our customers to monitor the market's reaction to our pricing strategy from time to time. Our pricing policy is reviewed from time to time and amendments are made according to business needs and market conditions.

We generally do not require our customers to pay us a deposit upon issuing a purchase order. We may require a deposit based on the size of and our relationship with a particular customer. We offer various sales terms to our customers, which are based on a number of factors including product type, size of order, manufacturing costs and credit worthiness of the particular customer. We generally offer credit terms to our customers ranging from 30 to 90 days from the date of invoice. Our customers generally settle the payments in USD by letter of credit and bank remittance. Our finance department is responsible for preparing monthly statements to our customers and collecting payment. If there is an overdue balance, our sales and marketing staff would liaise with the customer to seek settlement of the overdue balance.

Reliance on major customers

During the Track Record Period, we derived a significant portion of our revenue from a small number of customers including CEC, our largest customer throughout the Track Record Period.

For each of the two years ended 31 March 2015, our sales to our largest customer, CEC, accounted for approximately 45.2% and 46.7% of our total revenue, respectively. CEC is a leading global designer and marketer of mobile communications and navigation products in markets including the US, Canada and Europe and headquartered in the US. As at the Latest Practicable Date, we had established over nine years of relationship with it. We started business relationship with it when it procured our two-way radios for the European market in 2006. In 2007, it placed orders with us for two-way radios for the US market. During the Track Record Period, our sales to CEC consisted mainly of sales of two-way radios. We have entered into a written supply agreement with CEC with no purchase obligations and purchases will be made by orders. We have also entered into a sourcing arrangement with CEC under which, among others, we place purchase orders for raw materials with a subsidiary of CEC and settle such transactions with CEC. For details, see “— Suppliers — Sourcing arrangement with CEC”.

According to the published annual report of CEC for the year ended 31 December 2013 and the quarterly report for the quarterly period ended 30 June 2014, it recorded a net loss of US\$1.1 million and US\$1.6 million for the year ended 31 December 2013 and the six months ended 30 June 2014, respectively. Notwithstanding the aforesaid, according to said published information, it is to note that CEC operated in two segments, one of which being the segment covering, among others, two way radios under the Cobra brand (the “**Cobra Segment**”). For

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the year ended 31 December 2013, in the Cobra Segment, net sales decreased 7.3% compared to 2012 and domestic sales were down 9.3% from the prior year primarily due to lower sales of certain other products which fell a combined 17.2%, but were partially offset by higher sales of two-way radio products, among others. For the quarterly period ended 30 June 2014, in the Cobra Segment, net sales increased 12.0% and domestic sales were up US\$5.1 million compared to the same quarterly period in 2013. The increase in domestic sales was attributed to higher sales of two-way radios, among others. For the same quarterly period, the Cobra Segment recorded an increase in the gross margin compared to the same quarterly period in 2013 and the improved gross margin for the domestic business was due to the higher margin on two-way radios, among others.

Our Directors, based on their industry expertise and knowledge, understand that it is the usual practice for companies like us to have high customer concentration as our business model is premised on customising product specifications for customers requiring devotion of product design and development resources. Our Directors consider that it is in our best interest to continue to focus our resources on developing and servicing customers which have long term business relationships with us, which we believe have demonstrated higher stability in placing orders of significant contract size with us over the years. The proportion of sales generated from our five largest customers and our largest customer remained high during the Track Record Period. Our Directors believe that such maintenance is mainly due to: (i) the success of those of our sales strategies which targeted our major customers; and (ii) the general increase in demand for our products in the personal two-way radio market in the US, which is mainly dominated by a few key brands, including the Cobra brand (which accounted for approximately 13.3% in the US personal market in terms of sales volume of two-way radio products in 2014) and Brand A, according to the CBRE Report. Our Directors believe that the maintenance of high sales to CEC during the Track Record Period is mainly due to: (i) substantially all of the products of CEC were manufactured by suppliers located primarily outside of US according to its annual report for the year ended 31 December 2013; (ii) CEC experienced higher sales of two-way radio due to, among others, increased sales to several major vendors according to its annual report for the year ended 31 December 2013; and (iii) two new two-way radio products, among others, contributed to the increase in domestic sales of CEC for the second quarter of 2014 according to its quarterly report for the quarterly period ended 30 June 2014. We set out below (i) our ability to adjust our business model; (ii) our ability to reduce the level of reliance in the future; (iii) our ability to expand product range to diversify revenue streams; (iv) mutual and complementary reliance, which we believe help reduce our reliance on our major customers, in particular, our largest customer, and demonstrate the sustainability of our business given such reliance; and (v) our ability to maintain our revenue in the future in light of the reliance, taking into account the overall prospects of the industry.

In October 2014, CEC, our largest customer during the Track Record Period, was acquired by a private equity firm (“**PE Firm**”) (the “**Acquisition**”). PE Firm is a private equity firm with US\$1 billion in committed capital that primarily makes investment in middle market businesses in the manufacturing, distribution, consumer product and food service sectors.

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In June 2015, PE Firm brought CEC and another company under a newly formed company (“**Holdco**”). According to public information, PE Firm indicated that by bringing together leading American brands, it could create a diversified consumer electronics platform with a dedicated customer base in cars, trucks, boats and hiking trails across North America and that products under the Cobra brand would continue to be marketed. With the larger platform and an expanded customer base, we do not expect CEC to replace the suppliers of its products under the Cobra brand or change the business operations in relation to its business under the Cobra brand to a large extent. We believe that the performance of the business under the Cobra brand would continue to be recognised. Our Directors believe we are an important supplier to CEC and we will not be replaced easily.

After the Acquisition, we have continued to receive confirmed orders from CEC. Our sales to CEC for the five months ended 31 March 2015 decreased by approximately 1.5% when compared with the same period in the year ended 31 March 2014. Subsequent to 31 March 2015, our sales to CEC for the two months ended 31 May 2015 were affected by the decrease in retail sales in the US as mentioned in “Financial Information — Recent developments and material adverse change”. Our sales to CEC in June 2014 were higher than those in June 2015 as during the first quarter of 2014, we received more orders from CEC due to increased orders received by it from its customer, a children product specialty chain store in the US, for new product models of two-way radios and such products were shipped in June 2014. As a result of the above factors, according to the management accounts of our Company, our sales to CEC from April to June 2015 decreased by approximately 62.3% when compared with the same period in 2014. Our sales to CEC in July 2015 remained at almost the same level when compared with that in July 2014.

In July 2015, CEC has confirmed to us that it would continue to handle the two-way radio business under the Cobra brand just like in the past, including issuing purchase orders and payments to us and there is no change to the key management team which manages the business under the Cobra brand and key contacts would remain unchanged. It also confirmed that we are the major supplier of its consumer two-way radios and the purchase orders and forecasts issued by it to our Group before and after June would continue to remain valid.

We confirm that, up to the Latest Practicable Date, (i) our Directors had not received any indication from CEC that they will cease placing orders or terminate business relationship with us; and (ii) our Directors had not received any indication from CEC and Holdco relating to any change of existing business relationship between us and CEC.

Given the abovementioned, our Directors are of the view that the business relationship between our Group and CEC remained and would continue to remain stable and positive for the periods before and after the Acquisition and our business relationship with CEC would grow.

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Our Directors are of the view that our reliance on CEC will not impact our Company's suitability for Listing under Rule 11.06 of the GEM Listing Rules on the basis of the following:

(1) Our ability to adjust our business model

(i) Attract new customers to expand sales

We believe that our strong technical know-how and design capabilities, years of presence in the industry and the support of our own in-house product development team enable us to continuously develop and launch new products to attract customers without relying solely on RFPs from our customers and to cooperate with other market players. As part of our efforts to reduce reliance on major customers, we strived to attract new customers and obtain more sales from new customers during the Track Record Period. For each of the two years ended 31 March 2015, we recorded revenue from eight and 11 new customers (being customers who had not entered into customer agreements or placed an order with us prior to that year) for our two-way radio and baby-monitor products, respectively, and sales generated from these new customers amounted to approximately HK\$6.3 million and HK\$9.5 million, representing approximately 1.7% and 2.7% of our total revenue for the same periods. With the aim to reduce our reliance on CEC, we made considerable effort during the Track Record Period to target and secure business from large, reputable companies for our baby monitor products so as to diversify any risk associated with CEC, which only purchased our two-way radio products. In particular, we have received purchase orders from the following companies:

(a) Delta Enterprise Corporation

We consider the development of our baby monitor business line could leverage our expertise in RF technology and help diversify our reliance in our two-way radio sales. Targeting the US market, we had developed the digital audio baby monitor line and succeeded in securing orders from Delta Enterprise Corporation, a manufacturer of children's products based in the US. We have started selling baby monitor products to Delta Enterprise Corporation since December 2013 and recorded a revenue of approximately HK\$2.4 million and HK\$5.2 million for each of the two years ended 31 March 2015, respectively. We did not enter into any long-term supply agreement with Delta Enterprise Corporation. To first launch our digital audio baby monitor products (instead of our digital video baby monitor products) in the US market was a strategic move as we aim to secure orders from a reputable brand in the US first to boost our customer portfolio. With such business objective, we decided to first launch a product model which would be more readily accepted by strong US brands. Based on our industry experience, digital audio baby monitors, being comparatively low-cost products with a relatively large market share in terms of sales volume, would fit those of our product launch requirements. Having successfully entered into the US digital audio baby monitor market, we have started to launch our higher-end digital video baby monitor product line. In March 2015 and May 2015, we successfully shipped to Hesdo B.V. and Customer C our higher-end digital video baby monitor products for the EU market. For details of our potential digital video baby monitor products, see “— Our products — New products — New product models”.

(b) Customer C

We have been engaged to sell baby monitor products to Customer C, a consumer electronics designer, developer and manufacturer of a wide range of products based in the UK, since August 2014. We did not enter into any long-term supply agreement with Customer C. We started to record sales to Customer C in the amount of approximately USD63,600 in May 2015.

(c) Customer E

In March 2015, we received two project awards from Customer E (a subsidiary of a Japanese company listed on the Tokyo Stock Exchange which manufactures and markets wireless consumer electronic products worldwide) for consumer grade radios and shipments are expected to take place starting from September 2015. In April 2015, we received a deposit of approximately US\$130,000 for the design and engineering services for such projects. In June 2015, we received the first purchase order from Customer E.

For details of our plans on sales and marketing strategies, see “Future Plans and Use of Proceeds — Business strategies — 3. Strengthen our marketing efforts”.

(ii) Tap into other sectors of existing customers

We seek to tap into further market segments of our existing customers and in particular, Customer A, one of our five largest customers. Prior to November 2014, our sales to Customer A were mainly attributable to consumer grade radios for the EU, China and Hong Kong markets. In November 2014, we received the first order from Customer A for consumer grade radios for the US personal market and we completed one shipment of such order in March 2015. As at the Latest Practicable Date, we had received a subsequent order from Customer A for consumer grade radios for the US personal market.

With our active steps taken to attract new customers and tap into other sectors of our existing customers, our Directors consider that we have the ability to adjust our business model to reduce the level of reliance.

(2) Our ability to reduce the level of reliance in the future***(i) Expand into the commercial market***

Having been active in the personal two-way radio market, our Directors recognise the need to reposition our product portfolio and expertise to expand into the commercial market. Among the four key sectors of two-way radio (namely, government, industrial, commercial and personal), according to the CBRE Report, the commercial market accounted for the largest market share in terms of global sales volume of two-way radio products from 2009 to 2014. In June 2012, we started to offer our marine handheld floating radios, a commercial grade radio to CEC. According to the CBRE Report, the Cobra brand ranked the 10th and the sixth in the US and EU commercial market, respectively, in terms of sales volume of two-way radio products in 2014. In May 2014, we launched our digital two-way radio (dPMR), another commercial grade radio. In July 2014, we received the first order from a subsidiary of Customer A for dPMR products in the amount of approximately USD95,000 for the China market, which marked our success in entering into the China dPMR market. According to the CBRE Report, Brand A ranked first in the commercial market in each of US, EU and China markets in terms of sales volume of two-way radio products in 2014. We believe that the supply of our commercial grade radios to market leaders such as Customer A and CEC will enhance our market presence in the commercial market.

(ii) Expand into baby monitor business

We consider the development of our baby monitor business line could leverage our expertise in RF technology and help diversify our reliance in our two-way radio sales. Prior to 2014, we had generally focused our baby monitor sales in EU. In or around mid to late 2013, we saw potential in the US market and repositioned our baby monitor product line. According to the CBRE Report, the US baby monitor market accounted for the largest global market share in terms of sales amount in 2013. Targeting the US market, we had developed the digital audio baby monitor line and succeeded in securing orders from Delta Enterprise Corporation in December 2013. Further, we shipped to Delta Enterprise Corporation and Hesdo B.V. our higher-end digital audio baby monitor products for the US and EU markets in March 2015 and May 2015, respectively. Having successfully entered into the US digital audio baby monitor market, we have started to launch our higher-end digital video baby monitor product line. In March 2015 and May 2015, we successfully shipped to Hesdo B.V. and Customer C our higher-end digital video baby monitor products for the EU market. For details of our potential digital video baby monitor products, see “— Our products — New products — New product models”. According to the CBRE Report, the growth rate of global baby monitor sales was approximately 3.3% to 8.8% from 2009 to 2014 and the projected year-on-year growth rate is expected to be approximately 3.6% from 2015 to 2016. Seeing the growth potential, we will continue to devote resources in generating sales for our digital video baby monitor in the US and EU markets going forward.

With our active steps taken to expand into the commercial two-way radio market and the baby monitor business, our Directors consider we have the ability to reduce the level of reliance in the future.

(3) Our ability to expand product range to diversify revenue streams

As discussed in “— Our products — New products — New product models”, we are currently developing some potential new products. It is our business strategy to sell these products to both our existing and new customers which we consider will mitigate the impact of reliance on our major customers, in particular, our largest customer, for the following reasons: (i) we aim to cater to the different product needs of our existing customers so as to promote their reliance on our products and alleviate the risk of fluctuations in demand for a particular product due to customer’s change of business strategy or other reasons; (ii) we aim to source new customers and nurture relationships with our potential customers with our new products so as to expand our customer base; and (iii) we aim to capture different revenue streams by having a diverse product range and servicing customer in different segments.

In particular, we were engaged by Hesdo B.V., an existing customer with over six years of relationship with us, to develop two digital audio baby monitor projects. To the best knowledge of our Directors, such baby monitors will be sold under two well-known international brands for baby products in the EU. Currently, one of the projects is at the design stage where we are developing the model drawings and no purchase order was placed by Hesdo B.V. as at the Latest Practicable Date. For the other project, we have received a purchase order for 10,000 pieces of digital audio baby monitors with a sales amount of US\$133,500. We shipped part of the order in May and July 2015 and expect to ship the remaining in August 2015.

We consider that our product design and development capabilities are not specifically developed to serve the needs of CEC or any of our major customers. Our Directors are of the view that our product design and development skills and our keeping abreast of market trends and knowledge will enable us to continue to launch new products utilising RF technology to satisfy the needs of our customers, especially in view of our strong product development team (comprising 75 staff as at the Latest Practicable Date). Our Directors believe that by continuing to expand our product offerings, we will be able to diversify our revenue sources and attract both new and existing customers with different product needs. With our production capacity and our subcontracting strategy, we believe that we are able to accept and accommodate orders from new customers.

For details of our product development plans, see “— Our products — New products — New product models”.

With our ability to expand our product range, our Directors consider that we have the necessary skill and technology to break off our reliance on CEC.

(4) Mutual and complementary reliance

CEC confirmed to us that we are the sole supplier of its consumer two-way radios during the two years ended 31 December 2013 and the six months ended 30 June 2014 (the “**Relevant Period**”).

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During the Track Record Period, the main products we sold to CEC were FRS/GMRS radio, PMR446 radio, marine handheld floating radio and emergency and weather alert radio, covering different series of basic models and high-end products. We consider that these products are the results of our expertise and knowhow in radio circuit design, RF module customisation and system architecture design accumulated through years of industry experience. We believe that CEC relies on the performance reliability of our basic models, which we take years to design, fine tune and which we continue to upgrade, as well as our ability to provide high-end products as and when it requires. For example, our marine handheld floating radio, a high-end product, integrates RF technology with complicated mechanical design to achieve floating capability and IPX-7 waterproof standard and is supported by high transmitting power and external programming for international channels. Some models feature dual band frequency and some are equipped with bluetooth communication capability. We believe that such product design is hard to replicate. Our Directors consider that it is difficult for CEC to find an alternative comparable supplier in the two-way radio ODM market with such capabilities. This could also be reflected by the confirmation from CEC that we are the major supplier of its consumer two-way radios during the Relevant Period.

As reflected by the published annual report of CEC for the year ended 31 December 2013 and the quarterly report for the quarterly period ended 30 June 2014, our sales to CEC (which included sales of two-way radios and other products and provision of repair and technical services) amounted to approximately 23.6% and 28.0% of the costs of sales of CEC for the year ended 31 December 2013 and the six months ended 30 June 2014, respectively. As confirmed by CEC, we are the major supplier of its consumer two-way radios during the Relevant Period. The sales value of two-way radios purchased by CEC had increased from approximately HK\$109.5 million for the year ended 31 March 2013 to approximately HK\$153.7 million for the year ended 31 March 2014 and further increased to approximately HK\$158.0 million for the year ended 31 March 2015. For each of the two years ended 31 March 2015, the volume of two-way radios purchased by CEC from us was about 2.4 million pieces and 2.2 million pieces, respectively. We believe that the high sales revenue derived from CEC during the Track Record Period indicates that we have rightly identified the needs of CEC and CEC will rely on our strengths to supply suitable products.

According to the published annual report of CEC for the year ended 31 December 2013, (i) it experienced higher sales of two-way radios in 2013 and it would update its product lines for two-way radios in 2014; (ii) substantially all of its products were manufactured by suppliers located primarily outside of US; and (iii) its cost of sales in the Cobra Segment for the year ended 31 December 2013 was approximately USD71.7 million. We believe that such information has shown that CEC would continue to place emphasis on its two-way radio business and to collaborate with product designers and manufacturers located outside of US such as our Group. In view of our long business relationship with CEC and the supply agreement entered into between us, our Directors believe that an efficient working relationship between CEC and our Group has developed where we understand the needs, capabilities and requirements of each other.

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Based on the above information and coupled with our years of strong business relationship with CEC, our Directors are of the view that the reliance is mutual and complementary as CEC would rely on our design and manufacturing services to provide it with reliable and quality products for its two-way radio business segment and we have benefited from its large purchase volume.

(5) Our ability to maintain our revenue in the future in light of the reliance, taking into account the overall prospects of the industry

According to the CBRE Report, the two-way radio industry is well-matured with limited growth potential. To ensure we will be able to maintain our revenue, we have continued our efforts to tap into the growth potential in the two-way radio and baby monitor markets and we strive to increase our market share by pursuing different business strategies.

(i) Market penetration — further growth potential in the US personal market:

(a) Strong position of CEC in the US personal market

According to the CBRE Report, the Cobra brand ranked second in the US personal market in terms of sales volume of two-way radio products in 2014. Our Directors believe that our Group, being the leading player in terms of global production volume of the two-way radio market in the ODM segment for the year ended 31 December 2014, according to the CBRE Report and having established strong and solid relationship with CEC, is capable of fulfilling the production capacity and product needs of CEC in the US personal market and has developed a track record which new market entrants will find it difficult to match. Our Directors believe that CEC will continue to place emphasis on its two-way radio business based on the favourable impact of its two-way radio segment sales brought to its domestic sales for the year ended 31 December 2013 and the quarterly period ended 30 June 2014, according to the published information of CEC (for details, see “— Customers — Reliance on major customers”). Our Directors also believe that our Group and CEC have developed a mutual and complementary reliance on each other over the years (for details, see “Business — Customers — Reliance on major customers — (4) Mutual and complementary reliance”).

(b) Tap into other sectors of existing customers and attract new strong customers for the US personal market

We seek to tap into further market segments of our existing customers and in particular, Customer A, one of our five largest customers. According to the CBRE Report, Brand A ranked first in the global market and each of the US, EU and China personal markets, respectively, in terms of sales volume of two-way radio products in 2014. Prior to November 2014, our sales to Customer A were mainly attributable to consumer grade radios for the EU, China and Hong Kong markets. In November 2014, we received the first order from Customer A for consumer grade radios for the US personal market and we completed one shipment of such order in March 2015. As at the Latest Practicable Date, we had received a subsequent order from Customer A for consumer grade radios for the US personal market.

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Further, in March 2015, we received two project awards from Customer E (a subsidiary of a Japanese company listed on the Tokyo Stock Exchange which manufactures and markets wireless consumer electronic products worldwide) for consumer grade radios and shipments are expected to take place starting from September 2015. In April 2015, we received a deposit of approximately US\$130,000 for the design and engineering services for such projects. In June 2015, we received the first purchase order from Customer E.

According to the CBRE Report, the projected year-on-year growth rate for two-way radio sales in the US market is expected to be approximately 3.2% in 2015. Our Directors believe that in a growing market, maintaining market share will bring business growth. With respect to the US two-way radio market, we mainly focused on the personal market during the Track Record Period and we believe that the growth in our revenue during the Track Record Period attributable to the US market has proven our business strategies to be successful. With the securing of orders for consumer grade radios from Customer A, a world's leading brand of two-way radio for the US personal market among others, and the new relationship with Customer E, our Directors believe that we have demonstrated our ability in expanding into different sectors by leveraging the relationship with existing customers and in attracting new and strong customers which will also help reduce our reliance on our largest customer.

(ii) Market development — expansion into the commercial market

Having been active in the personal two-way radio market, our Directors recognise the need to reposition our product portfolio and expertise to expand into the commercial market. Among the four key sectors of two-way radio (namely, government, industrial, commercial and personal), according to the CBRE Report, the commercial market accounted for the largest market share in terms of global sales volume of two-way radio products from 2009 to 2014. In June 2012, we started to offer our marine handheld floating radios, a commercial grade radio to CEC. According to the CBRE Report, the Cobra brand ranked the 10th and the sixth in the US and EU commercial market, respectively, in terms of sales volume of two-way radio products in 2014. In May 2014, we launched our digital two-way radio (dPMR), another commercial grade radio. In July 2014, we received the first order from a subsidiary of Customer A for dPMR products for the China market, which marked our success in entering into the China dPMR market. According to the CBRE Report, Brand A ranked first in the commercial market in each of US, EU and China markets in terms of sales volume of two-way radio products in 2014. We believe that the supply of our commercial grade radios to market leaders such as Customer A and CEC will enhance our market presence in the commercial market.

(iii) Diversification — further development of our baby monitor business

We consider the development of our baby monitor business line could leverage our expertise in RF technology and help diversify our reliance in our two-way radio sales. Prior to 2014, we had generally focused our baby monitor sales in EU. In or around mid to late 2013, we saw potential in the US market and repositioned our baby monitor product line. According to the CBRE Report, the US baby monitor market accounted for the largest global market share in terms of sales amount in 2013. Targeting the US market, we had developed the digital audio baby monitor line and succeeded in securing orders from Delta Enterprise Corporation in December 2013. Further, we shipped to Delta Enterprise Corporation and Hesdo B.V. our

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higher-end digital audio baby monitor products for the US and EU markets in March 2015 and May 2015, respectively. Having successfully entered into the US digital audio baby monitor market, we started to launch our higher-end digital video baby monitor product line. In March 2015 and May 2015, we successfully shipped to Hesdo B.V. and Customer C our higher-end digital video baby monitor products for the EU market. For details of our potential digital video baby monitor products, see “— Our products — New products — New product models”. According to the CBRE Report, the growth rate of global baby monitor sales was approximately 3.3% to 8.8% from 2009 to 2014 and the projected year-on-year growth rate is expected to be approximately 3.6% from 2015 to 2016. Seeing the growth potential, we will continue to devote resources in generating sales for our digital video baby monitor in the US and EU markets going forward.

(iv) Product innovation — further product development

We aim to improve our profit margin by introducing new products with coherent product development plans. For details of our upcoming product development activities, see “— Our products — New products — New product models”. With our new and potential products, we aim to cater to the different product needs of our existing customers so as to promote their reliance on our products and alleviate the risk of fluctuations in demand for a particular product due to customer’s change of business strategy or other reasons, source new customers and nurture relationships with them, and capture different revenue streams by having a diverse product range and servicing customer in different segments.

Based on the above, taking into account the overall prospects of the industry, our Directors consider that we are capable of maintaining our revenue in the future in light of the reliance.

QUALITY CONTROL AND QUALITY ASSURANCE

As at the Latest Practicable Date, our quality control and assurance team comprised 111 staff and was led by Mr. Joel Chua, our quality assurance manager, who has over 15 years of experience in the field of quality control and oversees the quality control aspects of our operations. We maintain stringent quality control and assurance tests throughout the manufacturing and assembly processes, from incoming quality assurance of raw materials, in-process quality controls during production, quality assurance reliability tests and outgoing quality assurance of finished products.

Quality control on incoming raw materials

We implement an incoming quality assurance procedure (“**IQA**”) which covers visual inspection and testing on functionality. If we discover any substandard and defective raw materials in the IQA, we will return such raw materials to the relevant suppliers for repair or replacement.

Quality control on the production process

We implement an in-process quality control (“**IPQC**”) system, under which our quality assurance team will carry out inspections at key stages of our production process. We employ AOI machines on PCBs placed with components to detect any missing or damaged parts or other flaws. Work-in-progress which fails in our IPQC will either undergo rework or be disposed of if the defect cannot be rectified.

Quality control on finished products

Quality assurance reliability tests

Our finished products will undergo a series of quality assurance reliability tests. We test finished products by batch samples. The main purpose of the quality assurance reliability tests is to test the durability of the product through prolonged use and to test other functions which the product is specified to have. These tests include:

- **Burn-in test:** the finished product is placed in a temperature chamber and subject to heat of up to 40 degrees Celsius for 12 hours or longer to test the product's electrical parameters.
- **Shock and vibration test:** the finished product is placed on a vibrating platform to test its structural integrity and check for casing ruptures.
- **Submerged waterproof test:** the finished product is placed in a large vat of water to test its waterproof capabilities.
- **Salt water spray test:** the finished product is placed in a chamber and sprayed with salt water to test the corrosion of metal parts.
- **Temperature test:** the finished product is placed in a chamber and subjected to various temperatures for two hours each to test for RF errors.
- **Electrostatic discharge test:** we use electrostatic discharge equipment to send static electricity pulses through the finished product to test whether the components can withstand electrostatic discharge.
- **RF test:** the receiver is tested for functionality and ability to transmit and receive the RFs that the product was designed for.
- **Button test:** the finished product is placed in a machine which repeatedly presses its buttons to test its designed ability to withstand 50,000 button presses without malfunction.

Finished products will not necessarily undergo every one of the tests listed above, as not all of the products have the same functions. The customer will usually indicate which tests they require.

We use AQL tables to determine the acceptable failure rate when undergoing quality assurance reliability tests. If the number of failures in a batch falls below the relevant standard in the AQL, we will conduct a failure analysis to identify the cause of the problem and take appropriate corrective action.

Outgoing quality assurance (OQA) procedure

Our OQA team inspects tested finished products by sample before they are delivered to our customers and records the findings in a report, which includes the batch and model numbers of the defective product, a description and reason of the defect, and whether such defect is critical, major or minor. Products which fail in the OQA will undergo rework. Those products which meet the required quality standards will be subject to the final inspection by the customer, if required.

Quality certifications and recognition

We have obtained quality certifications as an effort to ensure our manufacturing system and processes are performed to the internationally recognised quality standards. We have obtained the ISO 9001:2008 certification for quality management system (the current certification in respect of On Real (Shenzhen) is valid until 2016 and in respect of Xinxing Great Success until 2018). The contracts we enter with our customers may stipulate that our products are required to comply with certain relevant local safety standards and regulatory requirements such as CE, R&TTE Directive, FCC rules and/or RoHS depending on our customers' local countries. To ensure compliance with these requirements, we require our suppliers to declare to us that materials provided by them comply with the relevant requirements, if applicable and submit to us their testing reports. In addition, we conduct compliance tests in our product quality test laboratory and engage external laboratories to conduct these tests.

Our Directors confirm that we did not receive material claims for defective products from our customers during the Track Record Period.

INVENTORY MANAGEMENT

The majority of our purchases for raw materials and components are made upon receipt of confirmed purchase orders from customers so that we can minimise inventory risk. We generally place purchase orders with the relevant suppliers for raw materials upon receipt of the purchase order from the customer. We keep buffer stocks of raw materials which are commonly used in our products. Our Group estimates the minimum inventory levels based on production schedules and replenish such inventory when re-ordering levels are reached. For raw materials and components which have longer procurement lead-time, we may keep buffer stocks or, with the acknowledgement of customers, purchase the relevant raw material or component in advance to shorten the procurement lead time. As we generally operate on a built-to-order basis, we do not hold high levels of inventory. We had inventories of approximately HK\$43.8 million and HK\$28.6 million as at 31 March 2014 and 31 March 2015, respectively, which represent approximately 23.9% and 18.9% of our total assets as at the same dates. We have storage facilities in both of our production facilities.

We monitor our inventory through our ERP system which enables our staff to obtain real-time information on our inventory levels. Our production department liaises with the procurement department on a regular basis to ensure that there are sufficient raw materials and components to meet the production orders we have at any time.

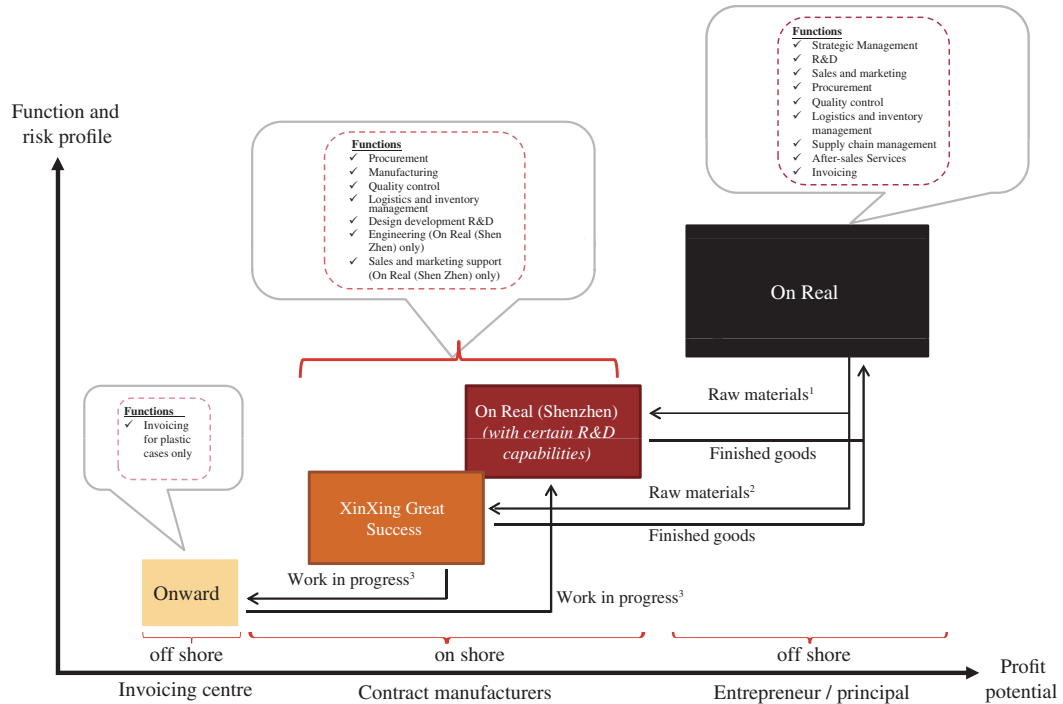
Production is carried out after purchase orders are received from customers. Our finished products are generally shipped promptly. Inventories is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Newer substitute materials and components are available in the market from time to time. As at 31 March 2014 and 31 March 2015, we made provisions of approximately HK\$4.9 million and nil, respectively, for obsolete inventories.

OUR GROUP'S TRANSFER PRICING ARRANGEMENT

Our Group applies the arm's length standard to determine inter-company prices by observing the market conditions and also identifies which subsidiary is responsible for driving which economic activity, say manufacturing, research and development, sales, distribution, etc. Having gather these facts, the Hong Kong and PRC subsidiaries can be economically characterised.

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As illustrated in the diagram below, the PRC entities are characterised as routine contract manufacturers to take routine profit. Onward is characterised as limited risk distributor to earn routine profit and On Real is characterised as entrepreneur to take residual profit along the group supply chain.



1. Materials include all kinds of materials except for plastics used for manufacturing of plastic cases
2. Materials include all kinds of materials
3. Plastic cases manufactured by Xinxing Great Success

Our Group’s transfer pricing policy is based on transactional net margin method in accordance with the OECD guideline which includes the use of benchmarking analysis which contains a pool of selected comparable companies carried out by an external tax consultant to assess the reasonable profit level that should be achieved by the PRC/HK subsidiaries of our Group. One typical benchmarking analysis is by using the weighted average full cost mark up (“FCMU”) ratio by applying a mark-up profit to the PRC/HK subsidiaries on top of the full cost. The FCMU ratios of On Real (Shenzhen), Xinxing Great Success, Xinxing On Time and Onward are within the arm’s length interquartile profit range as shown in the benchmarking analysis.

As our Group’s PRC subsidiaries had achieved profits within the arm’s length profit range, our Group’s subsidiaries in Hong Kong as the residual profit taker along the supply chain could be also entitled to a profit in line with the arm’s length principle. Our Directors hereby consider that our Group’s transfer pricing policy has complied with the arm’s length principle.

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AFTER-SALES SERVICES

Our sales and marketing staff contact our customers from time to time to gather feedback with respect to our products. We generally follow up with our customers on product quality issues and share such information with our product development team to enhance our existing products and to develop new products.

We provide technical support to our customers. In general, if our products suffer from degraded functionality, we provide fault analysis and where possible, problem resolution. We will evaluate the effectiveness of the solution and follow up with a permanent countermeasure to prevent repetition of the same issue in the future.

We generally offer warranty for our products. Warranty periods for different customers vary based on terms of arrangement with customers. During the Track Record Period, the longest warranty period we offered to a customer was 39 months after delivery. In general, our customers return defective products to us for repair and the costs of returning the defective products, depending on the situation, is normally borne by our customers. We do not purchase product liability insurance unless our customer specifically requests. As at the Latest Practicable Date, we purchased product liability insurance for one customer (see “— Customers — Supply agreement A with a five largest customer” for details). Our Directors confirm that we did not experience any material warranty claim or product return during the Track Record Period. Based on the aforesaid, we did not make provision for warranty during the Track Record Period.

INFORMATION TECHNOLOGY

We have implemented an ERP system, which facilitates integration of the management and financial functions of our operations. Key stages of our business operations are recorded on our ERP system, which allows us to monitor and manage the entire process from receiving customers' orders, procurement of raw materials, the progress of manufacturing, records of quality control and assurance tests, delivery of finished products through to generation of our monthly financial reports. MRP is a module on the ERP, which facilitates planning of our master production schedule. With MRP, we can centralise the planning of material requirements to match the customer's order, track existing inventory, generate purchase orders to issue to suppliers and track delivery information for purchased raw materials and components.

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EMPLOYEES

Number of staff

As at the Latest Practicable Date, we had a total staff size of 959. The following table shows a breakdown of our staff by function and by geographical location as at the Latest Practicable Date:

Function	Number of staff		
	Hong Kong	PRC	Total
Management	4	–	4
Human resources and administration	3	32	35
Finance and accounts	3	20	23
Product design and development	3	72	75
Purchasing	–	9	9
Production	1	644	645
Quality control	1	110	111
Sales and marketing	3	6	9
Production material control	–	41	41
Enterprise planning	–	7	7
Total	18	941	959

Staff relations

We recognise the importance of a good relationship with our staff. Our Directors confirmed that we have not experienced any significant problems with our staff or disruption to our operations due to labour disputes during the Track Record Period. Our staff has not formed any union or association.

We believe that staff relations are satisfactory in general. We believe that management policies, working environment, career prospects and benefits extended to the staff have contributed to staff retention and the building of amicable staff relations.

Training and recruitment policies

We believe that the quality of our staff plays an important role in maintaining our operation and production efficiency, as well as the consistency of our product quality. We enter into standard employment contracts with our full-time staff. We place emphasis in the hiring of our programmers and engineers and normally require three years of relevant work experience in consumer electronics industry.

We have adopted a staff manual which sets out the benefits, expected work ethics, overtime policy and basis for promotion and demotion of our staff. We provide regular trainings to our staff every month on areas such as technical know-how, safety education and hands-on skills.

Staff benefits

Hong Kong

We have participated in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). All requisite contributions had been paid by our Group in accordance with the aforesaid law as at the Latest Practicable Date.

PRC

In the PRC, our Group has participated in the basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance and maternity insurance prescribed by the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was promulgated on 28 October 2010 and became effective on 1 July 2011, and housing fund prescribed by the Regulations on the Administration of Housing Fund (住房公積金管理條例) which was promulgated and effective on 3 April 1999, as amended on 24 March 2002.

Save as disclosed in “— Non-compliance”, all requisite contributions had been paid by our Group in accordance with the aforesaid law and regulations as at the Latest Practicable Date.

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CERTIFICATIONS AND AWARDS

The following table shows the major awards and certificates received by us.

Award/ certification	Issuing organisation	Date of grant	Expiry date	Holder
ISO 9001:2008	TUV Nord Cert GmbH	11 August 2004	4 August 2016	On Real (Shenzhen)
ISO 9001:2008	TUV Nord Cert GmbH	2 February 2015	1 February 2018	Xinxing Great Success (Note)
Radio transmission equipment type approval* (無線電發射設備 型號核准證)	State Radio Regulatory Commission of China (國家無線電管理委員 會)	16 May 2014	15 May 2019	On Real (Shenzhen)
High and New Technology Enterprise Certificate* (高新技術企業證 書)	The Committee of Science and Technology Innovation of Shenzhen* (深圳市科技創新委員 會), Finance Commission of Shenzhen Municipality* (深圳市 財政委員會), Shenzhen Provincial State Administration of Taxation* (深圳市國家 稅務局) and Shenzhen Provincial Local Taxation Bureau* (深 圳市地方稅務局)	30 September 2014	29 September 2017	On Real (Shenzhen)

Note: Xinxing On Time previously operated Xinxing Factory and obtained such certification in 2010. As Xinxing On Time was disposed out of our Group (for details, see “History, Reorganisation and Corporate Structure — Corporate structure — Disposal of Xinxing On Time”), Xinxing Great Success had made the application to the ISO awarding institution to obtain the certification.

MARKET COMPETITION

Our Directors believe that the global market of electronic devices manufacturing industry is fragmented with a large number of China based manufacturers. As a result, there are numerous competitors with different operating scales in the industry engaged in business similar to us. According to the CBRE Report, there were approximately 100 to 150 and 30 to 40 ODM manufacturers in the respective two-way radio and baby monitor industry in China as at 31 December 2014.

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According to the CBRE Report, the global production volume of two way radios are approximately 36.6 million pieces and 39.1 million pieces for 2013 and 2014, respectively; whilst the global sales volume of two way radios are approximately 32.8 million pieces and 35.9 million pieces for 2013 and 2014, respectively. Our Directors consider that the oversupply situation has a small scale impact on our business:

Business prospects. We do not target the global markets and our business focus for our two-way radio has been and will continue to be US, Europe and China markets. Our Directors consider that the business prospects are positive for these markets because, according to the CBRE Report, the projected year-on-year growth rates for US, Europe and China markets are expected to be approximately 3.2%, 1.4% and 13.1% in 2015, respectively, and it is expected that the global production growth rate will slow down slightly in the years from 2015 to 2017. According to the CBRE Report, the US was the largest two-way radio market in terms of sales amount, which accounted for approximately 34.0% of global consumption in 2014 while China was the second largest two-way radio market in terms of sales amount, which accounted for approximately 33.3% of global consumption in 2014. We believe that we will face business pressures from the oversupply situation in the global market, yet with the growth potentials in US and China markets, our being a dominant two-way radio ODM manufacturer in the China region and our relationship with market leaders in the two-way radio market, we are positive that our expansion plan will improve our business performance. Our Directors are also of the view that the oversupply situation has reflected that the operation of the sales cycle that retailers would need to ensure they have buffer inventory prior to sales.

Pricing. Notwithstanding we consider that the oversupply situation in the global market could lead to downward pricing pressures, we expect that the selling prices of our products will continue to be affected by other factors. During the Track Record Period, our average selling prices in respect of two-way radio were approximately HK\$62.4 and HK\$75.2, respectively. Other than the macroeconomic environment (which includes global economic trends covering the oversupply in the global market), the other major factor affecting our pricing strategy is the costs of production, which include prices of raw materials and labour costs. During the Track Record Period, our cost of sales were approximately HK\$303.0 million and HK\$285.2 million, respectively. For the same period, the costs of raw materials and components were approximately HK\$199.2 million and HK\$182.3 million, respectively, representing approximately 65.7% and 63.9% of our total cost of sales, respectively. Further, we have adopted outsourcing strategy which we believe will help streamlining our operation and production and reducing labour costs. Our pricing model also takes into account other factors such as relationship with customers, any value-added services provided, whether it is an introduction of new product, among others, when deciding on pricing.

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Our Directors believe that there are barriers of entry for our competitors in terms of recruiting personnel with the requisite knowledge and experience of RF technology required to apply to our product designs and to then implement those designs into a viable manufacturing plan. Our Directors believe that our technological know-how and product design and development capabilities place us in a more competitive position in relation to other consumer electronics product designers and manufacturers in China. Our Directors also believe that we have certain advantages over other competitors as our major customers insist on stringent quality requirements for products that we produce for them. We have been able to meet these standards through our investment in quality control and quality assurance throughout our production process and through our experience in the working with the customers. The variety of two-way radio and baby monitor products that we can offer our customers also strengthens our market position as it reduces the likelihood that our customer would need to find another manufacturer if they wanted a different type of two-way radio and baby monitor.

OCCUPATIONAL HEALTH AND SAFETY

As we operate in China, we are subject to the requirements under the local and national standards in China to maintain safe production conditions and to protect the occupational health of employees. Pursuant to these requirements, any entity that is not sufficiently facilitated or equipped to ensure safe production shall not engage in production activities. Entities operating in China must provide production safety education, training programs and a safe working environment for their staff. We have implemented measures at our production facilities to promote occupational health and safety and to ensure compliance with applicable laws and regulations. Our Group has also established a system to record and handle labour accidents to enhance occupational safety.

Our Directors confirm that, during the Track Record Period, we did not experience any accidents or claims for personal or property damage that, individually or in aggregate, have had a material effect on our financial condition and results of operations. Our Directors confirm that, save as disclosed in “— Non-compliance”, during the Track Record Period, we had complied with the applicable national and local health and safety laws and regulations in all material respects, and the relevant authorities in China did not impose any sanctions or penalty on us for incidents of non-compliance of any health and safety laws or regulations in the PRC.

ENVIRONMENTAL PROTECTION

As we are engaged in manufacturing in China, we are subject to various environmental protection laws and regulations. Our business is subject to relevant PRC national laws and regulations which, among other things, require the payment of fees in connection with activities that discharge waste materials and impose fines and other penalties on facilities that threaten the environment. During the Track Record Period, we did not incur material cost of compliance with applicable environmental protection rules and regulations in the PRC. Our Directors consider that such cost of compliance will not be material going forward. For details, see “Regulatory Overview — Regulatory requirements in the PRC — Environmental protection”.

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Our Group is committed to reducing the environmental impact from our production processes and has taken various measures to achieve this objective. Our environmental protection policy covers, among others, (i) treatments of different types of wastes; (ii) treatment of chemical wastes; and (iii) treatment of waste water.

Our Directors confirm that, save as disclosed in “— Non-compliance”, during the Track Record Period, there was no material breach of any applicable environmental laws or regulations in China by us, and our business operations were in compliance with the relevant environmental regulations of China in all material aspects.

INSURANCE

For our Hong Kong operations, we maintain office insurance covering risks including property, business interruption, money and assault, public liability and employees' compensation.

For our PRC operations, we maintain insurance covering risks including property and fire. Save as disclosed in “— Non-compliance”, we have made contributions to pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance for our employees in compliance with PRC laws and regulations.

We maintain inland transit insurance for our products for transits between Shenzhen, China and Yunfu City, Guangdong Province, China, and between Shenzhen, China and Hong Kong.

We do not usually maintain product liability insurance for our products unless our customer specifically requests us to do so. During the Track Record Period, we only maintained one product liability insurance as requested by the customer and this covered two-way radios distributed by one of our five largest customers for each of the two years ended 31 March 2015 (see “— Customers — Supply agreement A with a five largest customer” for details).

We consider our insurance policies to be adequate and in line with industry norms in Hong Kong and China. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not received any material third party liability claim relating to our business.

PROPERTY

Set out below is a summary of our property interests in Hong Kong and the PRC. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not own any properties in Hong Kong and the PRC.

Leased property in Hong Kong

As at the Latest Practicable Date, we leased one property which is situated at Unit 311, 3/F, Lakeside 1, Phase Two, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong from an Independent Third Party for use as our office for a term of three years from 15 October 2014 to 14 October 2017.

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Leased properties in the PRC

As at the Latest Practicable Date, we leased five properties in the PRC. The following table sets out a summary of the properties leased by us in the PRC as at the Latest Practicable Date.

<u>Address as shown in the lease</u>	<u>Our use of the property</u>	<u>Landlord</u>	<u>Tenant</u>	<u>Current term of lease</u>	<u>Gross floor area</u> <i>(sq.m)</i>	<u>Approximate percentage of our total gross floor area of our production bases</u>
Units 302, 305, 308, 310, 312, 3/F, Section 3, Block B, Mingyou Industrial Products Display Procurement Center, Baosheng Industrial Park, Xixiang Street Labour Community, Baoan District, Shenzhen, China	Office	Independent Third Party	On Real (Shenzhen)	From 8 April 2013 to 7 April 2016	797.00	4.5%
Factory, 146 Tangxiayong Second Industrial Avenue, Songgang Street, Baoan District, Shenzhen, China	Factory	Independent Third Party	On Real (Shenzhen)	From 15 June 2014 to 14 June 2017	6,323.31	35.9%
Staff quarters, 146 Tangxiayong Second Industrial Avenue, Songgang Street, Baoan District, Shenzhen, China	Staff quarters	Independent Third Party	On Real (Shenzhen)	From 15 June 2014 to 14 June 2017	2,519.95	14.3%
Block A factory, B2-02, Xincheng Industrial Zone, Xincheng Town, Xinxing County, China	Factory	Xinxing On Time, a connected person of our Company	Xinxing Great Success	From 1 July 2014 to 30 June 2017	4,929.12	28.0%

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Address as shown in the lease	Our use of the property	Landlord	Tenant	Current term of lease	Gross floor area (sq.m)	Approximate percentage of our total gross floor area of our production bases
2/F, 3/F & 4/F of staff quarters and 2/F, 3/F & 4/F of No. 2 staff quarters, B2-02, Xincheng Industrial Zone, Xincheng Town, Xinxing County, China	Staff quarters	Xinxing On Time, a connected person of our Company	Xinxing Great Success	From 1 July 2014 to 30 June 2017	3,030.00	17.2%

Our Directors confirm that all of our current leases were negotiated on an arm's length basis with reference to the prevailing market rates and/or other factors. Save as disclosed in “— Non-compliance” and “— Property — Defects of certain of our leased properties”, as at the Latest Practicable Date, we had complied with all the applicable laws in respect of our leased properties in all material respects. For the associated risks relating to the defects relating to our leased properties, see “Risk Factors — Risks relating to our business — Certain of our leased properties are subject to title encumbrances, and we could be required to vacate such properties.”.

Pursuant to Rules 8.01A and 8.01B of the GEM Listing Rules, our Directors confirm that as at the Latest Practicable Date, none of the properties owned or leased by us has a carrying amount of 15% or more of our consolidated total assets, therefore we are not required by Chapter 8 of the GEM Listing Rules to value or include in this prospectus any valuation report of our property interests. Accordingly, pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with the Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1) of the Companies Ordinance, which requires a valuation report with respect to all of our Group's interest in lands or buildings.

Defects of certain of our leased properties

We currently lease the properties for the Songgang Production Facility from an Independent Third Party (the “**Songgang Lessor**”) under two leases dated 6 August 2014 and 7 August 2014 (together the “**Songgang Leases**”) and the property for the Shenzhen office from an Independent Third Party (the “**Shenzhen Lessor**”, and together with the Songgang Lessor, the “**Lessors**”) under a lease dated 6 April 2013 and its supplemental agreement dated 15 April 2013 (collectively, the “**Shenzhen Lease**”, and together with the Songgang Leases, the “**Leases**”). The Songgang Production Facility is crucial to our operations. So far as we are aware, the Lessors did not possess the relevant property ownership certificates and construction works planning permits for the relevant leased properties. Our PRC Legal Advisers have advised that there is a potential risk that the relevant authorities in the PRC may

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deem the Leases invalid owing to the Lessors not having obtained the relevant certificates and hence, we may not be able to continue to occupy and conduct operations at the relevant leased properties if the Leases are adjudicated as invalid or the leased properties are ordered to be demolished by the relevant PRC governmental authorities as illegal buildings. For associated risks, see “Risk Factors — Risks relating to our business — Certain of our leased properties are subject to title encumbrances, and we could be required to vacate such properties.”. Notwithstanding the fact that the Shenzhen Lease has been registered with the relevant local government authority in Shenzhen, the above risk factor continues to apply.

Our Directors estimate that the amount of additional rent that we would have paid during the Track Record Period should the Songgang Production Facility and the Shenzhen office have proper title certificates would not be material, after considering that the market rents of properties of similar size and in the same vicinity having proper title certificates are similar to the rents of Songgang Production Facility and the Shenzhen office.

Songgang Production Facility

In respect of the Songgang Production Facility, the Songgang Lessor has made the necessary applications in accordance with 《深圳經濟特區處理歷史遺留違法私房若干規定》 (Rules of Shenzhen Special Economic Zone on Dealing Historical Illegal Private Houses), 《深圳經濟特區處理歷史遺留生產經營性違法建築若干規定》 (Rules of Shenzhen Special Economic Zone on Dealing Historical Illegal Buildings Used for Production and Business) and 《深圳市寶安區處理歷史遺留生產經營性違法建築實施辦法》 (Implementing Rules of Shenzhen City Baoan District on Dealing Historical Illegal Buildings Used for Production and Business) (the “**Rules**”) with the Historical Illegal Private Houses and Historical Illegal Buildings used for Production and Business Disposal Office in Songgang Sub-district, Baoan District, Shenzhen (the “**appropriate authority**”) to commence the process of obtaining the outstanding property title certificates (the “**Rectification Applications**”), and the Songgang Production Facility has been registered as historical illegal buildings used for production and business (歷史遺留生產經營性違法建築).

Our PRC Legal Advisers have advised as follows:

- (i) we have used the Songgang Production Facility in accordance with the permitted usages under the Songgang Leases and the main structures of the properties for the Songgang Production Facility have passed the structure test and identification and meet the safety requirements as required under PRC laws;
- (ii) as the Rectification Applications have been filed with the relevant authorities in the PRC on 17 December 2002, the appropriate authorities will process the Rectification Applications, and will grant the property title certificates to the Songgang Lessor if it fulfilled the requirements prescribed by the Rules;

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- (iii) no regulation with respect to the time frame for dealing with such historical issue and the issuance of the relevant property title certificates has been promulgated. Given that the appropriate authorities are processing the Rectification Applications, the possibility of the leased properties for the Songgang Production Facility being demolished or resumed by the government is not high;
- (iv) On Real (Shenzhen) has not been challenged, investigated or penalised by relevant government authorities regarding the Songgang Leases;
- (v) we will not be subject to any criminal, civil or administrative penalty or fine as a result of the Songgang Lessor's failure to obtain the relevant property ownership certificates and construction works planning permits; and
- (vi) the risk of us being forced to relocate from the Songgang Production Facility is remote on the basis that the Songgang Lessor has undertaken to us that it will not terminate the Songgang Leases for whatever reason during the term and the renewed term of the leases unless mandatorily repossessed by the government for the reason of public benefit under the relevant laws and the possibility of the leased properties for the Songgang Production Facility being demolished or resumed by the government is not high, provided that the PRC authorities have not decided to refuse to grant the relevant property ownership certificates (notwithstanding the Rectification Applications were made in 2002).

Based on the above advice of our PRC Legal Advisers, our Directors consider that the possibility of us being forced to relocate from the Songgang Production Facility is remote.

Shenzhen office

In respect of the Shenzhen office, the Shenzhen Lessor did not possess the relevant property ownership certificate and construction works planning permit despite the Shenzhen Lease has been registered with the relevant local government authority in Shenzhen.

Our PRC Legal Advisers have advised as follows:

- (i) we will not be subject to any criminal, civil or administrative penalty or fine as a result of the Shenzhen Lessor's failure to obtain the relevant property ownership certificate and construction works planning permit;
- (ii) we have used the Shenzhen office in accordance with the permitted usages under the Shenzhen Lease;
- (iii) as at the Latest Practicable Date, the Shenzhen Lease is being performed duly and there exist no circumstances where the Shenzhen Lessor or us can terminate the Shenzhen Lease, or any reason where the relevant PRC governmental authorities can challenge or penalise us under the Shenzhen Lease; and
- (iv) the leased property is not subject to any unfavourable notice, order or recommendation from the relevant PRC governmental authorities.

Based on the above advice of our PRC Legal Advisers, our Directors consider that the possibility of us being forced to relocate from the Shenzhen office is remote.

Contingency arrangements for our production and business operation

Based on the Rules and our PRC Legal Advisers' verbal enquiries with the appropriate authority, the process of obtaining title certificate includes (i) apply for the Rectification Applications; (ii) ownership survey and boundary measurement of the building by the appropriate authority; (iii) obtain site plan review of the building issued by Baoan District Urban Planning and Land Resources Bureau of Shenzhen Municipality; (iv) submit application documents including but not limited to documents relating to passing of quality inspection and fire protection, the consent letter issued by the Songgang Lessor in relation to the land acquisition procedure and a notarised resolution of the general meeting of shareholders; (v) obtain the penalty notice issued by the appropriate authority; (vi) obtain the decision letter issued by the appropriate authority after payment of the penalty by the Songgang lessor; (vii) apply for the real estate initial registration of the building; and (viii) obtain the property title certificate issued by the real estate registration authorities within 60 days upon the documents are fully accepted.

To the best knowledge of our Directors, the Songgang Lessor has completed process under items (i) to (iii) above. As the process listed in item (iv) includes obtaining the notarised resolution of the general meeting of shareholders which requires more than two-thirds vote of all shareholders, the Songgang Lessor is unable to estimate the time required to obtain sufficient vote though to the best knowledge of our Directors, the Songgang Lessor is contacting relevant shareholders for such vote. Our Directors are of the view that the expected date of the Songgang Lessor obtaining the property title certificate cannot be ascertained.

Having considered the above reasons, notwithstanding that our Directors consider that the possibility of us being forced to relocate from the Songgang Production Facility and the Shenzhen office is remote, in order to minimise the risk of any disruption to our business operations, we have formulated a contingency plan as below. Except for the estimated costs of relocation disclosed in “— Property — Contingency arrangements for our production and business operation — (iii) Relocation arrangement in respect of the Songgang Production Facility — Estimated costs of relocation”, we do not expect to incur any material loss from business interruption. Given that we have such contingency arrangements in place, our Directors confirm and the Sponsor concurs that there will be no material impact on our operations in the event that we are forced to vacate the Songgang Production Facility and the Shenzhen office.

(i) Undertaking from the Songgang Lessor

We have obtained an undertaking from the Songgang Lessor under which the Songgang Lessor has undertaken to us that: (i) the Songgang Leases are operating in the normal course of business; (ii) we, as the lessee, have not committed any breach of the Songgang Leases and no circumstances under which such leases will be modified or terminated exist; (iii) the Songgang Leases have not been subject to investigation or punishment from any governmental authority for any reason; (iv) it will not terminate the Songgang Leases for whatever reason during the term and the renewed term of the leases unless mandatorily repossessed by the government for the reason of public benefit under the relevant laws; (v) the leased properties do not violate urban planning, occupation of

agricultural land in protected areas and occupation of land in protected areas of grade one sources of drinking water; (vi) the Songgang Leases are free from encumbrances or other similar rights and do not constitute violations of third parties' land use rights, collective ownership rights and rights of use, building ownership rights, and that no third party has raised any doubt as to the ownership right of the leased properties and so far as the lessor is aware, the leased properties are not considered as demolished properties; (vii) the leased properties were registered as historical illegal buildings used for production and business in December 2002. Once the relevant governmental authorities allow the processing of the application of the property title documents, it will assist and cooperate with the authorities and submit all necessary documents to the authorities in a timely manner and pay all necessary taxes in relation to the processing of the property title documents; (viii) it will continue to lease the leased properties to us in accordance with the terms of the Songgang Leases regardless of whether it could obtain the property title documents and complete the relevant registration procedures; (ix) if it is unable to perform its obligations under the Songgang Lease due to the mandatory repossession, demolition by the government or any other reason, it will give us at least three months' prior notice and will indemnify us against any losses if the lease agreements cannot continue to operate for reasons due to it; and (x) it will complete the registration procedures of the Songgang Leases in accordance with the relevant laws and regulations and will indemnify us against any penalties or losses arising from the failure to complete the registration procedures in time.

In addition, the Songgang Lessor received a confirmation from the residents' committee of Shenzhen City Baoan District Songgang Street Tangxiayong Community confirming that it is the builder and owner of the leased properties under the Songgang Leases and that it has registered such leased properties as historical illegal buildings used for production and business.

Our PRC Legal Advisers have advised us that the undertaking from the Songgang Lessor is legal, valid and enforceable under the laws of the PRC.

(ii) Outsourcing arrangement

We entered into a written agreement with a subcontractor, being an Independent Third Party engaged in electronic products manufacturing services and located in Shenzhen, in September 2014 (the "**Contingent Manufacturing Agreement**") pursuant to which we have the right at nil consideration to request the subcontractor to provide manufacturing services for two-way radios and baby monitors such as SMT and COB to us and the subcontractor has agreed to reserve production capacity and production equipment for production of products specified by us on an exclusive basis. The subcontractor is required to reserve production capacity which is comparable to that of the Songgang Production Facility. The Contingent Manufacturing Agreement is entered into for reservation purpose and does not impose any obligation on us to engage the services of the subcontractor. The Contingent Manufacturing Agreement is effective for three years from the date of the agreement and may be renewed by the parties thereto upon expiry subject to negotiation.

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Under the Contingent Manufacturing Agreement, if we exercise our right to request the subcontractor to provide manufacturing services to us, we will provide to the subcontractor a production schedule seven days in advance, the required amount, type and specifications of product and delivery time and the subcontractor will provide a fee quote for us to confirm. The quality standard of the products will be benchmarked against our quality standards. Our quality assurance staff will visit the subcontractor's factory to check and accept the goods. We will arrange delivery of raw materials to the warehouse designated by the subcontractor at our cost. The subcontractor will arrange delivery of the finished products to the warehouse designated by us at its cost. The subcontractor is prohibited from using any other materials to replace raw materials supplied by us.

In choosing such subcontractor, we considered factors including proximity of its location to our Shenzhen head office, its manufacturing capabilities, its capacity to complete our orders on time and its ability to comply with our quality requirements.

Our PRC Legal Advisers have advised us that the Contingent Manufacturing Agreement is legal, valid and enforceable under the laws of the PRC.

We started to use the services of the subcontractor under the Contingent Manufacturing Agreement for a small part of our SMT and COB processes in September 2014 to assess its performance. We entered into a subcontracting agreement with it for a fixed term of one year in December 2014. For details, see “— Production — Subcontracting”, and the services provided by such subcontractor between September 2014 and December 2014 were conducted by purchase order basis. Our fees paid to such subcontractor accounted for approximately 0.3% of our total cost of sales for the year ended 31 March 2015. As at the Latest Practicable Date, we were not aware of any material problem with the services provided by such subcontractor.

(iii) Relocation arrangement in respect of the Songgang Production Facility

Relocation plan

We have established a relocation plan pursuant to which we will relocate the staff, machinery and assets in the Songgang Production Facility to another location (the “**Relocation Facility**”) should the need arise. The relocation covers the following aspects: (i) details of the property identified; (ii) implementation procedures of the relocation plan including effective period and specifics of each stage of relocation; (iii) the entering into of a pre-lease agreement which sets out a draft of the lease agreement to be entered into by the relevant parties in the event that the relocation plan activates; (iv) costs of the relocation; and (v) lists of staff, machinery and other assets to be relocated.

Relocation Facility

Details of the Relocation Facility are as follows:

- **Address:** 2/F, 3/F and 4/F of Block 2 factory and No. 3 staff quarters, B2-02, Xincheng Industrial Zone, Xincheng Town, Xinxing County, Yunfu City, Guangdong Province, China
- **Proximity:** in the same land lot where the Xinxing Production Facility is located
- **Size:** 9,078 sq.m
- **Permitted use:** Factory and residential
- **Title holder:** Xinxing On Time

The Relocation Facility is larger in size than the Songgang Factory and will have sufficient space to accommodate our existing staff and production and assembly lines in the Songgang Factory. As advised by our PRC Legal Advisers, all necessary property title documents of the Relocation Facility have been obtained. It is expected that the staff, raw materials, machinery and other assets will be relocated to the Relocation Factory by vehicle and each round of road transportation will take approximately four hours.

The Relocation Facility is currently leased to an Independent Third Party (who is one of our PCBA and plastic casing assembly subcontractors). Pursuant to an agreement entered into between Xinxing On Time and the subcontractor, the subcontractor will vacate from the Relocation Facility within one month upon written notice issued by Xinxing On Time.

Implementation procedures

The relocation procedures will take effect upon the relevant PRC government authorities taking action against the defect of the Songgang Production Facility. Our Directors expect that the relocation could be completed in nine weeks. The relocation procedures are designed having considered our maximum production capacity and actual production volume for the year ended 31 March 2015 (for details, see “— Production — Production capacity”). During such year, our actual production volume was approximately 4,197,000 pieces of product (the “**2015 Production Volume**”), which is around 55% (i.e. less than two thirds) of our maximum production capacity, which was approximately 7,669,000 pieces of product (the “**2015 Maximum Production Capacity**”) for that year. The relocation procedures are formulated with the aim to ensure that, although we may not achieve the 2015 Maximum Production Capacity level in some stages of relocation, we aim to maintain the 2015 Production Volume level in all stages. The relocation plan will be carried out in five stages. In the first and last stage, our

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maximum production capacity and utilisation rate will remain at our current levels. In each of the second, third and fourth stage, we will relocate around one third of our machinery and thus we will be able to maintain slightly less than two thirds of our maximum production capacity. With the implementation of overtime work hours, we should be able to maintain two thirds of our maximum production capacity. Set forth below are the details of relocation procedures in each stage.

- **First stage:** We will complete the laying of water pipes, electricity grid and gas pipes at the Relocation Facility. We will inform our customers and suppliers of our Relocation Facility and if necessary, invite them to visit us after completion of relocation and installation of machinery. We expect that the first stage should take two weeks to complete.

The Songgang Factory will be in normal operations at this stage. Our maximum production capacity and actual production volume are not expected to be impacted due to commencement of relocation procedures. We will however arrange our staff to work on overtime basis should we need to meet our production needs.

- **Second stage:** We commence the relocation of one third of our machinery and assets. We will first relocate the unutilised machinery and assets to minimise disruptions to our production process. The relevant engineer, technician, production staff and other staff shall relocate to the Relocation Facility to assist with the installation, calibration and pilot production of the machinery. We also relocate the raw materials which we expect shall be in use in the next stage. We expect that the second stage should take two weeks to complete.

During this stage, one third of machinery and assets will be in transit from the Songgang Factory to the Relocation Facility; and the Songgang Factory will continue to operate with the remaining two thirds of machinery and assets. We will arrange our staff to work on overtime basis to maintain our actual production volume at the 2015 Production Volume level.

- **Third stage:** We continue the relocation of another one third of our machinery and assets and the relevant staff force in the Songgang Factory. We also relocate the raw materials which we expect shall be in use in the next stage. We expect that the third stage should take two weeks to complete.

During this stage, one third of machinery and assets will be in transit from the Songgang Factory to the Relocation Facility; the Relocation Facility will operate with the one third of machinery and assets which is already installed; and the Songgang Factory will continue to operate with the remaining one third of machinery and assets. We will arrange our staff to work on overtime basis to maintain our actual production volume at the 2015 Production Volume level.

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- **Fourth stage:** All remaining staff, raw materials, finished products and machinery and assets will be relocated to the Relocation Facility. The remaining machinery and assets will be installed and calibrated. We will also arrange the Relocation Facility to obtain the ISO certification. We expect that the fourth stage should take two weeks to complete.

During this stage, one third of machinery and assets will be in transit from the Songgang Factory to the Relocation Facility; the Relocation Facility will operate with the two thirds of machinery and assets which is already installed; and all production processes at the Songgang Factory will cease. We will arrange our staff to work on overtime basis to maintain our actual production volume at the 2015 Production Volume.

- **Fifth stage:** All production processes will proceed normally in the Relocation Facility. All useful items at the Songgang Production Facility which we are not prohibited to be removed under the Songgang Leases will be removed and relocated to the Relocation Facility. We expect that the fifth stage should take seven days to complete.

The Relocation Facility will resume normal operations at this stage and thus we should be able to achieve the 2015 Maximum Production Capacity level and the 2015 Production Volume level.

For illustrative purposes only (figures presented below may not represent the actual movement), the effect on our production capacity (in terms of %) during the execution of our relocation plan is as follows:

	<u>Before relocation</u>	<u>First stage</u>	<u>Second stage</u>	<u>Third stage</u>	<u>Fourth stage</u>	<u>Fifth stage</u>
Songgang Factory	100% <i>(Note)</i>	100%	67%	33%	0%	0%
Machinery in transit	0%	0%	33%	34%	33%	0%
Relocation Facility	0%	0%	0%	33%	67%	100%
Total	100%	100%	100%	100%	100%	100%

Note: For the utilisation rate of the Songgang Factory during the Track Record Period and the calculation method, see “— Production — Production capacity”.

Pre-lease agreement

We entered into a written agreement with Xinxing On Time (the “**Pre-lease Agreement**”) in September 2014 pursuant to which we have the right at nil consideration to request Xinxing On Time to lease the Relocation Facility to us at market rent. The Pre-lease agreement is entered into for reservation purpose and does not impose any obligation on us to lease the Relocation Property from Xinxing On Time. The Pre-lease Agreement does not specify a term and based on the advice of our PRC Legal Advisers, the Pre-lease Agreement will remain effective until terminated by both parties in writing with 30 days’ prior notice.

Under the Pre-lease Agreement, Xinxing On Time has confirmed that all necessary property title documents in respect of the Relocation Facility have been obtained and the use of the Relocation Facility for our business complies with the permitted use of property stated in the relevant title document. Further, Xinxing On Time has agreed that in case that it changes the ownership right of the Relocation Facility, it will give us 30 days’ prior written notice and will assist us to enter into a pre-lease agreement with the new owner of the Relocation Facility on the same terms of or on such terms similar to those of the Pre-lease Agreement and failing which Xinxing On Time will assist us to seek another suitable property for relocation and all costs arising from seeking another suitable property will be borne by Xinxing On Time.

To the best knowledge of our Directors, after due enquiries with property agencies, there are other alternative production facilities (other than the Relocation Facility) for lease of comparable size and rent for similar usage in Shenzhen. Our Directors confirm that we will conduct due diligence checks on the landlord and the property to ensure the leasing of such alternatives comply with the relevant PRC laws and regulations.

The Pre-lease Agreement provides that the term of the formal lease agreement will be three years and that upon expiry of the formal lease agreement, we have the right of first refusal to lease the property upon the same terms. The Pre-lease Agreement also provides the monthly rent will be RMB92,964 which will be subject to confirmation by the parties thereto based on market rents or valuation by independent valuer appointed by the parties.

Under the Pre-lease Agreement, if we exercise our right to request Xinxing On Time to enter into a formal lease agreement to lease the Relocation Facility to us, we will issue to Xinxing On Time an offer to lease which will provide the commencement of lease term, and Xinxing On Time will enter into a formal lease agreement with us within 15 days of receipt of our offer to lease and will deliver vacant possession of the property to us within two months after the signing of the formal lease agreement.

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The Pre-lease Agreement sets out the form of the formal lease agreement and provides the form of such formal lease agreement cannot be modified unless agreed by the parties thereto. The form of the formal lease agreement has provisions covering term, deposit, rental amount, sub-lease right and termination. As at the Latest Practicable Date, the formal lease agreement had not been entered into.

Our PRC Legal Advisers have advised us that the Pre-lease Agreement is legal, valid and enforceable under the laws of the PRC.

Xinxing On Time is wholly owned by Shine View, which is a limited company incorporated in Hong Kong and held by Mr. Tam (as to 69.23%) and Mr. Hsu (as to 30.77%), each a Director and Controlling Shareholder. Xinxing On Time is therefore a connected person of our Company under the GEM Listing Rules, and thus if the aforesaid formal lease agreement is executed, such transaction will constitute a continuing connected transaction of our Company in accordance with the GEM Listing Rules. But since each of the percentage ratios (other than the profits ratio) for the aforesaid formal lease agreement (if executed) will be, on an annual basis, less than 0.1%, the transactions under the aforesaid formal lease agreement (if executed) will be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. In the event that the percentage ratios (other than the profit ratio) for the aforesaid formal lease agreement (if executed) exceed the threshold of de minimis transaction in the future, our Company will comply with the relevant requirements pursuant to the GEM Listing Rules in due course.

We will procure Xinxing On Time to register the formal lease agreement in accordance with the applicable laws and regulations of the PRC if it is entered into.

Estimated costs of relocation

Our Directors estimate the total costs of relocation will be approximately RMB600,000, comprising approximately (i) RMB150,000 for the installation fee for laying of water pipes, electricity grid and gas pipes; (ii) RMB150,000 for refurbishment; and (iii) RMB300,000 for the relocating costs. All costs of relocation will be born by us.

During the Track Record Period, we had operated at utilisation rates significantly higher than 55% in certain months. Having considered the possible increase in production needs during the peak season, we plan to arrange our staff to work on overtime basis where we see fit. We currently expect that we will require some of our staff to work two more days during the first week of the relocation and one more day during each of the six weeks that follow. On such basis, we expect that approximately RMB530,000 will be required for staff overtime costs. All staff overtime costs will be born by us.

Our Directors confirm that the estimated additional costs to be incurred in relation to the relocation are immaterial and insignificant as compared to the production cost under normal operation of our Group.

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As at 31 March 2015, the cost, the accumulated depreciation and the net book values of our property, plant and equipment located at the Songgang Factory were approximately HK\$33.9 million, HK\$27.6 million and HK\$6.3 million, respectively. Our Directors consider that the plant and equipment in the Songgang Factory can be easily relocated to the Relocation Facility and thus expect no written off of these plant and equipment.

Machinery and assets

We have compiled a detailed list of our current machinery and assets to be relocated and we will update such list from time to time to reflect the process of relocation.

Our Directors are of the view that the Relocation Facility is a suitable option for our relocation purpose and the possible relocation to the Relocation Facility will not cause material disruptions to our business operations and will not result in significant loss of revenue nor adversely affect our relationship with our customers due to: (i) our PRC Legal Advisers have advised that the land use right certificates and building ownership certificates have been obtained and Xinxing On Time owns the legal title of the Relocation Facility and has the legal right to lease the Relocation Facility to us; (ii) the location of the Relocation Facility is close to the Xinxing Production Facility; (iii) our production capacity, operations and facilities (including factory and staff quarters) in the Songgang Production Facility will be adequately accommodated having considered the size and permitted use of the Relocation Facility and the entering into of the Contingent Manufacturing Agreement; (iv) the relocation can be implemented and completed by stages in a timely and efficient manner; (v) pursuant to the undertaking from the Songgang Lessor, we will be given three months' notice in case the Songgang Leases could not continue due to repossession by government or other reason and we should have sufficient time to implement the relocation from the Songgang Factory to the Relocation Facility which is expected to take nine weeks; and (vi) the reservation for the Relocation Facility is secured by the entering into of the Pre-lease Agreement meaning we have priority over other lessees to lease the Relocation Facility.

(iv) Relocation arrangement in respect of the Shenzhen office

We plan to relocate our business operations in the Shenzhen office to a location within close proximity to the Shenzhen office should the need arise. To the best knowledge of our Directors, after due enquiries with property agencies, there are other alternative office spaces for lease of comparable size and rent for similar usage in Shenzhen.

Our Directors estimate the total costs of relocation will be approximately RMB240,000, comprising approximately (i) RMB100,000 for the installation fee for laying of water pipes, electricity grid and gas pipes; (ii) RMB100,000 for refurbishment; and (iii) RMB40,000 for the relocating cost. All costs of relocation will be born by us.

(v) Indemnity from Controlling Shareholders

Pursuant to the Deed of Indemnity, each of our Controlling Shareholders has agreed to indemnify our Group on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by our Group in relation to relocation due to title encumbrance of the Songgang Production Facility and Shenzhen office. For further details of the Deed of Indemnity, see "E. Other information — 1. Estate duty, tax and other indemnities" in Appendix IV to this prospectus.

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Our Directors are satisfied that our Controlling Shareholders have sufficient financial resources to honour their obligations to provide indemnities in respect of the aforesaid non-compliances against our Group under the Deed of Indemnity.

Internal control measures to ensure that we will not acquire or lease properties with title defects going forward

With effect from November 2014, when renewing our existing leases or entering into new leases, we will conduct enquiries with the relevant landlord to check if it has all relevant title documents and the rights to lease the relevant properties and if the relevant properties have any title defects, and will request for supporting documents. We will also consult our legal advisers before entering into new or renewed leases.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we registered one patent and two trademarks in the PRC and one trademark in Hong Kong. In addition, as at the Latest Practicable Date, we had registered three domain names. Further details of our intellectual property rights are set out in “B. Further information about our business — 2. Our intellectual property rights” in Appendix IV to this prospectus.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we were not involved in any infringement of other’s intellectual property or infringement of our intellectual property by others that would have a material adverse impact on our business and we were not involved in any proceedings involving infringement of intellectual property rights.

LICENCES AND PERMITS

Based on the advice of our PRC, US, UK, Germany and Netherlands legal advisers, save as disclosed in “— Non-compliance”, we have obtained all material requisite licences, approvals and permits from the relevant governmental authorities for our business operations in PRC, US, UK, Germany and the Netherlands, respectively.

In respect of the business of the members of our Group in Hong Kong, our Group does not require specific licences, approval, permits or certificates from relevant governmental bodies in Hong Kong, save and except obtaining valid business registration certificates.

LEGAL PROCEEDINGS

Our Directors confirm that, as at the Latest Practicable Date, neither our Company nor any of our subsidiaries were aware of any litigation, arbitration proceedings or claim of material importance pending or threatening against our Company or any of our subsidiaries or any of our Directors, that would have material adverse effect on our Group’s financial condition or operation.

NON-COMPLIANCE

During the Track Record Period, we failed to comply with certain applicable laws and regulations, a summary of which is set out as follows.

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
	<i>Hong Kong</i>				
1.	In breach of section 122 of the Predecessor Companies Ordinance:	Such non-compliance was due to the lack of legal knowledge of the then directors of On Real and Onward, and lack of timely professional advice regarding the requirements under the Predecessor Companies Ordinance.	Any person being a director of our Company failed to comply with section 122 of the Predecessor Companies Ordinance may be imprisoned for 12 months and fined up to HK\$300,000.	We have sought the advice of the Legal Counsel on whether we should seek relief from the Court. As advised by the Legal Counsel, based on the recent judgments of the Court of First Instance of the High Court of Hong Kong (the “Court”), the Court will not grant relief under section 122 of the Predecessor Companies Ordinance because the Court is of the view that such relief has no practical purpose in the context of listing application.	No material operational and financial impact on our Group as we are advised by the Legal Counsel that the Companies Registry has been time-barred to initiate any prosecution against On Real or Onward.
(i)	On Real had failed to lay its audited financial statements for the period starting from the date of incorporation up to 31 March 2002 before its annual general meeting within the time limit prescribed.		As advised by Mr. Kwong, Alan (the “Legal Counsel”), it is likely that the aforesaid non-compliance incidents with section 122 of the Predecessor Companies Ordinance can no longer be prosecuted as the time limit of three years to lay information or complaint relating to an offence under the Predecessor Companies Ordinance pursuant to section 351A of the Predecessor Companies Ordinance has already passed. In addition, the Legal Counsel advised that the risk of prosecution under section 122 of the Predecessor Companies Ordinance is unlikely.		
(ii)	Onward had failed to lay its audited financial statements for the period starting from the date of incorporation up to 31 March 2006 before its annual general meeting within the time limit prescribed.			We have implemented a set of internal control policies relating to compliance with the requirements of the Companies Ordinance. See “— Non-compliance — Internal control measures”.	
				No provision has been made in the financial statements of our Group in respect of our liabilities, if any, arising from the non-compliance with section 122 of the Predecessor Companies Ordinance as the non-compliance is covered by the Deed of Indemnity.	

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
2.	<p><i>PRC</i></p> <p>On Real (Shenzhen) and Xinxing Great Success (the “PRC Subsidiaries”) failed to make full social insurance fund contributions for some of our employees. Xinxing Great Success did not register with the relevant social insurance authority in time.</p>	<p>(i) During the Track Record Period, some of our employees were reluctant to participate in the social insurance fund contribution plans.</p> <p>(ii) Our human resources department which was responsible for handling such matters was not familiar with the relevant laws and regulations.</p> <p>(iii) The then directors of the PRC Subsidiaries did not implement effective internal control policies.</p>	<p>Pursuant to the Social Insurance Law of the PRC, for any incidents of non-compliance taken place within the statute of limitation, the social insurance authority is entitled to order our PRC Subsidiaries to pay the outstanding social insurance fund contributions within a prescribed time and impose a late charge of 0.05% of the outstanding amount. If our PRC Subsidiaries fail to pay the outstanding amount within the prescribed time, the social insurance authority is entitled to impose a fine ranging from one to three times of the outstanding social insurance fund contributions. Our Directors have assessed that the theoretical maximum potential penalty (including late charges) was approximately HK\$34.0 million.</p> <p>The social insurance authority is also entitled to order Xinxing Great Success to register with the relevant social insurance authority. If Xinxing Great Success fails to register within the prescribed time, the social insurance authority is entitled to impose a fine ranging from one to three times of the outstanding social insurance fund contributions.</p>	<p>On 23 June 2015, we obtained a written confirmation from the Social Insurance Fund Management Bureau of Shenzhen confirming that from 1 January 2012 to 31 May 2015, On Real (Shenzhen) had not been penalised for violating the social insurance laws, regulations and rules by the Social Insurance Fund Management Bureau of Shenzhen. On 2 June 2015, we obtained a written confirmation from the Social Insurance Fund Management Bureau of Xinxing confirming that it has not issued and will not issue an order requiring Xinxing Great Success to repay the social insurance within a time period or impose administrative penalty on Xinxing Great Success. As advised by our PRC Legal Advisers, the Social Insurance Fund Management Bureau of Shenzhen and Xinxing are the competent authorities to issue the above confirmations.</p> <p>Xinxing Great Success and On Real (Shenzhen) have made full social insurance fund contributions, and have been in compliance with the relevant regulations in relation to social insurance, since July 2014 and October 2014, respectively.</p> <p>During the Track Record Period and up to the Latest Practicable Date, our Group had not received any orders or demands from the relevant government authorities requesting our Group to pay the unpaid social insurance.</p>	<p>No material adverse operational and financial impact on our Group (i) having considered the advice of our PRC Legal Advisers; (ii) given that the PRC Subsidiaries had not received any complaints or payment requests from the relevant employees or any other organisations; and (iii) our Directors consider adequate provision has been made.</p>

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No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
				<p>Based on the above factors, our PRC Legal Advisers are of the view that (i) the possibility of the PRC Subsidiaries being ordered to repay the unpaid social insurance is not high; (ii) even if the PRC Subsidiaries are ordered to repay the unpaid social insurance, once our PRC Subsidiaries make such repayment in the prescribed time requested by the relevant government authorities, no administrative punishment will be imposed on our PRC Subsidiaries; and (iii) the Social Insurance Fund Management Bureau of Shenzhen and Xinxing are time-barred from ordering payment based on the two-year statute of limitations. Our PRC Legal Advisers have advised that they were not aware of any circumstances which would cause the confirmations obtained to be challenged or revoked by higher authorities as at the Latest Practicable Date.</p> <p>Our Directors have assessed that the unpaid amount of contributions to the social insurance fund was approximately HK\$11,979,000 and HK\$4,848,000 as at 31 March 2014 and 31 March 2015, respectively.</p> <p>Although the non-compliance is covered by the Deed of Indemnity, for prudence sake, provision for the unpaid social insurance fund has been made in the financial statements of our Group in full. Having considered the confirmations given by the competent authority and the advice of our PRC Legal Advisers, our Directors considered that such amount of provision is adequate. We have implemented a set of internal control policies relating to compliance with the requirements of social insurance fund in the PRC. See “— Non-compliance — Internal control measures”.</p>	

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
3.	<p>Our PRC Subsidiaries failed to make full housing provident fund contributions for some of our employees and did not register with the relevant housing provident fund authority in time.</p>	<p>(i) During the Track Record Period, some of our employees were reluctant to participate in the housing provident fund contribution plans.</p> <p>(ii) Our human resources department which was responsible for handling such matters was not familiarised with the relevant laws and regulations.</p> <p>(iii) The then directors of the PRC Subsidiaries did not implement effective internal control policies.</p>	<p>Pursuant to the Regulations on the Management of Housing Provident Fund of the PRC, the housing provident fund authority is entitled to order our PRC Subsidiaries to pay the outstanding housing provident fund contributions within the prescribed time. If our PRC Subsidiaries fail to pay the outstanding amount within the prescribed time, the housing provident fund authority is entitled to apply to the PRC court for mandatory enforcement.</p> <p>The housing provident fund authority is also entitled to order our PRC Subsidiaries to register with the relevant housing provident fund authority. If our PRC Subsidiaries fail to register within the prescribed time, the housing provident fund authority is entitled to impose of a fine in the range of RMB10,000 to RMB50,000.</p>	<p>On 4 June 2015, we obtained a written confirmation from the Housing Provident Fund Management Centre of Shenzhen confirming that from July 2014 to May 2015, On Real (Shenzhen) had not been penalised for violating laws and regulations by the Housing Provident Fund Management Centre of Shenzhen. On 2 June 2015, we obtained confirmations from the Xinxing Management Department of the Housing Provident Fund Management Centre of Yuntfu confirming that as at the date of confirmation, Xinxing Great Success had not been penalised for violating national and local government laws and regulations relating to housing provident fund. As advised by our PRC Legal Advisers, the Housing Provident Fund Management Centre of Shenzhen and Xinxing are the competent authorities to issue the above confirmations.</p> <p>Xinxing Great Success and On Real (Shenzhen) have made full housing provident fund contributions, and have been in compliance with the relevant regulations in relation to housing provident fund, since July 2014 and October 2014, respectively.</p> <p>During the Track Record Period and up to the Latest Practicable Date, our Group had not received any orders or demands from the relevant government authorities requesting our Group to pay the unpaid housing provident fund amounts.</p>	<p>No material adverse operational and financial impact on our Group (i) having considered the advice of our PRC Legal Advisers; (ii) given that the PRC Subsidiaries had not received any complaints or payment requests from the relevant employees or any other organisations; and (iii) our Directors consider adequate provision has been made.</p>

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
				<p>Based on the above factors, our PRC Legal Advisers are of the view that (i) the possibility of Xinxing Great Success being ordered to repay the unpaid housing provident fund is not high; (ii) even if the PRC Subsidiaries are ordered to repay the unpaid housing provident fund by the relevant governmental authorities, no administrative punishment on the PRC Subsidiaries will be imposed; and (iii) the Housing Provident Fund Management Centre of Shenzhen and Xinxing are time-barred from ordering payment based on the two-year statute of limitations. Our PRC Legal Advisers have advised that they were not aware of any circumstances which would cause the confirmations obtained to be challenged or revoked by higher authorities as at the Latest Practicable Date.</p> <p>Our Directors have assessed that the unpaid amount of contributions to the housing provident fund was approximately HK\$4,654,000 and HK\$2,815,000 as at 31 March 2014 and 31 March 2015, respectively.</p>	

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
				<p>Although the non-compliance is covered by the Deed of Indemnity, for prudence sake, provision for the unpaid housing provident amount has been made in the financial statements of our Group in full. Having considered the confirmations given by the competent authority and the advice of our PRC Legal Advisers, our Directors considered that such amount of provision is adequate.</p> <p>We have implemented a set of internal control policies relating to compliance with the requirements of housing provident fund in the PRC. See “— Non-compliance — Internal control measures”.</p>	

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
4.	<p>Xinxing Great Success did not declare the occupational hazards at work places for the years from 2011 to 2013 and On Real (Shenzhen) did not declare the major changes to the occupational hazard factors from the date of change to 30 October 2014 to the local administrative department of work safety.</p>	<p>(i) Our administrative department which was responsible for handling such matters was not familiar with the relevant laws and regulations.</p> <p>(ii) The then directors of the PRC Subsidiaries did not implement effective internal control policies.</p>	<p>For employers who fail to make declarations, the work safety supervision and management department is entitled to issue warning and order rectification with a prescribed time, and may impose a fine ranging from RMB20,000 to RMB50,000 (for breaches occurring from November 2009 to May 2012) according to the Administrative Measures for the Declaration of Occupational Hazards at Work Places (《作業場所職業危害申報管理辦法》) promulgated on 8 September 2009 and abolished on 1 June 2012, or order rectification within a prescribed time and issue warning, and may impose a fine ranging from RMB50,000 to RMB100,000 (for breaches occurring since June 2012) according to the Provisions of the Measures for the Declaration of Projects with Occupational Hazards (《職業病危害項目申報辦法》) and the Provisions on the Supervision and Administration of Occupational Health at Work Sites (《工作場所職業衛生監督管理規定》) which were effective on 1 June 2012.</p> <p>For employers who fail to faithfully and promptly declare major changes to the occupational hazard factors, the work safety supervision and management department is entitled to order rectification with a prescribed time, and may impose a fine ranging from RMB5,000 to RMB30,000 according to the Provisions of the Measures for the Declaration of Projects with Occupational Hazards (《職業病危害項目申報辦法》) and the Provisions on the Supervision and Administration of Occupational Health at Work Sites (《工作場所職業衛生監督管理規定》).</p>	<p>On Real (Shenzhen) completed the declaration of occupational hazards at work places on 23 April 2012 and declaration of major changes to occupational hazard factors on 30 October 2014. Xinxing Great Success completed the declaration of occupational hazards at work places on 16 September 2014.</p> <p>Upon verbal enquiries with the occupational hygiene unit of the Shenzhen Baoan Songgang Health Supervision Institute and the occupational safety and health supervision unit of the Administration of Work Safety of Xinxing County, which our PRC Legal Advisers confirm to us are the competent authorities on the matter, if an employer completes the declaration of occupational disease and hazards and has not received any investigation, challenge or punishment from the department in charge, there will generally be no retrospective punishment.</p> <p>During the Track Record Period and up to the Latest Practicable Date, our Group had not received any orders or demands from the relevant government authorities in relation to the non-compliance incidents.</p> <p>Based on the above factors, our PRC Legal Advisers are of the view that the likelihood of any punishment being imposed on our Group is remote. As such, no provision has been made in the financial statements of our Group in such regard.</p>	<p>Having considered the advice of our PRC Legal Advisers and given that we had rectified the non-compliance and had not received any orders or demands from the relevant government authorities, our Directors are of the view that such non-compliance incidents will not result in any material adverse impact on our Group's business, financial condition and operation results.</p>

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
5.	<p>On Real (Shenzhen) and Xinxing Great Success did not attend to the “three simultaneities” procedures for the prevention and control of occupational disease hazards for construction projects which may cause occupational disease hazards since 2002 and 2011, respectively.</p>	<p>(i) Our administrative department which was responsible for handling such matters was not familiar with the relevant laws and regulations.</p> <p>(ii) The then directors of the PRC Subsidiaries did not implement effective internal control policies.</p>	<p>According to the Law of the PRC on Prevention and Control of Occupational Diseases of the PRC, the work safety administration and management department is entitled to issue a warning and order rectification within a prescribed time. If our PRC Subsidiaries fail to rectify those non-compliance incidents within the prescribed time, we may be penalised for a fine ranging from RMB100,000 to RMB500,000 and, if the circumstances are serious, we may be ordered to discontinue the operations which cause occupational disease hazards, or may be ordered by the relevant people’s government to stop construction and shut down.</p>	<p>On 10 June 2015, we obtained a written confirmation from the Shenzhen Baoan Songgang Health Supervision Institute confirming that from January 2012 to May 2015, On Real (Shenzhen) (i) had not been imposed with administrative penalty in relation to occupational health; (ii) had not encountered any incident of occupational disease nor suspected occupational disease; and (iii) had established an occupational health archive and its occupational health management had met the national occupational health requirements. On 5 June 2015, we obtained a written-confirmation from the Xinxing County Work Safety Bureau confirming that Xinxing Great Success (i) made the filing of present situation assessment of occupational disease hazards; and (ii) conducted body checks for its staff and there was no incident of related occupational disease hazards. As advised by our PRC Legal Advisers, the Shenzhen Baoan Songgang Health Supervision Institute and the Xinxing County Work Safety Bureau are the competent authorities to issue the above confirmations.</p>	<p>Having considered the advice of our PRC Legal Advisers and given that we had not received any orders or demands from the relevant government authorities, our Directors are of the view that such non-compliance incidents will not result in any material adverse impact on our Group’s business, financial condition and operation results.</p>

BUSINESS

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
				<p>Upon verbal enquiries with the occupational hygiene unit of the Shenzhen Baoan Songgang Health Supervision Institute and the occupational safety and health supervision unit of the Administration of Work Safety of Xinxing County, which our PRC Legal Advisers confirm to us are the competent authorities on the matter, since the provisions of the Interim Measures for the Supervision and Administration of “Three Simultaneities” for the Occupational Health of Construction Projects (《建設項目職業衛生“三同時”監督管理暫行辦法》) was implemented from 2012, and the Notice for the Regulation of Approval Matters on “Three Simultaneities” for the Occupational Health of Construction Projects (《關於規範建設項目職業衛生“三同時”審批事項的通知》) has not specified that construction projects which have been completed and commenced operation before 31 December 2011 shall retroactively complete the procedures of “three simultaneities” for the occupational health and as the authorities are unable to retroactively complete the procedures, they confirm that no punishment will be taken against our PRC Subsidiaries.</p> <p>During the Track Record Period and up to the Latest Practicable Date, our Group had not received any orders or demands from the relevant government authorities in relation to the non-compliance incidents.</p>	

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
				<p>Based on the above factors, our PRC Legal Advisers are of the view that the risk of the department in charge imposing punishment on our Group is remote. As such, no provision has been made in the financial statements of our Group in such regard.</p> <p>We have implemented a set of internal control policies relating to compliance with health and safety laws in the PRC. See “— Non-compliance — Internal control measures”.</p>	

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
6.	<p>On Real (Shenzhen) commenced operation prior to applying for the environmental impact assessment approval for the extension construction project for the Songgang Factory from January 2007 to August 2014.</p>	<p>(i) Our administrative department which was responsible for handling such matters was not familiar with the relevant laws and regulations and was under the impression that these requirements were not applicable to On Real (Shenzhen) as it was not a highly polluting enterprise.</p> <p>(ii) The then directors of On Real (Shenzhen) did not implement effective internal control policies.</p>	<p>Pursuant to the Administrative Regulations on Environmental Protection for Construction Project (《建設項目環境保護管理條例》) (the “Regulations”), the relevant environmental protection authority is entitled to order reapplication procedure within a prescribed time. If On Real (Shenzhen) fails to conduct the reapplication procedure within the prescribed time and yet commences the construction, the relevant environmental protection authority is entitled to order On Real (Shenzhen) to cease the construction and impose a fine of no more than RMB100,000.</p>	<p>On 16 September 2014, we obtained a written confirmation from the Shenzhen Baoan Environmental Protection and Water Authority confirming that from 1 January 2011 and up to the date of confirmation there had been no record indicating On Real (Shenzhen) breached environmental protection rules and received punishment. As advised by our PRC Legal Advisers, the Shenzhen Baoan Environmental Protection and Water Authority is the competent authority to issue the above confirmation.</p> <p>On 2 June 2015, our PRC Legal Advisers made verbal enquiries with the Shenzhen Baoan Environmental Protection and Water Authority and was informed that it has stopped issuing the environmental compliance certificate to enterprises. However, our PRC Legal Advisers had verified all the administrative penalty decisions published on the official website of the Shenzhen Baoan Environmental Protection and Water Authority and confirmed that no record indicating On Real (Shenzhen) breached environmental protection rules and received punishment from 9 February 2012 to 15 May 2015.</p> <p>On Real (Shenzhen) obtained the environment impact assessment approval in relation to the extension construction project in August 2014 and since then has been in compliance with the relevant regulations in relation to environmental protection.</p>	<p>No material adverse operational and financial impact on our Group having considered the advice of our PRC Legal Advisers and given that we had rectified the non-compliance and had not received any orders or demands from the relevant governmental authorities.</p>

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
				<p>Our PRC Legal Advisers made verbal enquiries with the Shenzhen Baoan Environmental Protection and Water Authority and was informed that the relevant authorities will normally not impose any punishment on enterprises commencing operation before obtaining the required environmental impact assessment approval if such approval has been subsequently obtained and if the enterprises had not been subject to investigation or punishment until the obtaining of such approval.</p> <p>During the Track Record Period and up to the Latest Practicable Date, our Group had not received any orders or demands from the relevant government authorities in relation to the non-compliance incident.</p> <p>Based on the above factors, our PRC Legal Advisers are of the view that the likelihood of any punishment being imposed on our Group is remote. As such, no provision has been made in the financial statements of our Group in such regard.</p> <p>We have implemented a set of internal control policies relating to compliance with the requirements of environmental laws in the PRC. See “— Non-compliance — Internal control measures”.</p>	

No.	Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Any operational and financial impact
7.	<p>Xinxing Great Success commenced operation prior to applying for the environmental protection approval and the pollutant discharge permit for a construction project for the Xinxing Factory from its establishment date to January 2015.</p>	<p>(i) Our administrative department which was responsible for handling such matters was not familiar with the relevant laws and regulations and was under the impression that these requirements were not applicable to Xinxing Great Success as it was not a highly polluting enterprise.</p> <p>(ii) The then directors of Xinxing Great Success did not implement effective internal control policies.</p>	<p>Pursuant to the Regulations, the relevant environmental protection authority is entitled to order reapplication procedures within a prescribed time period. If Xinxing Great Success fails to conduct the reapplication procedure within the prescribed time period and commences construction, the relevant environmental protection authority is entitled to order Xinxing Great Success to cease the construction and impose a fine of no more than RMB100,000. Further, pursuant to the Regulations and the Administrative Measures on Completion Inspection of Environmental Protection for Construction Project (《建設項目竣工環境保護驗收管理辦法》), if Xinxing Great Success commences production before the formalities for inspection and acceptance of environmental protection of construction projects are completed, the relevant authority is entitled to order Xinxing Great Success to cease production and impose a fine of no more than RMB100,000.</p> <p>Pursuant to the Regulations of Guangdong Province on Environmental Protection (《廣東省環境保護條例》) and the Measures of Guangdong Province for the Administration of Pollutant Discharge Licences (《廣東省排污許可證管理辦法》), the relevant environmental protection authority is entitled to order the discharge of pollutant to cease within a prescribed time and to impose a fine ranging from RMB50,000 to a RMB100,000, and if the discharge of pollutant fails to cease within the prescribed time or severe environmental pollution is resulted, the relevant people's government is entitled to order Xinxing Great Success to cease production and operation.</p>	<p>On 4 June 2015, we obtained a written confirmation from the Xinxing Environmental Protection Authority confirming that up to the date of confirmation, there had been no record indicating Xinxing Great Success breached environmental protection rules and received punishment. As advised by our PRC Legal Advisers, the Xinxing Environmental Protection Authority is the competent authority to issue the above confirmation.</p> <p>Xinxing Great Success obtained the environmental protection approval in relation to the construction project on 27 October 2014, the inspection and completion approval for environmental protection on 27 January 2015 and the pollutant discharge permit on 28 January 2015, and since then has been in compliance with the relevant regulations in relation to environmental protection.</p> <p>During the Track Record Period and up to the Latest Practicable Date, our Group had not received any orders or demands from the relevant government authorities in relation to the non-compliance incident.</p> <p>Based on the above factors, our PRC Legal Advisers are of the view that the likelihood of any punishment being imposed on our Group is remote. As such, no provision has been made in the financial statements of our Group in such regard.</p> <p>We have implemented a set of internal control policies relating to compliance with the requirements of environmental laws in the PRC. See “— Non-compliance — Internal control measures”.</p>	<p>No material adverse operational and financial impact on our Group having considered the advice of our PRC Legal Advisers and given that we had rectified the non-compliance and had not received any orders or demands from the relevant government authorities.</p>

Internal control measures

In order to avoid non-compliance with the relevant laws and regulations in the future, we have implemented the following internal control measures:

1. We will, from time to time, engage external legal advisers and seek legal advice on the legal matters relating to our Group and our compliance with the laws and regulations applicable to our Group.
2. We will designate an internal compliance team comprising our company secretary, compliance officer and other relevant staff to conduct compliance audit on our Group annually.
3. We have appointed Quam Capital in February 2015 as our compliance adviser upon Listing to advise our Company on compliance matters in accordance with Rule 6A.19 of the GEM Listing Rules.
4. Our Directors have attended training sessions in December 2014 conducted by our Hong Kong legal advisers on, among other things, ongoing obligations, general corporate governance requirements, the duties and responsibilities of directors of a company whose shares are listed on the Stock Exchange under applicable laws, rules and regulations, including but not limited to the GEM Listing Rules and Companies Ordinance. Our Directors have provided confirmation in writing in relation to their understanding of their duties under the GEM Listing Rules and other applicable laws and regulations.
5. We will provide our Directors, senior management and relevant employees with training, development programmes and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time on a regular basis.
6. We have adopted the following written procedures in relation to compliance with the requirements of the Companies Ordinance in November 2014:
 - (i) a checklist will be prepared and updated from time to time to record the details of all our Hong Kong subsidiaries, such as incorporation date, date of last annual general meeting and date of audited accounts. The checklist will be reviewed by our company secretary who will keep monitoring the date of the next annual general meeting; and
 - (ii) at least two months before the deadline for holding the next annual general meeting, our company secretary has to liaise with the company secretarial service provider and notify our accounting manager to contact the relevant auditors so as to ensure there is sufficient time to prepare the audited accounts to be laid before the annual general meeting.

7. We have adopted the following internal control measures in relation to compliance with the requirements of social insurance fund and housing provident fund in the PRC in November 2014:
- (i) we have designated Mr. Li Ping, our office and compliance manager, to be responsible for ensuring that we comply with the social insurance fund and housing provident fund contributions requirements under the relevant PRC laws and regulations for our employees. Mr. Li has joined us for over 10 years and has been involved in our human resources function in the PRC. Our Directors confirm that Mr. Li Ping was not involved in monitoring or handling of the matters relating to the social insurance fund, housing provident fund and the PRC health and safety laws during the period in which the relevant non-compliance incidents in relation thereto occurred. Mr. Li Ping holds the safety officer certificate issued by Shenzhen Provincial Safety and Production Supervision Bureau (深圳市安全生產監督管理局) in April 2004, the middle rank safety officer certificate issued by Guangdong Provincial Safety and Production Supervision Bureau (廣東省安全生產監督管理局) issued in April 2014 and has attended fire protection and hygiene trainings given by local authorities. Mr. Li is highly familiar with our operations in the PRC and is able to handle communications with local authorities. We will also arrange for Mr. Li to attend further work-related training in the future if our management sees fit. On such basis, our Directors confirm and the Sponsor concurs that Mr. Li Ping is competent to oversee our on-going compliance with the relevant requirements; and
 - (ii) in order to ensure timely contribution to the social insurance fund and housing provident fund in the future, our finance department will conduct monthly checking on our contribution payments based on actual wages, withhold the employees' contribution account based on actual wages and contribute to relevant funds directly.
8. We have adopted the following internal control measures in relation to compliance with health and safety laws in the PRC in November 2014:
- (i) Mr. Li Ping, our office and compliance manager, will review the compliance aspects of our PRC operations on a regular basis and help ensure, among others, that all our manufacturing activities comply with the relevant laws and regulations on the prevention and control of occupational diseases; and
 - (ii) where necessary, external legal advisers will be instructed to provide professional advice and consultants will be engaged to audit the compliance of our production facilities.

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9. We have adopted the following internal control measures in relation to compliance with environmental laws in the PRC in November 2014:
- (i) we will provide training to our production staff with the assistance of PRC legal advisers to ensure, among others, that they are familiar with PRC environmental laws and regulations and have the necessary knowledge and skills in performing our manufacturing processes in a manner that complies with the relevant laws and regulations; and
 - (ii) where necessary, external legal advisers will be instructed to provide professional advice and consultants will be engaged to audit the compliance of our production facilities.

Indemnity by Controlling Shareholders

Pursuant to the Deed of Indemnity, each of our Controlling Shareholders has agreed to indemnify our Group on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by our Group arising from any violation or non-compliance with the laws, rules or regulations applicable to us prior to the Listing Date, including all such non-compliance incidents disclosed in “— Non-compliance”. For further details of the Deed of Indemnity, see “E. Other information — 1. Estate duty, tax and other indemnities” in Appendix IV to this prospectus.

Our Directors are satisfied that our Controlling Shareholders have sufficient financial resources to honour their obligations to provide indemnities in respect of the aforesaid non-compliance incidents against our Group under the Deed of Indemnity.

Views of our Directors and the Sponsor

- (1) In relation to our Director’s suitability for Listing:

Having considered that:

- (i) we had adopted an in-house manual on compliance matters and our Directors had delegated the responsibility of handling the day-to-day administrative matters, by complying with the in-house manual, to the staff of administrative department and human resources department. Our Directors are of the view that such delegation is not uncommon and the past non-compliance incidents are mainly due to the fact that the responsible staff was not equipped with in-depth knowledge on the specific requirements under the relevant laws and regulations for handling these incidents but remained responsible for doing so throughout the entire period of non-compliance. At the same time, our Directors did not have sufficient legal knowledge specific to the non-compliance incidents nor had received proper training in compliance matters prior to the commencement of the Listing exercise;

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- (ii) notwithstanding the non-compliance incidents were mainly due to the responsible staff and our Directors not having specific legal knowledge relevant to the non-compliance incidents and the oversight of our Directors in not ensuring that the relevant staff possess the specific knowledge during the recruitment process, each of the non-compliance incidents was originated from a single root cause, being the lack of specific legal knowledge and not any repeated failure by our Directors to operate the business in a compliant manner, and thus none of them should be considered systemic. Our Directors confirm that our Company has, under the management and supervision of our Directors, complied with all other relevant laws and regulations in relation to the business operation of our Group since its commencement of operation in 2001 without being subject to any material penalty from government authorities nor any material administrative proceedings in respect of its business operation. As such, our Directors possess the relevant ability and expertise in managing our overall business operations;
- (iii) the past instances of non-compliance incidents are not related to the character of our Directors and do not raise any serious concern on the integrity of them as such incidents did not involve any fraudulent or dishonest acts by our Directors;
- (iv) as soon as our Directors were made aware of the occurrence of the non-compliance incidents during the preparation of the Listing application, our Directors proceeded to rectify them at the first opportunity to the extent applicable;
- (v) the internal control of our Group has been enhanced since November 2014 to prevent reoccurrence of non-compliance incident in the future, such as, from time to time, seeking legal advice on the legal matters relating to our Group and providing our relevant employees with training regarding the legal and regulatory requirements applicable to our business operation as mentioned in “— Non-compliance — Internal control measures”. Our Directors confirm that the staff currently handling the relevant matters possess the necessary knowledge;
- (vi) subsequent to the previous non-compliance incidents, our Directors have been advised by our Hong Kong legal advisers and PRC legal advisers regarding the requirements under the relevant laws and regulations and attended the relevant training sessions provided by our Hong Kong legal advisers to our Company, to equip themselves with the knowledge on the corporate governance requirements under the GEM Listing Rules, among others and, where necessary, will continue to attend relevant training sessions from time to time after Listing; and
- (vii) no similar non-compliance incidents have occurred since the implementation of the aforesaid internal control measures and training sessions to our Directors and up to the Latest Practicable Date,

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the Sponsor is of the view that none of the non-compliance incidents should be considered systemic or material in nature which could reflect on our Directors' lack of competence to act as directors of a listed company and that the measures taken by our Directors subsequently as set out in (iii) – (vi) above provide further assurance as to the competency of our Directors. Accordingly, the non-compliance incidents do not constitute a material adverse factor concerning the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules.

(2) In relation to our Company's suitability for Listing:

(i) in respect of our non-compliance incident relating to the Predecessor Companies Ordinance, we have been advised that such non-compliance incident is time-barred and prosecution of such non-compliance is not likely; (ii) in respect of our non-compliance incidents under the PRC laws and regulations, our PRC Legal Advisers have advised as that the likelihood of having punishment imposed on us is remote; (iii) given that prosecution for non-compliances relating to the Predecessor Companies Ordinance similar to those disclosed in “– Non-compliance” is not common in Hong Kong, we do not consider our non-compliances relating to the Predecessor Companies Ordinance disclosed in “– Non-compliance” serious in nature; (iv) given that the maximum penalty of the non-compliances under the PRC laws and regulations as disclosed in “– Non-compliance” does not involve imprisonment, we do not consider them serious in nature; (v) such non-compliances were not intentional, fraudulent or due to negligence or recklessness; (vi) such non-compliances do not have any material impact on our operation and financial performance; (vii) we have taken appropriate rectification actions to stop and remedy our past cases of non-compliance and all the non-compliance incidents have been rectified (if not time-barred and where capable of being rectified as discussed in “– Non-compliance”) as at the Latest Practicable Date; (viii) as at the Latest Practicable Date, there has not been any prosecution initiated against us or any of the directors of our subsidiaries, nor has any of them been subject, to any fine relating to the non-compliance incidents; (ix) we have implemented adequate and effective internal control measures as discussed in “– Non-compliance – Internal control measures”; (x) each of our Controlling Shareholders has given us an indemnity covering the non-compliance incidents (see “E. Other information – 1. Estate duty, tax and other indemnities” in Appendix IV to this prospectus); and (xi) we consider that none of such non-compliance incidents have constituted material or systemic non-compliance for the reasons stated above.

Based on the aforesaid, our Directors are of the view, and the Sponsor concurs, that the non-compliance incidents are not expected to have any material adverse impact on us and our Directors. Such incidents of non-compliance do not constitute a material adverse factor concerning our Company's suitability for Listing under Rule 11.06 of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Relationship between our Group and the connected person

Xinxing On Time is wholly-owned by Shine View, which is a limited company incorporated in Hong Kong and held as to 69.23% by Mr. Tam and 30.77% by Mr. Hsu, our Directors and Controlling Shareholders. Xinxing On Time is therefore a connected person of our Company under the GEM Listing Rules, and thus each of the following transactions will constitute a continuing connected transaction of our Company in accordance with the GEM Listing Rules.

Exempt continuing connected transactions

Upon the Listing, the transactions set forth below will constitute continuing connected transactions for our Company within the meaning of the GEM Listing Rules.

(a) Dormitory Lease Agreement

On 25 June 2014, Xinxing On Time as landlord and Xinxing Great Success as tenant entered into a lease agreement (the “**Dormitory Lease Agreement**”), pursuant to which the Xinxing Staff Quarters were leased to Xinxing Great Success for use as staff quarters.

The Dormitory Lease Agreement has a term of three years commencing from 1 July 2014 and ending on 30 June 2017 subject to termination by either party by serving one month prior written notice to the other party. Pursuant to the Dormitory Lease Agreement, the total monthly rental is approximately RMB27,000 (based on RMB9.0 for each sq.m), which amounts to a total annual rental of approximately RMB324,000. A rental deposit of approximately RMB54,000 equivalent to two months’ rental had been paid to Xinxing On Time. The rent is payable by Xinxing Great Success within the first five days of each month in advance.

The historical figures for the two years ended 31 March 2015 for the Dormitory Lease Agreement incurred by Xinxing Great Success were nil and approximately RMB243,000 (comprising nine months’ rental from 1 July 2014 to 31 March 2015) respectively.

Our Directors, after reviewing the Dormitory Lease Agreement, confirm that the Dormitory Lease Agreement is on normal commercial terms through arm’s length negotiation by reference to the market rent for similar premises. The rent was confirmed with reference to a valuation report issued by an independent professional valuer. International Valuation Limited, the independent professional valuer, has reviewed the Dormitory Lease Agreement and considered that is fair and reasonable, and the rental payable by Xinxing Great Success thereunder reflects the prevailing market rents as at the date of the commencement of the Dormitory Lease Agreement.

CONTINUING CONNECTED TRANSACTIONS

(b) Factory Lease Agreement

On 25 June 2014, Xinxing On Time as landlord and Xinxing Great Success as tenant entered into a lease agreement (the “**Factory Lease Agreement**”), pursuant to which the Xinxing Factory together with 1st and 5th Floors of phase two factory, B2-02, Xincheng Industrial Zone, Xincheng Town, Xinxing County, China were leased to Xinxing Great Success for use as factory and godown. The Factory Lease Agreement has a term of three years commencing from 1 July 2014 and ending on 30 June 2017 subject to termination by either party by serving one month prior written notice to the other party. Pursuant to the Factory Lease Agreement, the monthly rental is approximately RMB96,000 (based on RMB11.0 for each sq.m), which amounts to a total annual rental of approximately RMB1,152,000. A rental deposit of approximately RMB192,000 equivalent to two months’ rental had been paid to Xinxing On Time. The rent is payable within the first five days of each month in advance. The total rent paid by Xinxing Great Success under the Factory Lease Agreement for the four months ended 31 October 2014 amounted to approximately RMB384,000.

By a supplemental agreement entered into between Xinxing On Time and Xinxing Great Success on 30 October 2014 (the “**Supplemental Agreement**”), the Factory Lease Agreement was amended to the effect that only the Xinxing Factory was leased to Xinxing Great Success, the monthly rental is reduced to approximately RMB54,000 and the rental deposit paid to Xinxing On Time had been reduced to approximately RMB108,000 due to the reduction of total rental area, with the other terms under the Factory Lease Agreement remained unchanged. Accordingly, the total annual rental under the Supplemental Agreement amounts to approximately RMB648,000 and the total rent paid by Xinxing Great Success for the five months ended 31 March 2015 amounted to approximately RMB270,000.

The historical figures for the two years ended 31 March 2015 for the Factory Lease Agreement (as amended by the Supplemental Agreement) incurred by Xinxing Great Success were nil, and approximately RMB654,000 (comprising four months’ rental of approximately RMB96,000 per month and five months’ rental of approximately RMB54,000 per month from 1 July 2014 to 31 March 2015) respectively.

Our Directors and the Sponsor, after reviewing the Factory Lease Agreement (as amended by the Supplemental Agreement), confirm that the Factory Lease Agreement (as amended by the Supplemental Agreement) is on normal commercial terms through arm’s length negotiation by reference to the market rent for similar premises and in the interest of the Shareholders as a whole. The rent was confirmed with reference to a valuation report issued by an independent professional valuer. International Valuation Limited, the independent professional valuer, has reviewed the Factory Lease Agreement (as amended by the Supplemental Agreement) and considered that is fair and reasonable and the rental payable by Xinxing Great Success thereunder reflects the prevailing market rents as at the date of the commencement of the Factory Lease Agreement (as amended by the Supplemental Agreement).

CONTINUING CONNECTED TRANSACTIONS

(c) *GEM Listing Rules implications*

As each of the percentage ratios (other than the profits ratio) for the Dormitory Lease Agreement and the Factory Lease Agreement (as amended by the Supplemental Agreement) in aggregate is, on an annual basis, more than 0.1% but less than 5% and the total consideration is less than HK\$3,000,000, the transactions under the Dormitory Lease Agreement and the Factory Lease Agreement (as amended by the Supplemental Agreement) are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. In the event that the percentage ratios (other than the profit ratio) for the Dormitory Lease Agreement and the Factory Lease Agreement (as amended by the Supplemental Agreement), whether separately or in aggregate, exceed the threshold of *de minimis* transaction in the future, our Company will comply with the relevant requirements pursuant to the GEM Listing Rules in due course.

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Our Board consists of seven Directors, of whom three are executive Directors, one is non-executive Director and the remaining three are independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business. The following table sets forth certain information regarding the current members of our Board:

Name of Directors (Note)	Age	Position	Date of appointment as a Director	Time of joining our Group	Roles and responsibilities
Mr. Tam Wing Ki (談永基)	46	Chairman, chief executive officer and executive Director	30 June 2014	January 2001	Responsible for the overall strategic planning and corporate policies as well as overseeing the operations of our Group; member/chairman of the nomination committee
Mr. Hsu Wing Sang (許永生)	47	Executive Director	30 June 2014	October 2003	Responsible for the overall product manufacturing of our Group
Mr. Tao Hong Ming (陶康明)	47	Chief operating officer and executive Director	10 December 2014	February 2014	Responsible for the overall operation and new business development of our Group; member of remuneration committee
Mr. Chau Wai Hung, Andy (周焯雄)	40	Non-executive Director	10 December 2014	December 2014	Responsible for the overall strategic planning and corporate policy making, but not participating in day-to-day management of our Group's business operation
Mr. Cheng Yuk Kin (鄭煜健)	40	Independent non-executive Director	16 September 2015	16 September 2015	Responsible for providing independent advice to the Board and serving as chairman of the audit committee and member of each of the remuneration and nomination committee
Mr. Fan Chun Wah, Andrew (范駿華)	36	Independent non-executive Director	16 September 2015	16 September 2015	Responsible for providing independent advice to the Board and serving as member of each of the audit, remuneration and nomination committee
Ms. Reina Lim Yan Xin (林延芯)	38	Independent non-executive Director	16 September 2015	16 September 2015	Responsible for providing independent advice to the Board and serving as chairman of the remuneration committee and member of each of the audit and nomination committee

Note: None of our Directors has any relationship with other Directors.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Our senior management is responsible for the day-to-day management of our business. The following table sets forth certain information regarding the senior management of our Group:

Name	Age	Position	Date of appointment for current position	Time of joining our Group	Roles and responsibilities
Mr. Cheung Chung Yuen Wilson (張中元)	51	Financial controller	November 2014	November 2014	Responsible for financial reporting, internal control system review and company secretarial duties
Mr. Kong Kwok Pun, Anthony (江國賓)	52	Financial controller	April 2014	April 2014	Responsible for financial and accounting management
Mr. Yu Wai Keung (余偉強)	48	Marketing director	February 2014	February 2014	Responsible for sales and marketing
Mr. Ho Kwok Ming (何國明)	53	Engineering manager	September 2009	October 2004	Responsible for product design and coordination with marketing department

DIRECTORS

Executive Directors

Mr. Tam Wing Ki (談永基), aged 46, is the founder of our Group, the chairman of our Board and our nomination committee, our chief executive officer and an executive Director. Mr. Tam is one of our Controlling Shareholders. He is responsible for the overall strategic planning and corporate policies as well as overseeing the operations of our Group. He is also a director of each subsidiary of our Company except Xinxing Great Success. Mr. Tam has more than 20 years of experience in the consumer electronic products industry. Before founding our Group, Mr. Tam assumed various positions including a production material control manager (being mainly responsible for production management) of Central Base Enterprises Ltd (principally engaged in the business of cordless phone manufacturing) from April 1991 to May 1998 and the factory manager (being mainly responsible for factory operation) of Hantong Communication Company Limited (principally engaged in the business of cordless phone manufacturing) from June 1998 to December 2000. Mr. Tam attended the Tsuen Wan Government Secondary Technical School in Hong Kong and completed the Hong Kong Certificate of Education Examination in 1986.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tam was the director of the following companies which were incorporated in Hong Kong and were deregistered pursuant to section 291AA of the Predecessor Companies Ordinance which provides that a defunct, solvent company may be dissolved by way of deregistration. It is confirmed by Mr. Tam that all the following deregistration was voluntary by way of submitting an application to the Company Registrar of Hong Kong because these companies had either never commenced business or operation or ceased to carry on business or operation for more than three months immediately before the relevant application. The relevant details are as follows:

<u>Name of company</u>	<u>Nature of business</u>	<u>Date of submission of application for deregistration</u>	<u>Date of deregistration</u>
Rich Year Far East Limited (怡豐遠東有限公司)	SMT subcontracting service	12 November 2002	28 March 2003
Tech Wealthy Limited (鉅科有限公司)	COB subcontracting service	23 December 2003	7 May 2004
Merit Concept Limited (創賢有限公司)	Never commenced business	6 May 2010	24 September 2010

Mr. Hsu Wing Sang (許永生), aged 47, is an executive Director. Mr. Hsu is one of our Controlling Shareholders. He is responsible for overall product manufacturing of our Group. Mr. Hsu is also a director of each subsidiary of our Company except On Real (Shenzhen). He joined our Group in October 2003. Mr. Hsu has over 20 years of experience in production management. His primary working experiences include: a foreman of production engineer department (being responsible for manufacturing and equipment maintenance) of Uniden Hong Kong Limited (principally engaged in the business of design, manufacture and sale of communication products) from May 1989 to June 1991, a production engineer (being responsible for production management and quality control) of Smoothline Limited (principally engaged in the business of design and manufacture cordless phones) from July 1991 to February 1998, a deputy factory manager (being responsible for production management and factory operation management) of Greatsino Electronic Technology Ltd (principally engaged in the business of design and manufacture electronic products) from April 1998 to June 1999, a manager (being responsible for production management and factory operation management) of GD (Bao Ban) Communication Co., Ltd. (principally engaged in the business of design and manufacture communication products) from June 1999 to June 2000 and the plant manager (being responsible for production management and factory operation management) of Lionda Technology Co., Ltd. (principally engaged in the business of design and manufacture communication products) from July 2000 to April 2003. Mr. Hsu received a diploma in computer, electronic and colour television from South East Radio College in Hong Kong in July 1986.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Hsu was the director of the following companies which were incorporated in Hong Kong and were deregistered pursuant to section 291AA of the Predecessor Companies Ordinance which provides that a defunct, solvent company may be dissolved by way of deregistration. It is confirmed by Mr. Hsu that all the following deregistration was voluntary by way of submitting an application to the Company Registrar of Hong Kong because these companies had either never commenced business or operation or ceased to carry on business or operation for more than three months immediately before the relevant application. The relevant details are as follows:

<u>Name of company</u>	<u>Nature of business</u>	<u>Date of submission of application for deregistration</u>	<u>Date of deregistration</u>
Tech Wealthy Limited (鉅科有限公司)	COB subcontracting service	23 December 2003	7 May 2004
Merit Concept Limited (創賢有限公司)	Never commenced business	6 May 2010	24 September 2010

Mr. Tao Hong Ming (陶康明), aged 47, is our chief operating officer, an executive Director and a member of our remuneration committee. He is responsible for the overall operation and new business development of our Group. He joined our Group in February 2014. Mr. Tao has over 20 years of working experience in engineering, sales and marketing, project management and operation in electronics business. His primary working experiences include: a senior management (being responsible for business development) of VTech Holdings Limited (a company listed on the Stock Exchange (stock code: 303) and principally engaged in the business of design, manufacturing and sale of electronic learning products, telecommunication products and contract manufacturing service) from 1996 to 2001, a vice president (being responsible for business development) of Perception Digital Limited (a subsidiary of Perception Digital Holdings Limited, a company listed on the Stock Exchange (stock code: 1822) and principally engaged in the business of research, design and development of digital signal processing platform and the provision of embedded firmware to customers) from June 2001 to March 2007, a director of business line management department (being responsible for business line management) of P-Marshall Hong Kong Limited (principally engaged in design and development of mobile phones) from August 2007 to June 2008, a senior vice president (being responsible for sales and marketing, project management and operation) of Perception Digital Limited from June 2008 to January 2013 and an executive director (being responsible for sales and marketing, project management and operation) of Perception Digital Holdings Limited from October 2010 to January 2013. Mr. Tao received a bachelor degree in engineering in electronic engineering from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in Hong Kong in November 1990.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Chau Wai Hung, Andy (周煒雄) (formerly known as 周煒烘 and 周煒雄), aged 40, is a non-executive Director. Mr. Chau has been a director (being responsible for overall management) of The One Holdings Limited (formerly known as Hong Kong Non-Profit Making Organisation Consultants Limited) since November 2011. His primary working experiences include: a senior computer operator (being mainly responsible for providing IT related technical support to customers and the daily operation of data centre) of Modern Terminals Limited (principally engaged in the operation of container terminals in Hong Kong) from November 2009 to June 2011, a technical specialist (who was seconded to a client and being mainly responsible for providing service in IT projects) of E. C. Fix Technology Ltd. (principally engaged in the provision of information technology solutions) from September 2011 to January 2012 and a contract technical specialist and a contract senior system engineer (being responsible for providing service to a client in IT projects) of Peoplebank Hong Kong Limited (principally engaged in the recruitment business in the information technology industry) from May 2012 to July 2013 and July 2013 to July 2014, respectively. Mr. Chau attended the Shek Lei Catholic Secondary School in Hong Kong and completed the Hong Kong Certificate of Education Examination in 1992.

Independent non-executive Directors

Mr. Cheng Yuk Kin (鄭煜健), aged 40, is an independent non-executive Director. Mr. Cheng is the chairman of our audit committee and a member of each of our remuneration committee and nomination committee. Mr. Cheng has over 10 years of experience in corporate finance and audit. He has been a director (being mainly responsible for advising securities and corporate finance matters) of Ivory Capital Private Limited (principally engaged in the provision of strategic and financing advisory services) since July 2011. He is also an independent non-executive director of China Data Broadcasting Holdings Limited (now known as Changhong Jiahua Holdings Limited, a company listed on the Stock Exchange (stock code: 8016) and principally engaged in the distribution of information technology products) since November 2012. Mr. Cheng's other working experiences include: an accountant (being mainly responsible for audit work of client companies) of Deloitte Touche Tohmatsu from September 1997 to November 1999 and a senior executive and a manager of Deloitte & Touche Corporate Finance Ltd. from May 2002 to March 2004 and April 2004 to January 2005, respectively. Mr. Cheng received a bachelor degree in business administration in finance from The Hong Kong University of Science and Technology in Hong Kong in November 1997 and a master degree in business administration from The George Washington University in the US in January 2002. Mr. Cheng has been licensed by the SFC to engage in type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO since March 2007. He has been a member of the American Institute of Certified Public Accountants in the US since September 1998.

Mr. Fan Chun Wah, Andrew (范駿華), aged 36, is an independent non-executive Director. Mr. Fan is a member of each of our audit committee, remuneration committee and nomination committee. Mr. Fan is a certified public accountant practising under the name of C.W. Fan & Co. Limited. The following table sets forth the information of the directorships held by Mr. Fan in the companies listed on the Stock Exchange prior to joining our Group and as at the Latest Practicable Date:

DIRECTORS AND SENIOR MANAGEMENT

Name of company	Principal business activities	Position held	Principal responsibilities	Period of services
CIG Yangtze Ports PLC (stock code: 8233)	Port construction and operation	Independent non-executive director	Providing independent advice	February 2009 to March 2014
Far East Holdings International Limited (stock code: 36)	Manufacturing and sale of garments	Independent non-executive director	Providing independent advice	October 2009 to February 2012
Chuang's China Investments Limited (stock code: 298)	Property investment and development, hotel operation and management, manufacturing and sale of watch components and merchandise, and securities investment and trading	Independent non-executive director	Providing independent advice	January 2013 to the Latest Practicable Date
Milan Station Holdings Limited (stock code: 1150)	Retail of handbags, fashion accessories and embellishments in Hong Kong, the PRC and Macau	Independent non-executive director	Providing independent advice	March 2013 to July 2015
Chi Cheung Investment Company, Limited (now known as LT Commercial Real Estate Limited) (stock code: 112)	Securities investment and finance	Independent non-executive director	Providing independent advice	March 2013 to the Latest Practicable Date
Sinomax Group Limited (stock code: 1418)	Marketer, manufacturer and distributor of visco-elastic pillows, mattress toppers and mattresses in the US, Hong Kong and the PRC	Independent non-executive director	Providing independent advice	March 2014 to the Latest Practicable Date
Fulum Group Holdings Limited (stock code: 1443)	Providing full-service restaurant chain serving Chinese cuisine in Hong Kong	Independent non-executive director	Providing independent advice	October 2014 to the Latest Practicable Date
Culturecom Holdings Limited (stock code: 00343)	Comic book publisher and media content provider in Asia	Independent non-executive director	Providing independent advice	April 2015 to the Latest Practicable Date
Hong Kong Resources Holdings Company Limited (stock code: 2882)	Operating and franchising shops that retail gold and jewellery in China, including Hong Kong and the Macau Special Administrative Region of the PRC	Independent non-executive director	Providing independent advice	July 2015 to the Latest Practicable Date

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fan's other primary working experience include a manager (being responsible for assurance advisory of client companies) of PricewaterhouseCoopers Ltd. from September 1999 to November 2004. Mr. Fan is also a committee member of the tenth and eleventh Chinese People's Political Consultative Conference of the Zhejiang Province, the fourth and fifth Chinese People's Political Consultative Conference of Shenzhen and the chairman of the 23rd council of Hong Kong United Youth Association. Mr. Fan received a bachelor degree in business administration in accounting and finance from The University of Hong Kong in Hong Kong in December 1999 and a bachelor degree in laws from the University of London in the UK in August 2007, completed by long distance study. Mr. Fan has been a member of the Hong Kong Institute of Certified Public Accountants since January 2003 and is currently holding a practising certificate issued by the Association of Chartered Certified Accountants to practise as a chartered certified accountant in Hong Kong.

Ms. Reina Lim Yan Xin (林延芯) (formerly known as Lim Yi Ping (Lin Yiping) (林憶萍)), aged 38, is an independent non-executive Director. Ms. Lim is the chairman of our remuneration committee and a member of each of our audit committee and nomination committee. Ms. Lim's primary working experiences include: an accountant (being responsible for provision of assurance services to client companies) of Arthur Andersen Singapore (principally engaged in accountancy services) from January 2000 to June 2002, a senior associate (being responsible for provision of financial due diligence to client companies) of Deloitte & Touche Financial Advisory Services Pte Ltd (principally engaged in financial advisory) from June 2002 to May 2004, a senior executive, a senior associate and a manager (being responsible for financial due diligence) of Deloitte & Touche Corporate Finance Ltd. (principally engaged in corporate advisory) from June 2004 to October 2004, October 2004 to June 2005 and July 2005 to June 2007, respectively, an executive director (being responsible for managing daily operations) of Boardroom Corporate Services (HK) Limited (principally engaged in corporate secretarial, accounting, business advisory, share registry and taxation services provision in Hong Kong) from July 2007 to August 2013, and has been the regional director (being responsible for business development) of CFO (HK) Limited (principally engaged in the provision of human resources services) since January 2014.

The following table sets forth the information of the company secretary positions held by Ms. Lim in the companies listed on the Stock Exchange prior to joining our Group:

<u>Name of company</u>	<u>Principal business activities</u>	<u>Position held</u>	<u>Principal responsibilities</u>	<u>Period of services</u>
VXL Capital Limited (stock code: 727)	Hotel investment and operations and property investment	Company secretary	Company secretarial matters	April 2011 to November 2013
OTO Holdings Limited (stock code: 6880)	Sale of health and wellness products	Joint company secretary	Company secretarial matters	November 2011 to September 2013

DIRECTORS AND SENIOR MANAGEMENT

<u>Name of company</u>	<u>Principal business activities</u>	<u>Position held</u>	<u>Principal responsibilities</u>	<u>Period of services</u>
Guangdong Nan Yue Logistics Company Limited (now known as Guangdong Yueyun Transportation Company Limited (stock code: 3399))	Provision of integrated logistics services and expressway-related services	Joint company secretary	Company secretarial matters	November 2012 to October 2013
Far East Hotels and Entertainment Limited (stock code: 37)	Hotel operation and property letting	Company secretary	Company secretarial matters	November 2012 to September 2013

Ms. Lim has been a member of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants since July 2006 and September 2006, respectively. She received a bachelor degree in commerce from The University of Queensland in Australia in December 1999.

Save as disclosed in this prospectus, none of our Directors held any directorship in any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus, and there is no other matter that needs to be brought to the attention of the Board and Shareholders in connection with the above Directors and there is no information which is required to be disclosed pursuant to any of the requirements under Rule 17.50(2) of the GEM Listing Rules.

SENIOR MANAGEMENT

Mr. Cheung Chung Yuen Wilson (張中元), aged 51, is one of our financial controllers and is primarily responsible for the financial reporting, internal control system review and company secretarial duties of our Group. He joined our Group in November 2014. Prior to joining our Group, Mr. Cheung's primary working experiences include: an auditor (being mainly responsible for the audit of various businesses and companies) of Chu and Chu (principally engaged in the provision of assurance and business consulting services to client companies) from July 1985 to May 1988; a senior account clerk and subsequently promoted to officer (being mainly responsible for preparation of financial reports and statements) of Finarts Trading Co., Ltd (principally engaged in the trading of chemical products) from July 1988 to April 1992; a financial accountant (being mainly responsible for financial reporting and treasury management) of Team Concepts (Hong Kong) Limited (principally engaged in the

DIRECTORS AND SENIOR MANAGEMENT

manufacture of electronic products) from April 1992 to February 1993; an accountant (being mainly responsible for financial reporting and treasury management) of Pan-Win Development Limited (principally engaged in property development in the PRC) from March 1993 to June 1994; an assistant accountant and subsequently promoted to accountant (being mainly responsible for the preparation of monthly financial statements and accounts analysis, review of monthly management accounts, compilation of annual budget and inventory control, and the implementation of internal control system) of Star Telecom Limited (principally engaged in the provision of paging services) from June 1994 to November 1996; and an accountant and subsequently promoted to accounting manager (being mainly responsible for handling treasury work, preparing financial reports and evaluating the financial performance of various subsidiaries) of Glorious Sun Enterprises (BVI) Limited (principally engaged in the manufacture of garment and fabrics and retail sales of apparels) from December 1996 to November 2013. Mr. Cheung received a bachelor's degree in business administration from the Heriot-Watt University in the UK in November 2006. He has been a member of the Hong Kong Institute of Certified Public Accountants since October 2004.

Mr. Kong Kwok Pun, Anthony (江國寶), aged 52, is one of our financial controllers and is primarily responsible for the financial and accounting management of our Group. He joined our Group in April 2014. Prior to joining our Group, Mr. Kong's primary working experiences include: a finance manager, the financial controller and the chief operating officer (being mainly responsible for monitoring the finance of the company and its subsidiaries and all legal and statutory reporting to listing authorities) of Warderly International Holdings Limited (a company listed on the Stock Exchange (stock code: 607) and principally engaged in property development) from November 2000 to April 2007 and a financial controller (being mainly responsible for financing and accounting management) of P & Y Metal Plastic Limited (principally engaged in manufacturing of metal and plastic product) from March 2008 to December 2013. Mr. Kong, through long-distance learning, received a bachelor of arts degree in accounting (Hong Kong) and a master of science degree in administrative and information management from Edinburgh Napier University in Scotland in November 2000 and January 2005, respectively. He also received a master of business administration degree from Asia International Open University (Macau) (now known as City University of Macau) in Macau in October 2002, a master of arts degree in international accounting and a master of science degree in financial engineering from City University of Hong Kong in Hong Kong in November 2005 and July 2011, respectively.

Mr. Yu Wai Keung (余偉強), aged 48, is our marketing director and is primarily responsible for sales and marketing operations of our Group. He joined our Group in February 2014. Mr. Yu's primary working experiences include: an electronic engineer (being responsible for project management) of VTech Communications Ltd. (principally engaged in the business of electronic manufacturing services) from April 1992 to June 1994, a senior marketing executive, an assistant material manager and an assistant marketing manager (being responsible for the material management, purchasing management and business development) of Surface Mount Technology Limited (principally engaged in the business of electronics manufacturing services) from June 1994 to March 1995, April 1996 to March 1997 and April 1997 to August 1997, respectively, an assistant material manager (being responsible for

DIRECTORS AND SENIOR MANAGEMENT

material management) of Kaifa Technology (HK) Ltd. (principally engaged in the manufacturing of hard disk drive, solid state drive and other electronics products) from July 1997 to January 1998, a senior program manager (being responsible for program management, business development, supply chain management, cost management and contract review) of VTech Communications Ltd. from February 1998 to September 2009 and a senior director (being responsible for operation management, supply chain management, cost management and contract review) of Perception Digital Limited (principally engaged in the provision of design supply chain management service) from March 2011 to June 2013. Mr. Yu received a bachelor of engineering in electrical and electronic engineering degree from the Sunderland Polytechnic (now known as the University of Sunderland) in the UK in June 1991 and a master of business administration degree from Hong Kong Baptist University in Hong Kong in November 2005.

Mr. Ho Kwok Ming (何國明), aged 53, is an engineering manager of our Group. He is primarily responsible for product design and coordination with marketing department of our Group. He joined our Group in October 2004. Prior to joining our Group, Mr. Ho's primary working experiences include: a technician, an electronic engineer and an electronic engineer (being responsible for schematic drawing, new component evaluation, PCBA layout, circuit analysis and debug and production following) of Kong Wah Communications Ltd. (principally engaged in manufacturing telecommunication product – cordless phone (46/49 MHz)) from August 1987 to December 1991, January 1992 to August 1992 and April 1993 to March 1996, respectively, an electronic engineer (being responsible for schematic drawing, new component evaluation, PCBA layout, circuit analysis and debug and production following) of Kong Wah Electronic Enterprises Ltd. (principally engaged in manufacturing telecommunication product – cordless phone (900 MHz)) from April 1996 to November 1996, a technical officer and subsequently promoted to senior technical officer (being responsible for field measurement, site verification and network evaluation) of New World Telephone Ltd. (principally engaged in providing mobile services) from December 1996 to December 1999 and an electronic engineer (being responsible for schematic drawing, new component evaluation, PCBA layout, circuit analysis and debug and production following) of Elite Industrial Holdings Ltd. (principally engaged in manufacturing telecommunication product – FRS radio) from January 2000 to July 2003. Mr. Ho received a higher diploma in telecommunications and networking from Hong Kong Institute of Vocational Education in Hong Kong in July 2004.

COMPLIANCE OFFICER

Mr. Tao Hong Ming is the compliance officer of our Company. For details of his biography, see “— Directors — Executive Directors”.

COMPANY SECRETARY

Ms. Au Annie Man Wai (歐敏慧), aged 33, was appointed as the company secretary of our Company in December 2014. She has been the company secretary of Legend Strategy International Holdings Group Company Limited (a company listed on the Stock Exchange (stock code: 1355) and principally engaged in hotel operations and provision of hotel

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consultancy services) since September 2013. Ms. Au received a master of science degree in professional accounting and corporate governance from the City University of Hong Kong in Hong Kong in July 2009. She has been an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators since April 2010.

Ms. Au has been appointed as our company secretary pursuant to our engagement of an external company secretarial services company, Brilliant Norton Holdings Company Limited, to provide company secretarial services to us. Mr. Cheung Chung Yuen Wilson, one of our financial controllers, will be the key contact person with whom Ms. Au can contact.

BOARD COMMITTEES

We have established the following committees under the Board: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with the terms of reference established by the Board.

Audit committee

Our Company established an audit committee pursuant to a resolution of our Directors passed on 16 September 2015 with written terms of reference in compliance with Rule 5.28 and Rule 5.29 of the GEM Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 and paragraph C3.7 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee, among other things, are to make recommendations to the Board on the appointment, reappointment and removal of external auditor; to review the financial statements and material advice in respect of financial reporting; to oversee internal control procedures of our Company; and to review arrangements for employees to raise concerns about financial reporting improprieties. At present, the audit committee of our Company consists of three members, namely Mr. Cheng Yuk Kin, Ms. Reina Lim Yan Xin and Mr. Fan Chun Wah, Andrew. Mr. Cheng Yuk Kin is the chairman of the audit committee.

Remuneration committee

Our Company established a remuneration committee pursuant to a resolution of our Directors passed on 16 September 2015 with written terms of reference in compliance with paragraph B1.1 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee, among other things, are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group and to ensure that none of our Directors determines his/her own remuneration. The remuneration committee consists of four members, namely, Ms. Reina Lim Yan Xin, Mr. Cheng Yuk Kin, Mr. Fan Chun Wah, Andrew and Mr. Tao Hong Ming. Ms. Reina Lim Yan Xin is the chairman of the remuneration committee.

Nomination committee

Our Company established a nomination committee pursuant to a resolution of our Directors passed on 16 September 2015 with written terms of reference in compliance with paragraph A5.1 of the Corporate Governance Code as set out in Appendix 15 to the GEM

DIRECTORS AND SENIOR MANAGEMENT

Listing Rules. The primary duties of the nomination committee, among other things, are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board regarding appointment of Directors and candidates to fill vacancies on the Board. The nomination committee consists of four members, namely Mr. Tam, Mr. Cheng Yuk Kin, Ms. Reina Lim Yan Xin and Mr. Fan Chun Wah, Andrew. Mr. Tam is the chairman of the nomination committee.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, we have appointed Quam Capital as the compliance adviser (the “**Compliance Adviser**”). The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the Compliance Adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular, or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Placing in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry to our Company in accordance with Rule 17.11 of the GEM Listing Rules.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the forms of salaries, benefits in kind and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the operations of our Group.

The aggregate amount of remuneration which was paid to our Directors for each of the two years ended 31 March 2015 were approximately HK\$2.8 million and HK\$3.0 million, respectively.

The aggregate amount of remuneration which was paid by our Group to our five highest paid individuals for each of the two years ended 31 March 2015 were approximately HK\$3.9 million and HK\$5.1 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

Save as disclosed in this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors for the two years ended 31 March 2015.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company complies or intends to comply with the Corporate Governance Code in Appendix 15 to the GEM Listing Rules except for code provision A.2.1, which requires the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Mr. Tam is currently performing the roles of chairman and chief executive officer of our Company. Taking into account Mr. Tam is the founder of our Group and has been operating and managing our Group since 2001, our Board considers that the roles of chairman and chief executive officer being performed by Mr. Tam enable more effective and efficient overall business planning, decision making and implementation thereof by our Group. In order to maintain good corporate governance and fully comply with code provision, our Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 16 September 2015 under which certain selected classes of participants (including, among others, full-time employees) may be granted options to subscribe for the Shares. The principal terms of the Share Option Scheme are summarised in “D. Share Option Scheme” in Appendix IV to this prospectus.

CONTROLLING, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the following persons are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company:

<u>Name</u>	<u>Capacity and nature of interests</u>	<u>Number of Shares held immediately after completion of the Placing and the Capitalisation Issue</u> <i>(Note 1)</i>	<u>Approximate percentage of shareholding</u>
Mr. Tam	Beneficial owner	179,460,000 (L)	37.39%
Mr. Hsu	Beneficial owner	79,740,000 (L)	16.61%
Ms. Tang Yin Ping ("Ms. Tang") <i>(Note 2)</i>	Interest of spouse	179,460,000 (L)	37.39%
Ms. Chan Nga Fun ("Ms. Chan") <i>(Note 3)</i>	Interest of spouse	79,740,000 (L)	16.61%

Notes:

1. The letter "L" denotes a long position in the shareholder's interest in the share capital of our Company.
2. Ms. Tang is the spouse of Mr. Tam. Therefore, Ms. Tang is deemed to be interested in the Shares in which Mr. Tam is interested for the purpose of the SFO.
3. Ms. Chan is the spouse of Mr. Hsu. Therefore, Ms. Chan is deemed to be interested in the Shares in which Mr. Hsu is interested for the purpose of the SFO.

Our Controlling Shareholders, being Mr. Tam and Mr. Hsu, are regarded as a group of Controlling Shareholders acting in concert to exercise their voting right in our Company and they together will be interested in a total of 54.00% of the issued share capital of our Company upon completion of the Placing and the Capitalisation Issue.

CONTROLLING, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the following persons/entities will be directly or indirectly entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of our Company:

Name	Capacity and nature of interests	Number of Shares held immediately after completion of the Placing and the Capitalisation Issue <i>(Note 1)</i>	Approximate percentage of shareholding
Solution Smart <i>(Note 2)</i>	Beneficial owner	67,212,000 (L)	14.00%
SW Venture Asia <i>(Note 3)</i>	Interest in a controlled corporation	67,212,000 (L)	14.00%
Mr. Yeung <i>(Note 4)</i>	Interest in a controlled corporation	67,212,000 (L)	14.00%

Notes:

1. The letter "L" denotes a long position in the shareholder's interest in the share capital of our Company.
2. Solution Smart, a company incorporated in the BVI on 13 February 2014 and an investment holding company, is wholly and beneficially owned by SW Venture Asia.
3. SW Venture Asia is the beneficial owner of all the issued shares of Solution Smart and is therefore deemed to be interested in the Shares held by Solution Smart.
4. Mr. Yeung is the beneficial owner of all the issued shares of SW Venture Asia and is therefore deemed to be interested in the Shares held by Solution Smart.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following the completion of the Placing and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme), have an interest or a short position in our Shares or underlying Shares which would be required to be disclosed to our Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the voting power at general meetings of any member of our Group.

CONTROLLING, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

SIGNIFICANT SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the following persons/entities will be directly or indirectly entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company:

<u>Name</u>	<u>Capacity and nature of interests</u>	<u>Number of Shares held (Note 1)</u>	<u>Approximate percentage of shareholding</u>
Pacific Able (Note 2)	Beneficial owner	33,588,000 (L)	7.00%
Mr. Law (Note 3)	Interest in a controlled corporation	33,588,000 (L)	7.00%

Notes:

1. The letter "L" denotes a long position in the shareholder's interest in the share capital of our Company.
2. Pacific Able, a company incorporated in the BVI on 2 September 2008 and an investment holding company, is wholly and beneficially owned by Mr. Law.
3. Mr. Law is the beneficial owner of all the issued shares of Pacific Able and is therefore deemed to be interested in the Shares held by Pacific Able.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the Placing and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme), will be directly or indirectly interested in 5% or more of the voting power at the general meetings of our Company and are therefore regarded as significant shareholders under the GEM Listing Rules.

CONTROLLING, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

SHAREHOLDING STRUCTURE

Set out below are the respective shareholding structures of our Company immediately before and after completion of the Placing and the Capitalisation Issue (but without taking into account of any Shares issued pursuant to the exercise of options which may be granted under the Share Option Scheme):

Name of Shareholder	Date on which shareholding in our Group was first acquired	Number of Shares or attributable number of Shares held immediately before the Placing and the Capitalisation Issue	Approximate percentage or attributable percentage of shareholding before the Placing and the Capitalisation Issue (%)	Number of Shares or attributable number of Shares held immediately after the Placing and the Capitalisation Issue	Approximate percentage or attributable percentage of shareholding after the Placing and the Capitalisation Issue (%)
Mr. Tam	30 June 2014	9,970	49.85	179,460,000	37.39
Ms. Tang (<i>Note 1</i>)	30 June 2014	9,970	49.85	179,460,000	37.39
Mr. Hsu	30 June 2014	4,430	22.15	79,740,000	16.61
Ms. Chan (<i>Note 2</i>)	30 June 2014	4,430	22.15	79,740,000	16.61
Solution Smart (<i>Note 3</i>)	31 October 2014	3,734	18.67	67,212,000	14.00
SW Venture Asia (<i>Note 4</i>)	31 October 2014	3,734	18.67	67,212,000	14.00
Mr. Yeung (<i>Note 5</i>)	31 October 2014	3,734	18.67	67,212,000	14.00
Pacific Able (<i>Note 6</i>)	31 October 2014	1,866	9.33	33,588,000	7.00
Mr. Law (<i>Note 7</i>)	31 October 2014	1,866	9.33	33,588,000	7.00
The Public	N/A	N/A	N/A	120,000,000	25.00
	Total:	<u>20,000</u>	<u>100.00</u>	<u>480,000,000</u>	<u>100.00</u>

Notes:

- Ms. Tang is the spouse of Mr. Tam. Therefore, Ms. Tang is deemed to be interested in the Shares in which Mr. Tam is interested in for the purpose of the SFO.
- Ms. Chan is the spouse of Mr. Hsu. Therefore, Ms. Chan is deemed to be interested in the Shares in which Mr. Hsu is interested in for the purpose of the SFO.
- Solution Smart, a company incorporated in the BVI on 13 February 2014 and an investment holding company, is wholly and beneficially owned by SW Venture Asia.
- SW Venture Asia is the beneficial owner of all the issued shares of Solution Smart and is therefore deemed to be interested in the Shares held by Solution Smart.
- Mr. Yeung is the beneficial owner of all the issued shares of SW Venture Asia and is therefore deemed to be interested in the Shares held by Solution Smart.
- Pacific Able, a company incorporated in the BVI on 2 September 2008 and an investment holding company, is wholly and beneficially owned by Mr. Law.
- Mr. Law is the beneficial owner of all the issued shares of Pacific Able and is therefore deemed to be interested in the Shares held by Pacific Able.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Our Controlling Shareholders

Immediately following completion of the Placing and the Capitalisation Issue (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), our Company will be owned as to approximately 37.39% and 16.61% by Mr. Tam and Mr. Hsu respectively.

On 27 August 2014, our Controlling Shareholders executed the Acting in Concert Confirmation, whereby, among other things, they confirmed that since Mr. Hsu's joining On Real in 2003, they have been operating our Group collectively and would, through discussions, reach consensus among themselves before making any commercial decisions on an unanimous basis.

Our Controlling Shareholders have further jointly and severally undertaken that, during the period when they were/are contemporaneously the shareholders of any members of our Group, until entering a deed of termination at any time after the Listing, they will maintain the acting-in-concert relationship.

As such, Mr. Tam and Mr. Hsu will be interested in approximately 54.00% of the issued share capital of our Company in aggregate. Hence, Mr. Tam and Mr. Hsu will be our Controlling Shareholders after the Listing, within the meaning of the GEM Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Save as otherwise disclosed in "Continuing Connected Transactions", our Directors do not expect any other significant transactions to be entered into between our Group, our Controlling Shareholders and their respective close associates upon or shortly after the Listing. Our Directors consider that our Group is capable of carrying on its business independent of our Controlling Shareholders and their respective close associates after the Listing on the following reasons:

1. Management independence and operational independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Company (through its subsidiaries) holds all relevant licences necessary to carry on the business, and has sufficient capital, equipment and employees to operate the businesses independently from our Controlling Shareholders.

Our Company's management and operational decisions are made by the executive Directors and senior management, most of whom have served our Company and/or its subsidiaries for a long time and all have substantial relevant experience in the industry in which our Company is engaged. Further, our Company's three independent non-executive Directors will bring independent judgment to the decision-making process of the Board.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

2. Administrative independence

Our Group has its own capabilities and personnel to perform all essential administrative functions including financial and accounting management, inventory management and product design and development. The company secretary and senior management staff are independent of our Controlling Shareholders.

3. Financial independence

Our Group has its own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Our Directors also confirm that as at the Latest Practicable Date, our Group was not indebted to our Controlling Shareholders.

UNDERTAKINGS

Each of our Controlling Shareholders has given certain undertakings in respect of the Shares to our Company, the Sponsor, the Joint Lead Managers, the Sole Bookrunner and the Underwriters, details of which are set out in “Underwriting — Underwriting arrangements, commissions and expenses — Lock-up undertakings — Undertakings pursuant to the Underwriting Agreement — Undertakings by our Controlling Shareholders”.

NON-COMPETITION UNDERTAKING

Our Controlling Shareholders confirm that, other than their interests in our Company, none of them or any of their respective close associate is engaged or interested in any Restricted Business as defined in the paragraph immediately below or any business which has any existing or potential competition with the business of our Group.

On 16 September 2015, our Company (for itself and as trustee for and on behalf of its subsidiaries and associated companies, from time to time) entered into the Deed of Non-competition with each of our Controlling Shareholders. Pursuant to the Deed of Non-competition, each of our Controlling Shareholders irrevocably and unconditionally, jointly and severally, covenants and undertakes with our Company (for itself and as trustee for and on behalf of each of its subsidiaries and associated companies, from time to time) that, during the period commencing from the date of Listing and expiring on the occurrence of the earliest of the date on which (i) such Controlling Shareholder and/or his close associates, whether individually or taken together, ceases to beneficially own more than 30% (or such other amount as may from time to time be specified in the GEM Listing Rules as being the threshold for determining a controlling shareholder (as defined in the GEM Listing Rules)) of the issued share capital of our Company or ceases to be deemed as a Controlling Shareholder of our Company under the GEM Listing Rules; or (ii) the Shares cease to be listed on the Stock Exchange (except for temporary suspension of such shares due to any reason) (the “**Restricted Period**”), each of our Controlling Shareholders shall not, and shall procure that none of his

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

close associates shall, directly or indirectly (other than through the Group), establish, invest, involve in, engage in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business which, directly or indirectly, competes or may compete with the business of our Group including the business of design, manufacturing and selling of two-way radios, baby monitors and other products of our Group, and such other business conducted or carried on by our Group from time to time (the “**Restricted Business**”) within the PRC, Hong Kong and such other places as our Group may conduct or carry on business from time to time.

Each of our Controlling Shareholders has also irrevocably and unconditionally, jointly and severally, covenanted and undertaken with our Company (for itself and as trustee for and on behalf of each of its subsidiaries and associated companies, from time to time), during the Restricted Period and for a term of 12 months thereafter, he will promptly notify, and will procure his close associate to promptly notify our Company in writing if he or his close associates receive or become aware of any business or investment opportunities in the Restricted Business in any part of the world (the “**Business Opportunity**”). Our Group shall have a right of first refusal to such Business Opportunity. Our Group shall only exercise such right of first refusal upon the approval of all independent non-executive Directors (who do not have any interest in such Business Opportunity). The relevant Controlling Shareholder(s) and any Director who has an actual or potential material interest in the Business Opportunity (if any) shall abstain from attending (unless his attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not be counted as quorum for, any meeting or part of a meeting convened to consider such Business Opportunity. The Controlling Shareholder shall only engage in the Business Opportunity if the principal terms of the Business Opportunity are no more favourable than those made available to our Company and if (i) a notice is received by him from our Company confirming that the Business Opportunity is not accepted and/or does not constitute Restricted Business (the “**Non-acceptance Notice**”); or (ii) the Non-acceptance Notice is not received by the Controlling Shareholder within ten (10) days (or such longer period if our Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time) after the proposal of the Business Opportunity is received by our Company.

Notwithstanding aforesaid, the non-competition undertaking as set out above shall not prevent our Controlling Shareholders and their respective close associates from (i) the holding of shares or other securities issued by our Company or any members of our Group from time to time; and (ii) acquiring a direct or an indirect shareholding interest or interest in other securities of not more than 5% (individually or taken together with their close associates) in a company listed on a recognised stock exchange anywhere in the world and engaged in any Restricted Business.

The covenants and undertakings given by the Controlling Shareholders under the Deed of Non-competition are conditional and shall become effective upon Listing having taken place.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of our Shareholders:

- (1) our independent non-executive Directors will review, on an annual basis, the Deed of Non-competition to ensure compliance with the non-competition undertaking by our Controlling Shareholders;
- (2) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (3) our Company will disclose decision and its basis on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of our Company or by way of announcement to the public;
- (4) our Controlling Shareholders have undertaken to provide an annual confirmation to our Company confirming that each of our Controlling Shareholders and his close associates have not breached the terms of the undertakings contained in the Deed of Non-competition; and
- (5) our Controlling Shareholders will abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests in relation to the Restricted Business and the Business Opportunity.

SHARE CAPITAL

SHARE CAPITAL

The table below sets out the authorised and issued share capital of our Company as at the Latest Practicable Date and immediately after Listing:

<i>Authorised:</i>		<i>HK\$</i>
<u>780,000,000</u>	Shares of HK\$0.01 each	<u>7,800,000</u>
 <i>Issued and to be issued, fully paid or credited as fully paid:</i>		
20,000	Shares in issue as at the date of this prospectus	200
359,980,000	Shares to be issued pursuant to the Capitalisation Issue	3,599,800
<u>120,000,000</u>	New Shares to be issued pursuant to the Placing	<u>1,200,000</u>
<u>480,000,000</u>	Shares	<u>4,800,000</u>

ASSUMPTIONS

The above table assumes the Placing and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto are made as described herein. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to Directors as referred to below or otherwise.

MINIMUM PUBLIC FLOAT

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

RANKING

The Placing Shares will rank equally with all Shares now in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlements under the Capitalisation Issue.

SHARE CAPITAL

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in “D. Share Option Scheme” in Appendix IV to this prospectus. As at the Latest Practicable Date, no option has been granted under the Share Option Scheme.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing and the Capitalisation Issue becoming unconditional, our Directors have been granted a general unconditional mandate to allot and issue and deal with the unissued Shares with an aggregate nominal value of not more than:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Placing and the Capitalisation Issue (excluding the Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme); and
- (b) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- (c) the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing such mandate.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or options to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

Further details of this general mandate are set out in “A. Further information about our Company — 3. Written resolutions of our Shareholders passed on 16 September 2015” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing and the Capitalisation Issue becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Placing and the Capitalisation Issue.

SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in “A. Further information about our Company — 6. Repurchase by our Company of its own securities” in Appendix IV to this prospectus.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- (c) the passing of an ordinary resolution by our Shareholders in general meeting revoking, varying or renewing such mandate.

For further details of this general mandate, please refer to “A. Further information about our Company — 3. Written resolutions of our Shareholders passed on 16 September 2015” and “A. Further information about our Company — 6. Repurchase by our Company of its own securities” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, see “2. Articles of Association — (c) Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, see “2. Articles of Association — (d) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our Group's audited consolidated financial statements, including the notes thereto, included in the Accountant's Report. Our Group's audited consolidated financial statements have been prepared in accordance with HKFRSs. You should read the entire Accountant's Report and not merely rely on the information contained in this section.

The discussions and analysis in this section of the prospectus contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and interpretation of historical trends, current conditions and expected future developments as well as other factors that we believe are appropriate under the relevant circumstances. However, whether our actual results reported in future periods differ materially from those discussed below depends on various factors which we do not have any control over. Factors that could cause or contribute to such differences include those discussed in "Forward-looking Statements", "Risk Factors" and "Business" as well as those discussed elsewhere in this prospectus.

Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a two-way radio product designer and manufacturer established in 2001. We derive our revenue principally from designing manufacturing and selling two-way radios and baby monitor products for the European, US and Asian markets on ODM basis. With years of experience in RF technology, product design and development and engineering know-how, we have established a proven track record and built up strong customer relationships with our customers. Our major customers are mainly large consumer electronics companies with international brands including CEC (its Cobra brand ranked second and seventh in the US and EU personal market, respectively, in terms of sales volume of two-way radio products in 2014, according to the CBRE Report), Customer A (its Brand A ranked first in the global market in terms of sales volume of two-way radio and baby monitor products in 2014, according to the CBRE Report), Binatone Electronics International Limited, Tristar Europe B.V. and Hesdo B.V.. We also provide design, repair and technical services to our customers.

Our principle line of business is the design and manufacture of two-way radios and baby monitor products. We offer one-stop services covering product design and development, sourcing and procurement, production and assembly, sales, marketing and logistics and after-sales services.

As at the Latest Practicable Date, our Group comprised our Company, On Real (BVI) and our main operating subsidiaries are On Real, On Real (Shenzhen), Onward, Xinxing Great Success and Starian.

FINANCIAL INFORMATION

We strive to grow our existing business, diversify our revenue streams and expand our customer base by expanding product offerings and features, improving information management system and strengthening management and widening sales channel. Going forward, we target to achieve our business objectives by strengthening our product portfolio, enhancing our information management systems and strengthening our market efforts.

For each of the two years ended 31 March 2015, we recorded revenue of approximately HK\$358.1 million and HK\$346.2 million respectively, and net profit attributable to owners of our Company of approximately HK\$24.7 million and HK\$10.5 million respectively.

For further information about our business and operation, see “Business”.

BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully described in “History, Reorganisation and Corporate Structure” and Appendix IV of this prospectus, our Company became the holding company of the subsidiaries now comprising our Group on 31 October 2014.

The companies now comprising our Group, were under common control of Mr. Tam and Mr. Hsu, the Controlling Shareholders, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of the Accountant’s Report, the financial information has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants.

The financial information of our Group during the Track Record Period has been prepared by including the financial information of the companies engaged in the principal business of our Group under the common control of Mr. Tam and Mr. Hsu immediately before and after the Reorganisation and now comprising our Group as if the current group structure had been in existence throughout the periods presented. The financial information of Xinxing On Time from 1 April 2013 up to the date of the disposal of it to Shine View has also been consolidated in the financial information of our Group during the Track Record Period as Xinxing On Time was an integral part of the business of our Group prior to the disposal. The net assets of the companies were combined using the existing book values from the Controlling Shareholders’ perspective. No amount is recognised in consideration for goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of the business combination, to the extent of the continuation of the controlling party’s interest.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

FINANCIAL INFORMATION

As at 31 March 2014 and 31 March 2015, our Group had recorded net current liabilities of approximately HK\$4.5 million and HK\$9.3 million respectively. Our Directors have reviewed our Group's cash flow projections covering a period of not less than twelve months from the balance sheet date. In the opinion of our Directors, based on the cash flow projections and taking into account the reasonably possible changes in the operating performances, our Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. Accordingly, our Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

MAJOR FACTORS AFFECTING OUR GROUP'S RESULTS OF OPERATIONS

Our financial conditions and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Reliance on sales of two-way radios

For each of the two years ended 31 March 2015, sales of two-way radios accounted for approximately 90.6% and 93.2% of our total revenue, respectively. We cannot assure that we will be successful in increasing or maintaining our market share and ranking in the two-way radio market, or even if we can, that the sales of our two-way radio products would generate the revenue at a level comparable to that of the historical sales.

If the market demand for two-way radio products decrease in the future, or if we fail to successfully maintain or increase the market share or develop new two-way radio products appealing to our customers, our business operations and financial results could be adversely affected.

Change in economic conditions in the US and EU markets

For each of the two years ended 31 March 2015, our sales to the European markets (including but not limited to France, Italy, Belgium, UK, Germany and the Netherlands) (in terms of shipment destination without taking into account re-export or onward sales (if any) of our products by our customers) represented approximately 43.8% and 40.0% of our total revenue respectively, and our sales to the US market (in terms of shipment destination without taking into account re-export or onward sales (if any) of our products by our customers) represented approximately 35.1% and 42.9% of our total revenue, respectively. Our Directors anticipate that our sales to the EU and US markets will continue to represent significant portion of our turnover in the near future. Economic and political factors impacting these markets in particular could adversely affect the spending habits of consumers and, therefore, the purchasing decisions of our customers in the EU and US markets. If there is a drastic decrease in the volume of orders from our customers in the EU and US markets, we cannot assure you that we could increase orders from other markets to make up for such loss of sales. In addition, according to the CBRE Report, the growth rate of two-way radio consumption in the US and EU markets has slowed down since 2011. If we fail to seize an increase in orders from other markets (especially the China market which is expected to be the largest two-way radio consumption market in 2015 in terms of sales volume according to the CBRE Report), our business operations and financial results could be adversely affected.

FINANCIAL INFORMATION

Reliance on our major customers during the Track Record Period

Our sales to our five largest customers for each of the two years ended 31 March 2015 represented approximately 74.3% and 74.6% of our total revenue for each of the two years ended 31 March 2015, respectively. Our sales to our largest customer for each of the two years ended 31 March 2015 represented approximately 45.2% and 46.7% of our total revenue for each of the two years ended 31 March 2015, respectively. If there is any unexpected cessation of, or substantial reduction in the volume of, orders with any of our existing major customers, we cannot assure you that we would be able to obtain replacement in a timely manner or on commercially reasonable terms. This would adversely affect our results of operations.

Lack of long-term agreement with our customers

We do not enter into any long-term agreements with our customers with purchase obligations. Purchases by our customers are typically made on the basis of actual purchase orders received from time to time with no commitment to place future orders with us. Our customers are not obligated to continue placing orders with us at all or at the same level which they historically have done. If there is any unexpected cessation of, or substantial reduction in the volume of, orders with any of our existing major customers without sufficient time for us to obtain alternative orders or on commercially reasonable terms, our results of operations would be adversely affected.

Cost fluctuations

We have experienced fluctuations in the price of our raw materials. We do not manufacture the components we use for our products except for plastic casings and a few other plastic parts. We purchase from our suppliers a large volume of components such as PCBs, ICs, MCUs, LCDs, capacitors, resistors, keypads, plastic resins, batteries and power adaptors for our products. We do not enter into long-term purchase agreements with our suppliers which impose purchase obligations on our suppliers and there is a risk that we will not be able to source adequate supplies of components during periods of high demand at competitive prices or if at all. Shortages of components and underlying raw materials, such as copper and rare earth elements, could result in sharply higher prices and an increase in the cost of products and could cause a reduction or suspension of production at our manufacturing sites. Fluctuations in the availability and pricing of components can adversely affect our operating results.

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Currency fluctuation and hedging transaction

During the Track Record Period, while our expenses and costs were mainly denominated in HKD and RMB, a substantial portion of our revenue was denominated in USD due to the export-oriented nature of our business. Any significant fluctuations in the exchange rates between RMB and USD could materially and adversely affect our results of operations. Any future exchange rate volatility relating to RMB could expose us to risks of uncertainties in the value of net assets, profits and dividends. For each of the two years ended 31 March 2015, we recorded net exchange gains amounted to approximately HK\$35,000 and HK\$0.4 million, respectively.

In light of the export nature of our business and our significant USD denominated receivables from our customers and to partially hedge against the risk of fluctuation of the USD against the RMB, we entered into certain foreign-exchange forward contracts during the Track Record Period to sell USD and buy RMB at specified exchange rates on specified future dates. As at 31 March 2014, the notional principal amounts of the outstanding foreign exchange forward contracts were approximately HK\$100.6 million. No prevailing foreign exchange forward contracts were outstanding as at 31 March 2015 and the Latest Practicable Date. In the future, we intend to continue to conduct foreign-exchange hedging transactions. We cannot assure you, however, that such transactions will be risk-free, and any loss resulting from such transactions may materially and adversely affect our financial condition and results of operations.

Payment arrangements

We usually pay the full amount of raw material costs due to the suppliers before we receive payment from our customers, and our sales to customers are generally on open account basis with credit terms ranging generally from 30 to 90 days from the date of monthly statement. If the relevant purchase order from our customer is subsequently cancelled or we do not receive payment from our customer, we may not be able to recover our costs in respect of the payment of the raw material and this may adversely affect our profitability and financial position.

Seasonality of our products

Our sales are sensitive to seasonality. For example, during the Track Record Period, we experienced relatively lower sales in the fourth quarter of the financial year (i.e. from January to March) which, our Directors believe, is attributable to lower end-consumer purchasing desire after the major holidays, including Thanksgiving and Christmas. As a result, changes in the competitive environment, changes in market conditions and delays in the release of consumer products can adversely affect our operating results.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates refer to those accounting policies and estimates that entail significant uncertainty and judgement, and could yield materially different results under different conditions and/or assumptions. The preparation of the financial information in conformity with HKFRSs requires our management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The methods and approaches that we use in determining these items is based on our experience, the nature of our business operations, the relevant rules and regulations and the relevant circumstances. These underlying assumptions and estimates are reviewed regularly as they may have a significant impact on our operational results as reported in our consolidated financial statements included elsewhere in this prospectus. Below is a summary of the accounting policies in accordance with HKFRSs that we believe are important to the presentation of our financial results and involve the need to make estimates and judgements about the effect of matters that are inherently uncertain. We also have other policies, judgements, estimates and assumptions that we consider as significant, which are set out in detail in notes 2 and 4 to the Accountant's Report.

Revenue recognition

Our Group derived revenue principally from manufacturing and selling two-way radio, baby monitor products, other products and provision of repair and technical services. Revenue is recognised when it is probable that future economic benefits will flow to our Group and when the amount of revenue can be measured reliably, on the following bases:

- (a) for sale of our products to our customers, when the products have been delivered to the customers, and collectability of the related receivable is reasonably assured;
- (b) for our servicing business income i.e. provision of repair and technical services, when the services are rendered and the right to receive respective payment has been established; and
- (c) for interest income, it is recognised using the effective interest method. When a loan and receivable is impaired, our Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

Provision on trade and bills receivables

Trade and bills receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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Our management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at the end of each year of the Track Record Period.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our 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 the consolidated income statements during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost over their estimated useful lives, where appropriate, as follows:

Buildings	20 years
Leasehold improvements	Shorter of lease term or 5 years
Furniture and fixtures	5 years
Office equipment	5 years
Plant and machinery	3 to 5 years
Motor vehicles	5 years

The assets' 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 (Note 2.8 of the Accountant's Report).

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other income – net" in the consolidated income statements.

Intangible assets

Costs associated with research activities are recognised as an expense as incurred. Development costs that are directly attributable to the engineering and testing of identifiable and unique products controlled by our Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the product so that it will be available for use;

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- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- The expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalised include the product development employee costs and engineering cost paid to third party vendors. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs recognised as assets are amortised over their estimated useful lives of three years.

Useful lives of property, plant and equipment and intangible assets

Our Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation where useful lives for its property, plant and equipment and intangible assets are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable and therefore depreciation/amortisation in future periods.

Impairment of property, plant and equipment, land use rights and intangible assets

Property, plant and equipment, land use rights and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable such as declines in asset's market value and significant increase in interest rates that may affect the discount rate used in calculating the asset's recoverable amount. The recoverable amounts have been determined based on fair value less cost to sell calculations or value in use calculations. These calculations require the use of judgements and estimates.

Inventories

Our inventories comprised (i) raw materials used for production; (ii) work in progress products; and (iii) finished goods manufactured by us. Our inventories are stated at the lower of cost and net realisable value.

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Cost mainly comprises direct materials, direct labour, subcontracting fee, other direct costs and an appropriate proportion of overheads. Cost is determined using the weighted average method. Net realisable value is based on the estimated selling price in the ordinary course of business, less any estimated costs to be incurred to completion and sold.

Write down of inventories to net realisable value

Our management reviews the condition of inventories of our Group and write-down the carrying amounts of obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use to their respective net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories in the periods in which such estimates have been changed.

Impairment of financial assets

Our Group assesses at the end of each year of the Track Record Period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “**loss event**”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

During the Track Record Period, our Group’s financial assets included (i) financial assets at fair value through profit or loss; and (ii) loans and receivables.

Our financial assets at fair value through profit or loss as at 31 March 2014 and 2015 mainly represented the keyman insurance for Mr. Tam. As such instrument were not expected to be settled within twelve months from the end of each year of the Track Record Period, it was classified as non-current assets.

Our Group’s loans and receivables as at 31 March 2014 and 2015 mainly comprised trade and other receivables, restricted cash, cash and bank balances.

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The amount of the loss of loans and receivables category is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statements. During the Track Record Period, no impairment were made on our financial assets.

Derivative financial instruments

Our derivatives financial instruments as at 31 March 2014 represented the forward foreign exchange contracts, which were initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values. Changes in the fair value of these derivative financial instruments are recognised immediately in the consolidated income statements within “– Other gains – net”. Our Group does not have any derivative that is designated as a hedging instrument.

Income tax

Our income tax comprises current and deferred tax. Our current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted during the Track Record Period in Hong Kong and the PRC where our subsidiaries operated and generated 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.

Our deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

During the Track Record Period, our income tax expenses mainly comprised amounts of current income tax paid or payables by us, at the applicable tax rates in accordance with the relevant laws and regulations in the jurisdictions in which the subsidiaries of our Company domiciled and operated, i.e. Hong Kong and the PRC.

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SUMMARY RESULTS OF OPERATION

The following is a summary of the audited consolidated income statements of our Group for each of the two years ended 31 March 2015 as extracted from the Accountant's Report as set out in Appendix I to this prospectus.

	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	358,129	346,191
Cost of sales	(303,018)	(285,165)
Gross profit	55,111	61,026
Other income – net	1,745	4,454
Other gains – net	3,523	1,775
Selling and distribution expenses	(4,555)	(3,710)
Administrative expenses	(23,814)	(48,079)
Finance costs – net	(655)	(548)
Profit before income tax	31,355	14,918
Income tax expenses	(6,474)	(4,382)
Profit for the year	24,881	10,536
Profit attributable to:		
Owners of our Company	24,722	10,536
Non-controlling interests	159	–
Profit for the year	24,881	10,536

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DESCRIPTION AND ANALYSIS OF PRINCIPAL ITEMS IN THE CONSOLIDATED INCOME STATEMENTS

Revenue

Our revenue is mainly derived from (i) sales of two-way radios; (ii) sales of baby monitors; (iii) sales of other products such as DECT phones, transistors, ICs, plastic casings, rechargeable battery chargers, ultrasonic cleaners, inductive emergency flashlights and accessories such as headsets, belt clips, chargers and power adaptors; and (iv) service income from provision of repair and technical services. We repair customers' products so that the products could conform to original specifications. Some customers will request us to provide replacement parts for their products such as headsets, belt clips, chargers and power adaptors. For technical service, we charge our customers a one-off fee in designing and developing the initial concept and artwork of the products we later manufacture and sell to them.

Set out below is the breakdown of our revenue as derived from each business category during the Track Record Period:

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>
Revenue				
Two-way radios	324,523	90.6	322,619	93.2
Baby monitors				
– Video baby monitors	1,235	0.3	60	0.0
– Audio baby monitors	6,002	1.7	7,286	2.1
	<u>7,237</u>	<u>2.0</u>	<u>7,346</u>	<u>2.1</u>
Other products	<u>23,860</u>	<u>6.7</u>	<u>14,588</u>	<u>4.2</u>
Sub-total	<u>355,620</u>	<u>99.3</u>	<u>344,553</u>	<u>99.5</u>
Servicing business	<u>2,509</u>	<u>0.7</u>	<u>1,638</u>	<u>0.5</u>
Total	<u><u>358,129</u></u>	<u><u>100.0</u></u>	<u><u>346,191</u></u>	<u><u>100.0</u></u>

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Our customers are mainly consumer electronic products brand names who, to the best knowledge of our Directors, purchase our products for onward sales to their local or overseas markets, mainly covering the US, Europe and the Asia Pacific regions. The following table sets out the breakdown of our Group's revenue by geographical location of the shipment destination of our products covering all our business segments (*Note 1*) for the Track Record Period:

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
US	125,684	35.1	148,606	42.9
Europe (<i>Note 2</i>)	52,614	14.7	54,857	15.9
The Netherlands	38,068	10.6	41,675	12.0
Asia (<i>Note 3</i>)	42,940	12.0	37,745	10.9
UK	28,452	7.9	23,002	6.6
Germany	37,851	10.6	18,858	5.5
Others (<i>Note 4</i>)	32,520	9.1	21,448	6.2
Total	358,129	100.0	346,191	100.0

Notes:

1. The geographical breakdown was prepared based on shipping destination without taking into account the re-export or onward sales (if any) of our products by our customers.
2. Europe includes but is not limited to France, Italy and Belgium but excludes UK, Germany and the Netherlands.
3. Asia includes but is not limited to the PRC and Hong Kong.
4. Others include but is not limited to Brazil, Canada and Russia.

We generated revenue mainly from the sales of our products shipped to the US, UK, Germany, the Netherlands and Europe. Our operating results therefore are very dependent on the shipment destinations of orders placed by our major customers and the economic conditions in these regions. The increase in sales of our products shipped to the US and the decrease in sales of our products shipped to UK from the year ended 31 March 2014 to the year ended 31 March 2015 were primarily attributable to the shift of shipment destination of certain orders of CEC from UK and other regions to the US. Our sales to CEC was stable that it amounted to approximately HK\$162.0 million and HK\$161.5 million for each of the two years ended 31 March 2015, respectively. The decrease in sales of our products shipped to European countries (i.e. including Europe (as defined in Note 2 above), the Netherlands, UK and Germany) from the year 31 March 2014 to the year ended 31 March 2015 was as a result of the slow down of the growth of two-way radio sales in the EU market as mentioned in "Industry Overview — Demand overview and analysis of two-way radio and baby monitor in the market". The decrease in sales of our products shipped to Asia was mainly due to the decrease in demand of our products from Customer A, which the revenue generated from Customer A decreased by

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over 30% from the year ended 31 March 2014 to the year ended 31 March 2015. Our Directors believe that this is attributable to a transitional period during September 2014 to January 2015 where Customer A decreased its orders for old models of two-way radios while we started to record revenue from selling of new models of two-way radios. Our sales to Customer A during the period from January to March 2015 increased by approximately 1.7 times as compared to the same period during 2014 due to the launch of the new models of two-way radios.

Our sales volume is determined by our customers' demand which is in turn affected by the macro consumer market and performance of our business operations. The table below sets forth our sales volume and average selling price of our key product categories for the Track Record Period:

	Year ended 31 March			
	2014		2015	
	Sales volume	Average selling price	Sales volume	Average selling price
	<i>Approximate</i>	<i>HK\$ (Note)</i>	<i>Approximate</i>	<i>HK\$ (Note)</i>
Two-way radios (<i>per unit</i>)	5,203,000	62.4	4,291,000	75.2
Baby monitors (<i>per set</i>)				
– Video baby monitors	4,000	308.8	200	301.9
– Audio baby monitors	61,000	98.4	88,000	83.2

Note: The average selling price represents the revenue for respective types of products for the respective financial years divided by the total sales volume for respective types of products for the respective financial years.

Our business and operating results are subject to seasonal fluctuations. For example, during the Track Record Period, we experienced relatively lower sales in the fourth quarter of our financial year (i.e. from January to March) which, our Directors believe, is attributable to lower end-consumer purchasing desire after the major holidays, including Thanksgiving and Christmas. The sales generated in the fourth quarter of our financial year accounted for approximately 20.3% and 22.4% of the total sales during the two years ended 31 March 2015, respectively.

We derived revenue mainly from the sales of two-way radios which amounted to approximately HK\$324.5 million and HK\$322.6 million for each of the two years ended 31 March 2015, respectively, representing approximately 90.6% and 93.2% in terms of our total revenue, respectively.

Our revenue remained relatively stable that it decreased by approximately HK\$11.9 million, or approximately 3.3% from approximately HK\$358.1 million for the year ended 31 March 2014 to approximately HK\$346.2 million for the year ended 31 March 2015. The decrease was mainly due to our cessation of sales of DECT phones since September 2013.

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Cost of sales

During the Track Record Period, our Group's cost of sales mainly comprised cost of inventories, direct labour, production overhead, inventory provision, subcontracting fees and the one-off reversal of retirement benefit costs. The following table sets out the breakdown of our Group's cost of sales for the Track Record Period:

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Cost of inventories	199,167	65.7	182,288	63.9
Direct labour	82,450	27.2	61,687	21.6
Production overhead	21,281	7.0	22,746	8.0
Inventory provision	120	0.1	79	0.1
Subcontracting fees	–	–	24,032	8.4
Reversal of retirement benefit costs	–	–	(5,667)	(2.0)
Total	303,018	100.0	285,165	100.0

Cost of inventories, which represented the purchase costs of raw materials and components for the manufacturing of our products, was the largest component of our Group's cost of sales during the Track Record Period. Our cost of inventories remained relatively stable that it represented approximately 55.6% and 52.7% for each of the two years ended 31 March 2015, respectively, of our total sales. The table below sets out a breakdown of our Group's cost of inventories during the Track Record Period:

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Electronic parts	51,057	25.7	45,406	24.9
Plastic	29,075	14.6	29,436	16.2
ICs	27,157	13.6	32,980	18.1
Adaptors	21,176	10.6	13,258	7.3
Batteries	19,992	10.0	19,151	10.5
PCBs	14,041	7.1	11,353	6.2
Metal parts	9,992	5.0	9,557	5.2
Packing material	9,824	4.9	9,726	5.3
LCDs	7,356	3.7	3,449	1.9
Boxes	3,628	1.8	2,734	1.5
Others (<i>Note</i>)	5,869	3.0	5,238	2.9
Total	199,167	100.0	182,288	100.0

Note: Others include insulation material, silica gel, textile, sponge/cushion

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During the Track Record Period, our decrease in cost of inventories was mainly due to the decrease in sales volume. However, the cost of ICs increased as a result of the increase in our sales of high-end two-way radios. Such impact had been reflected in increase in the average selling price of our two-way radios during the year ended 31 March 2015.

Direct labour costs represented the staff costs incurred for our production. Production overheads included accessories, depreciation of plant and machinery, amortisation of land use right, rental, fuel and utilities and other miscellaneous costs such as accessories, testing fees and repair fees.

Provision is made for inventories for the amount by which its cost exceeds its net realisable value. The 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.

Subcontracting fees represented the fees paid to our subcontractors that we outsourced part of our PCBA and plastic casing assembly processes and small part of SMT and COB processes. Please refer to “Business — Production — Subcontracting” for details.

Based on a written confirmation from the Social Insurance Fund Management Bureau of Xinxing on 16 September 2014 confirming that it has not issued and will not issue an order requiring Xinxing Great Success to repay the social insurance or impose administrative penalty on Xinxing Great Success, our Group reversed the one-off retirement benefit costs of approximately HK\$5.7 million during the year ended 31 March 2015.

Gross profit and gross profit margin

The following table sets out our gross profit and gross profit margin arising in the course of the ordinary activities of recurring in nature by business segment during the Track Record Period:

	Year ended 31 March			
	2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Two-way radios	49,814	15.3	50,757	15.7
Baby monitors				
– Video baby monitors	259	21.0	12	20.0
– Audio baby monitors	878	14.6	1,073	14.7
Other products	3,690	15.5	3,167	21.7
Servicing business	470	18.7	350	21.4
Total	55,111	15.4	55,359	16.0

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	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross profit	55,111	61,026
	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross profit margin	15.4%	17.6%

Our overall gross profit increased by approximately HK\$5.9 million, or 10.7% from approximately HK\$55.1 million for the year ended 31 March 2014 to approximately HK\$61.0 million for the year ended 31 March 2015. The gross profit during the year ended 31 March 2015 included an one-off reversal of retirement benefit costs of approximately HK\$5.7 million. Pursuant to a written confirmation from the Social Insurance Fund Management Bureau of Xinxing on 16 September 2014 confirming that it has not issued and will not issue an order requiring Xinxing Great Success to repay the social insurance or impose administrative penalty on Xinxing Great Success, we reversed the one-off retirement benefit costs of approximately HK\$5.7 million during the year ended 31 March 2015. Taking out the effect of this one-off reversal, the gross profit during the year ended 31 March 2015 would be approximately HK\$55.4 million and the gross profit margin would be approximately 16.0%. The slight increase in our overall gross profit margin (after taking out the effect of the one-off reversal as mentioned above) was primarily due to (i) the increase in gross profit margin of two-way radios; (ii) the increase in gross profit margin of other products as a result of the cessation of sales of DECT phones since September 2013, which its gross profit margin was relatively lower; and (iii) the decrease in cost of sales during the year ended 31 March 2015.

Other income – net

The following table sets forth the breakdown of our Group's net other income for the Track Record Period:

	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grant	999	–
Staff quarters rental income	531	232
(Loss)/gain on disposal of property, plant and equipment	(2)	2,602
Recycle of currency translation differences upon disposal of a subsidiary	–	1,552
Others	217	68
Total	1,745	4,454

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Government grant represented the supportive incentives received from the local government of Yunfu City for the support of our investment in Xinxing Country, the PRC.

Staff quarters rental income represented the rental income received from our staff for the lease of staff quarters of our PRC subsidiaries.

Gain on disposal of property, plant and equipment for the year ended 31 March 2015 represented the gain realised from the sales of staff quarters from On Real (Shenzhen) to two independent third parties in September 2014.

Recycle of currency translation differences upon disposal of a subsidiary was as a result of the disposal of Xinxing On Time to Shine View with effect from 31 August 2014.

Others mainly represented the sale of scrap materials.

Other gains – net

The following table sets forth the breakdown of our Group's other gains – net for the Track Record Period:

	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value gains/(losses) on derivative financial instruments		
– net gains/(losses) on forward foreign exchange contracts	570	(1,872)
Net exchange gains on forward foreign exchange contracts	4,027	708
Exchange gains, net	35	378
Fair value (losses)/gains on financial asset at fair value through profit or loss	(1,109)	2,561
Total	3,523	1,775

In view of the foreign currency exposure of our Group, we entered into forward foreign exchange contracts during the Track Record Period to hedge the risks of depreciation of the US dollars against the RMB in light of our US dollars-dominated receivables from our customers. According to the terms of these forward contracts, we and the bank, our counterparty, agreed to exchange specified amount of US dollars for RMB on specified future dates at specified forward exchange rate. If, with respect to each settlement, the spot market exchange rate as of the current month-end is lower than the forward exchange rate, we realise a valuation gain, which mitigates the negative effects of a weak US dollars on our US dollars-denominated

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assets. Conversely, if the spot market exchange rate as of the current month-end is higher than the forward exchange rate, we realise a valuation loss, while our US dollars-denominated assets benefit from a strong US dollars. Our Group has established an internal control policy for managing our Group's hedging activities that involves, among other things (i) compiling of historical foreign exchange rates and forward exchange rates data from banks by the finance department of our Group for the management's reference; (ii) determining the amount of foreign currency needs for the settlement of trade payables and settlement made by customers and the cost of entering the forward contracts; (iii) closely monitoring the exchange rate fluctuations by collating the prevailing market information from different sources including newspapers and finance magazines by the financial controller of our Group; and (iv) setting requirement to seek the approval from the Board before the execution of any forward foreign exchange contracts by the finance department of our Group. Our Group will also devise additional procedures of the hedging policy prior to the Listing including, (i) a quarterly review report on our Group's foreign exchange risk exposure in light of the prevailing market situation and assessment on whether any foreign currency hedging contract is desirable in the market by the financial controller of our Group; and (ii) requirement to report to the Board on the hedging status during the quarterly meeting by the financial controller of our Group.

The financial asset at fair value through profit or loss represented the key-man insurance purchased for Mr. Tam. The valuation of the key-man insurance was performed by an independent valuer and the discounted cash flow approach was adopted. The valuation focused on the economic benefits generated by the income producing capacity of an asset, which can be measured by the present worth of the economic benefits to be received over its economic life. Such insurance was pledged as security for the banking facilities of our Group as at 31 March 2014 and 31 March 2015. For more details of the valuation of the key man insurance, please refer to note 17 to the Accountant's Report.

Selling and distribution expenses

The following table sets forth the breakdown of selling and distribution expenses of our Group during the Track Record Period:

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Declaration and documentation fee	2,137	46.9	1,858	50.1
Transportation expenses	1,812	39.8	1,111	29.9
Entertainment	382	8.4	489	13.2
Marketing and exhibition expenses	211	4.6	226	6.1
Sample fee	8	0.2	21	0.6
Others	5	0.1	5	0.1
Total	4,555	100	3,710	100

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During the Track Record Period, our selling and distribution expenses remained stable that it represented 1.3% and 1.1% of our revenue for each of the two years ended 31 March 2015.

Administrative expenses

Our Group's administrative expenses mainly included staff costs, Listing expenses, depreciation, bank charges and other taxes and surcharges.

The following table sets forth the breakdown of administrative expenses of our Group during the Track Record Period:

	Year ended 31 March			
	2014		2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Staff costs	11,241	47.2	14,154	29.4
Depreciation	2,233	9.4	1,183	2.5
Other tax and surcharges	2,127	8.9	2,857	5.9
Bank charges	1,682	7.1	1,794	3.7
Legal and consultancy fee	1,177	4.9	2,945	6.1
Motor vehicles expenses	1,164	4.9	1,394	2.9
Office expenses	1,085	4.6	1,913	4.0
Rental	685	2.9	1,996	4.2
Insurance	507	2.1	701	1.5
Management fee	473	2.0	634	1.3
Audit fee	334	1.4	326	0.7
Travelling expenses	312	1.3	651	1.4
Certification charge	215	0.9	62	0.1
Listing expenses	–	–	16,943	35.2
Others	579	2.4	526	1.1
Total	23,814	100	48,079	100

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Finance costs – net

Finance costs, net, mainly represented the interest expenses on bank borrowings. The table below sets out a breakdown of our net finance costs for the Track Record Period:

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Interest expense on bank borrowings		
– Repayable within five years	970	1,086
Interest expense on finance leases	132	66
Interest income from bank deposits	(114)	(262)
Interest income from financial asset at fair value through profit or loss	(333)	(342)
Total	655	548

Income tax expenses

Our Group's Hong Kong subsidiaries and PRC subsidiaries are subject to Hong Kong Profits Tax and the PRC enterprise income tax at a rate of 16.5% and 25% respectively during the Track Record Period. For each of the two years ended 31 March 2015, our Group recorded income tax expenses of approximately HK\$6.5 million and HK\$4.4 million, respectively. The decrease in income tax expense was primarily due to decrease in our profit before tax from the year ended 31 March 2014 to the year ended 31 March 2015. Our effective tax rates for the two years ended 31 March 2015 were approximately 20.6% and 29.4%, respectively.

During the course of the preparation for the Listing of our Group, our management has made certain prior year adjustments to correct the books and records of our Group's subsidiaries in Hong Kong which have led to additional Hong Kong tax provision of approximately HK\$5.2 million during the Track Record Period. These adjustments included (a) the adjustments on foreign exchange gain on revaluation of monetary assets and liabilities; (b) the adjustments on sales and cost of sales cut off errors; (c) the adjustments on correction of our Group inter-companies sales and purchases as a result of transfer pricing arrangement; (d) the adjustments on over provision of certain expenses; and (e) the adjustments on write-off of certain long aged trade receivables. The audited financial statements of On Real and Onward (collectively the "**Hong Kong Subsidiaries**"), which have taken into account the above mentioned adjustments, have been submitted to the Inland Revenue Department of Hong Kong ("**IRD**") together with the tax filings for year of assessment 2013/2014. Our Group has already provided for the additional tax provision in full and our Group is committed to pay tax if the IRD issues additional assessments as a result of these adjustments. If our Group does not receive the additional assessments before the submission of the profits tax return for year of assessment 2014/15 which is due on 16 November 2015, our Group will include the additional assessable profits in relation to the prior year adjustments in the profits tax computation for the assessment for year of assessment 2014/15 and pay tax upon receipt of the notice of assessment for year of assessment 2014/15.

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Our Directors, after consulting their tax advisor, considered that it is not likely that the IRD will impose penalty against the relevant Hong Kong Subsidiaries based on the current fact patterns of the case including (i) the case is currently handled by normal assessment section of IRD; (ii) the audited financial statements of the relevant Hong Kong Subsidiaries, which have taken into account the above mentioned prior year adjustments, had been provided to IRD in November 2014 and no penal action had been imposed against the relevant Hong Kong Subsidiaries as at the Latest Practicable Date; and (iii) our Group intended to voluntarily include the additional assessable profits related to the prior year adjustments in the 2014/15 profits tax computation. Our Directors considered that adequate tax provision has been made during the Track Record Period. In addition, pursuant to the Deed of Indemnity, each of our Controlling Shareholders has agreed to indemnify our Group on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by our Group arising from any violation or non-compliance with the laws, rules or regulations applicable to us prior to the Listing Date and therefore our Group will be indemnified for any penalty being imposed by the IRD.

Our Group had no tax obligation arising from other jurisdictions during the Track Record Period. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had no material dispute or unresolved tax issues with the relevant tax authority.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Revenue

The revenue of our Group decreased by approximately HK\$11.9 million, or approximately 3.3% from approximately HK\$358.1 million for the year ended 31 March 2014 to approximately HK\$346.2 million for the year ended 31 March 2015. The decrease was mainly due to the decrease in our revenue from other products during the year ended 31 March 2015 as a result of our cessation of sales of DECT phones since September 2013.

Two-way radios

We derived revenue mainly from the sales of two-way radios. Our sales of two-way radios slightly decreased from approximately HK\$324.5 million for the year ended 31 March 2014 to approximately HK\$322.6 million for the year ended 31 March 2015, respectively, representing a decrease of approximately 0.6%. Such decrease was as a result of the decrease in sales volume of approximately 0.9 million units from the year ended 31 March 2014 to the year ended 31 March 2015, which was partially offset by the increase in average selling price per unit from approximately HK\$62.4 for the year ended 31 March 2014 to approximately HK\$75.2 for the year ended 31 March 2015. The decrease in sales volume was mainly attributable to (i) the decrease in sales of our products shipped to European countries (including Europe, the Netherlands, UK and Germany) due to the slow down of the growth of two-way radio sales in the EU market; and (ii) the decrease in sales of our products shipped to Asia as a result of the decrease in demand of our products from Customer A, which the

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revenue generated from Customer A decreased by over 30% from the year ended 31 March 2014 to the year ended 31 March 2015. Our Directors believe this was attributable to a transitional period during September 2014 to January 2015 where Customer A decreased its orders for old models of two-way radios while we started to record revenue from selling of new models of two-way radios. Our sales to Customer A during the period from January to March 2015 was increased by approximately 63.1% as compared to the same period during 2014 due to the launch of new models of two-way radios. The increase in average selling price per unit was mainly due to (i) the increase in our sales of high-end two-way radios including marine handheld floating radios which were mainly sold to CEC, being our largest customer for the Track Record Period; and (ii) new model of digital two-way radios being sold to Customer A during the period from January to March 2015, which the average selling prices were higher than those of the old models of products procured by Customer A.

Baby monitors

Our revenue from audio baby monitors increased from approximately HK\$6.0 million for the year ended 31 March 2014 to approximately HK\$7.3 million for the year ended 31 March 2015, as the increase in sales volume outweighed the decrease in average selling price of audio baby monitors. During the year ended 31 March 2014 and period from April 2014 to February 2015, we sold audio baby monitors only as it was part of our business strategy to capture more market share in the baby monitor industry by selling low-end audio baby monitors with basic features and at lower price. As a result, our sales volume of audio baby monitors increased by approximately 27,000 sets from the year ended 31 March 2014 to the year ended 31 March 2015.

As a result of our recent development of advanced digital video baby monitors, we commenced our sales of video baby monitors and sold 1,200 sets of video baby monitors which amounted to approximately HK\$0.6 million during March to July 2015. We expect that the new models of baby monitors will continue to contribute to our revenue.

Other products

Our revenue derived from sales of other products decreased by approximately HK\$9.3 million, or 38.9% from approximately HK\$23.9 million for the year ended 31 March 2014 to approximately HK\$14.6 million for the year ended 31 March 2015. It was mainly due to the cessation of our sales of DECT phones since September 2013. Our sales of DECT phones amounted to approximately HK\$11.3 million for the year ended 31 March 2014, representing approximately 47.3% of our sales of other products in the corresponding year. For details of the cessation of our sales of DECT phones to Customer B, see “Business — Customers”.

Servicing business

Our revenue derived from servicing business decreased by approximately HK\$0.9 million, or approximately 36.0% from approximately HK\$2.5 million for the year ended 31 March 2014 to approximately HK\$1.6 million for the year ended 31 March 2015, primarily due to the decrease in customers requesting us to provide replacement parts for their products during the year ended 31 March 2015.

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Cost of sales

Our cost of sales decreased by approximately 5.9%, from approximately HK\$303.0 million for the year ended 31 March 2014 to approximately HK\$285.2 million for the year ended 31 March 2015. Such decrease was mainly due to (i) decrease in cost of inventories of approximately HK\$16.9 million; (ii) decrease in direct labor cost of approximately HK\$20.8 million; and (iii) reversal of one-off retirement benefits costs of approximately HK\$5.7 million, mitigated by the subcontracting fee of approximately HK\$24.0 million which was commenced during the year ended 31 March 2015.

The decrease in cost of inventories from approximately HK\$199.2 million for the year ended 31 March 2014 to approximately HK\$182.3 million for the year ended 31 March 2015 was mainly due to the decrease in sales volume. However, the cost of ICs increased as a result of the increase in our sales of high-end two-way radios. Such impact had been reflected in increase in the average selling price of our products for the year ended 31 March 2015. Our cost of inventories represented approximately 55.6% and 52.7% of our total sales for each of the two years ended 31 March 2015, respectively.

Our subcontracting fees represented the fees we paid to our subcontractors that we outsourced part of our PCBA and plastic casing assembly processes and small part of SMT and COB processes, which was commenced during the year ended 31 March 2015.

Our direct labour cost decreased from approximately HK\$82.5 million for the year ended 31 March 2014 to approximately HK\$61.7 million for the year ended 31 March 2015 as a result of (i) our decrease in headcount due to (a) the disposal of Xinxing On Time during the year ended 31 March 2015; and (b) we started outsourcing part of our manufacturing processes as mentioned above; and (ii) our cessation of our sales of DECT phones since September 2013.

The amount of our production overhead remained relatively stable and represented approximately 7.0% and 8.0% of total cost of sales for the two years ended 31 March 2015, respectively.

The decrease in our inventory provision for the year ended 31 March 2015 as compared to that for the year ended 31 March 2014 was because of our improvement in production planning and inventory control and the increase of the usage of the aged inventories.

Based on a written confirmation from the Social Insurance Fund Management Bureau of Xinxing on 16 September 2014 confirming that it has not issued and will not issue an order requiring Xinxing Great Success to repay the social insurance or impose administrative penalty on Xinxing Great Success, our Group reversed the one-off the retirement benefit costs of approximately HK\$5.7 million during the year ended 31 March 2015.

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Gross profit

The following table sets forth the gross profit and gross profit margin:

	Year ended 31 March	
	2014	2015
Gross profit (HK\$'000)	55,111	61,026
Gross profit margin (%)	15.4	17.6

As a result of the foregoing, our overall gross profit increased by approximately HK\$5.9 million, or 10.7%, from approximately HK\$55.1 million for the year ended 31 March 2014 to approximately HK\$61.0 million for the year ended 31 March 2015. The gross profit during the year ended 31 March 2015 included an one-off reversal of retirement benefit costs of approximately HK\$5.7 million. Pursuant to a written confirmation from the Social Insurance Fund Management Bureau of Xinxing on 16 September 2014 confirming that it has not issued and will not issue an order requiring Xinxing Great Success to repay the social insurance or impose administrative penalty on Xinxing Great Success, we reversed the one-off retirement benefit costs of approximately HK\$5.7 million during the year ended 31 March 2015. Taking out the effect of this one-off reversal, the gross profit during the year ended 31 March 2015 would be approximately HK\$55.4 million and the gross profit margin would be approximately 16.0%, which represented a slight increase as compared with the same period during the year ended 31 March 2014. Such increase was primarily due to (i) the increase in gross profit margin of two-way radios; (ii) the increase in gross profit margin of other products as a result of the cessation of sales of DECT phones since September 2013, which its gross profit margin was relatively lower; and (iii) the decrease in cost of sales during the year ended 31 March 2015.

Other income – net

Other income increased from approximately HK\$1.7 million for the year ended 31 March 2014 to approximately HK\$4.5 million for the year ended 31 March 2015, primarily as a result of (i) the gain of approximately HK\$2.6 million realised from the sales of staff quarters from On Real (Shenzhen) to two independent third parties in September 2014; and (ii) the recycle of currency translation differences of approximately HK\$1.6 million arising upon the disposal of Xinxing On Time to Shine View with effect from 31 August 2014. It was partially offset by (i) the fact that no government grant was received during the year ended 31 March 2015; and (ii) the decrease in staff quarters rental income of approximately HK\$0.3 million as a result of the decrease in headcount.

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Other gains – net

Other gains decreased from approximately HK\$3.5 million for the year ended 31 March 2014 to approximately HK\$1.8 million for the year ended 31 March 2015, primarily due to the depreciation of RMB against USD which led to our Group recorded (i) a decrease in fair value on forward foreign exchange contracts from net gains of approximately HK\$0.6 million for the year ended 31 March 2014 to net losses of approximately HK\$1.9 million for the year ended 31 March 2015; and (ii) a decrease in net exchange gains on forward foreign exchange contracts from approximately HK\$4.0 million for the year ended 31 March 2014 to approximately HK\$0.7 million for the year ended 31 March 2015. Such decreases were partially offset by the increase in fair value on the key-man insurance purchased for Mr. Tam, which was recorded as a fair value loss of approximately HK\$1.1 million for the year ended 31 March 2014 while it was recorded as a fair value gain of approximately HK\$2.6 million for the year ended 31 March 2015.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK\$0.9 million from approximately HK\$4.6 million for the year ended 31 March 2014 to approximately HK\$3.7 million for the year ended 31 March 2015. It remained relatively stable that it represented approximately 1.3% and 1.1% of our Group's revenue for each of the two years ended 31 March 2015, respectively. The slight decrease was mainly due to the decrease in declaration and documentation fee of approximately HK\$0.3 million for obtaining bills of lading from the shipping companies for the delivery of our goods to overseas customers and transportation fee of approximately HK\$0.7 million, which is in line with our decrease in sales during the year ended 31 March 2015 as compared to the same period in 2014.

Administrative expenses

Our administrative expenses increased by approximately 102.1% from approximately HK\$23.8 million for the year ended 31 March 2014 to approximately HK\$48.1 million for the year ended 31 March 2015, primarily due to the recognition of Listing expenses of approximately HK\$16.9 million, the nature of which is non-recurring. Further, we incurred (i) an increase in staff cost of approximately HK\$3.0 million due to increase in number of senior staff and senior management in the year ended 31 March 2015; (ii) an increase in rental expenses of approximately HK\$1.3 million due to (a) tenancy of Songgong Production Facility; and (b) tenancy of office located in Hong Kong Science Park, Pak Shek Kok, Hong Kong; and (iii) an increase in legal and consultancy fee of approximately HK\$1.7 million for the consultancy fee of restructuring of our Group. It was partially offset by the decrease in the depreciation of approximately HK\$1.0 million mainly due to the disposal of Xinxing On Time. As a result, our administrative expenses as a percentage of our revenue increased from approximately 6.6% for the year ended 31 March 2014 to approximately 13.9% for the year ended 31 March 2015.

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Finance costs – net

Our finance costs remained relatively stable at approximately HK\$0.7 million and HK\$0.5 million for the two years ended 31 March 2015, respectively.

Income tax expenses

Our effective tax rates were approximately 20.6% and 29.4% for the two years ended 31 March 2015 respectively. The increase was primarily due to (i) our Listing expenses incurred during the year ended 31 March 2015; (ii) non-deductible tax expenses incurred in our subsidiaries in the PRC, which were not deductible from our taxable profit, net with (i) the non-taxable gain on fair value gains on financial asset at fair value through profit or loss and the recycle of currency translation differences upon disposal of a subsidiary; and (ii) the withholding tax regarding of the disposal of Xinxing On Time. Our income tax expenses decreased by approximately 32.3% from approximately HK\$6.5 million for the year ended 31 March 2014 to approximately HK\$4.4 million for the year ended 31 March 2015, primarily due to the decrease in our profit before income tax from the year ended 31 March 2014 to the year ended 31 March 2015.

Profit attributable to owners of our Company

The profit attributable to owners of our Company decreased from approximately HK\$24.7 million for the year ended 31 March 2014 to approximately HK\$10.5 million for the year ended 31 March 2015. The decrease was primarily due to the non-recurring Listing expenses of approximately HK\$16.9 million incurred for the year ended 31 March 2015. No such expenses were incurred during the year ended 31 March 2014.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure requirements. Our working capital needs and capital expenditure requirements have been financed through a combination of funds generated from operations and financing mainly comprised bank borrowings, factoring loans, import and export loans. Going forward, we expect to fund our working capital, capital expenditures and other capital requirements with a combination of various sources, including but not limited to cash generated from our operations, borrowings and the net proceeds from the Placing.

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The following table sets out a condensed summary of our consolidated statements of cash flows for the Track Record Period. Such summary of the consolidated statements of cash flows is extracted from the Accountant's Report contained in Appendix I to this prospectus and should be read in conjunction with the entire financial information included therein, including the notes thereto.

	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	42,837	(3,620)
Net cash used in investing activities	(12,346)	(3,024)
Net cash (used in)/generated from financing activities	(29,441)	657
Net increase/(decrease) in cash and cash equivalents	1,050	(5,987)
Cash and cash equivalents at beginning of the year	33,332	34,495
Exchange gains/(losses) on cash and cash equivalents	113	(135)
Cash and cash equivalents at end of the year	34,495	28,373

Cash flows generated from/used in operating activities

Our cash generated from operating activities is principally from the receipt of payments for the sale of our products we procured for our customers. Our cash used in operating activities is principally for payments of purchases of raw materials from suppliers and subcontracting fees to subcontractors, staff costs and rental expenses.

For the year ended 31 March 2014, our net cash from operating activities was approximately HK\$42.8 million. Such amount was derived from our profit before income tax expense generated from our operations of approximately HK\$31.4 million, mainly positively adjusted for (i) depreciation of property, plant and equipment of approximately HK\$7.1 million which were non-cash in nature; (ii) fair value losses on financial asset at fair value through profit or loss of approximately HK\$1.1 million which were non-cash in nature; (iii) a decrease in trade and other receivables of approximately HK\$12.9 million mainly due to (a) the cessation of business with Customer B in the year ended 31 March 2014; and (b) the decrease in the trade and bills receivables from two of our top five customers as the sales to these two customers decrease from the year ended 31 March 2013 to the year ended 31 March 2014; (iv) an increase in trade and other payables of approximately HK\$1.9 million due to (a) the increase in advances from major customers; and (b) the advances from Solution Smart, partially offset

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by (i) an increase of inventories of approximately HK\$4.6 million due to the increase in raw materials of in order to cater for the higher sales order for the first quarter for the year ended 31 March 2015 as compared to first quarter of that for the year ended 31 March 2014; (ii) interest paid of approximately HK\$1.1 million; and (iii) income tax paid of approximately HK\$5.5 million.

For the year ended 31 March 2015, our net cash used in operating activities was approximately HK\$3.6 million. Such amount was derived from our profit before income tax expense generated from our operations of approximately HK\$14.9 million, mainly positively adjusted for (i) fair value losses on derivative financial instruments of approximately HK\$1.9 million which were non-cash in nature; (ii) depreciation of property, plant and equipment of approximately HK\$6.0 million which were non-cash in nature; (iii) a decrease in inventories of approximately HK\$15.1 million due to the shorter inventory turnover days in the year ended 31 March 2015; and (iv) the balance with Xinxing On Time of approximately HK\$3.1 million, partially offset by (i) fair value losses on financial asset at fair value through profit or loss of approximately HK\$2.6 million which were non-cash in nature; (ii) gain on disposal of property, plant and equipment of approximately HK\$2.6 million; (iii) recycle of currency translation differences upon disposal of a subsidiary of approximately HK\$1.6 million; (iv) an increase in trade and other receivables of approximately HK\$23.1 million mainly because of (a) increase in trade receivables of three of our five largest customers for the year ended 31 March 2015; and (b) prepayments for Listing expenses and prepayments for purchases; (v) decrease in trade and other payables of approximately HK\$7.4 million due to (a) the reversal of social insurance and housing fund during the year ended 31 March 2015; and (b) the effect on disposal of Xinxing On Time; (vi) interest paid of approximately HK\$1.2 million; and (vii) income tax paid of approximately HK\$6.8 million.

The decrease in our net cash flows from operating activities from the year ended 31 March 2014 to our net cash used in operating activities for year ended 31 March 2015 was mainly due to (i) the decrease in our profit before income tax expenses generated from our operations attributable to the Listing expenses of approximately HK\$16.9 million incurred during the year ended 31 March 2015; and (ii) the increase in trade and bills receivables of approximately HK\$14.9 million from 31 March 2014 to 31 March 2015, of which all of the trade and bills receivables have been settled as at the Latest Practicable Date.

Cash flows used in investing activities

Our cash used in investing activities was primarily for (i) purchases of property, plant and equipment; (ii) payments of development expenses capitalised as intangible assets; and (iii) increase in restricted cash and bank deposit with original maturity over three months. Our cash flow from investing activities mainly included (i) proceeds from disposals of property, plant and equipment; (ii) interest received; and (iii) decrease in restricted cash and bank deposit with original maturity over three months.

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Net cash used in investing activities was approximately HK\$12.3 million for the year ended 31 March 2014. This was mainly due to (i) our payment for the additions of property, plant and equipment of approximately HK\$3.2 million for the year; (ii) net increase in restricted cash of approximately HK\$4.3 million; (iii) our payment of development expenses of approximately HK\$3.6 million for the year; and (iv) the increase in bank deposit with original maturity over three months of approximately HK\$1.6 million.

Net cash used in investing activities was approximately HK\$3.0 million for the year ended 31 March 2015. This was mainly due to (i) our payment for the additions of property, plant and equipment of approximately HK\$5.8 million for the year; and (ii) our payment of development expenses of approximately HK\$6.6 million for the year, mitigated by (i) net decrease in restricted cash of approximately HK\$3.4 million; (ii) the decrease in bank deposit with original maturity over three months of approximately HK\$1.6 million; (iii) proceeds from disposals of property, plant and equipment of approximately HK\$4.1 million; and (iv) our interest received of approximately HK\$0.3 million.

Cash flows used in/generated from financing activities

During the Track Record Period, our cash flows used in financing activities mainly included (i) repayments of bank borrowings; (ii) repayments of obligation under finance lease; (iii) dividends paid to shareholders of the subsidiaries of our Group; (iv) distribution to owners of a subsidiary; (v) cash outflow upon disposal of a subsidiary; and (vi) payment for Listing expenses which will be accounted for as deduction from equity. Our cash flows from financing activities during the Track Record Period mainly included (i) the proceeds from bank borrowings; and (ii) capital injection by Solution Smart and Pacific Able.

Net cash used in financing activities was approximately HK\$29.4 million for the year ended 31 March 2014 was mainly the combination of (i) repayments of bank borrowings of approximately HK\$17.1 million; (ii) dividends paid to the then shareholders of On Real and Onward of approximately HK\$7.8 million; and (iii) distribution of approximately HK\$5.5 million to the then owners of Onward pursuant to which On Real purchased the entire equity interests in Onward from the respective spouses of Mr. Tam and Mr. Hsu, who were holding Onward's equity interest on behalf of Mr. Tam and Mr. Hsu, which represented the consideration paid by On Real to the respective spouses of Mr. Tam and Mr. Hsu; mitigated by the advances in relation to Pre-IPO investments of approximately HK\$1.5 million.

Net cash generated from financing activities was approximately HK\$0.7 million for the year ended 31 March 2015 which was mainly the result of (i) the proceeds from bank borrowings of approximately HK\$26.8 million in order to provide buffer fund for operation future use; and (ii) capital injection by Solution Smart and Pacific Able of approximately HK\$10.1 million, mitigated by (i) the dividends of approximately HK\$26.6 million paid to the then shareholders of On Real; (ii) the expenses in relation to Listing of approximately HK\$2.4 million which will be accounted for as deduction from equity; and (iii) the decrease in cash flow of Xinxing On Time of approximately HK\$6.4 million at the time of disposal.

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NET CURRENT LIABILITIES

As at 31 March 2014, 31 March 2015, and 31 July 2015, our Group had recorded net current liabilities of approximately HK\$4.5 million, HK\$9.3 million and HK\$6.6 million, respectively. Details of the components are set out as follows:

	As at 31 March		As at 31 July
	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Unaudited)</i>
Current assets			
Inventories	43,777	28,558	34,684
Trade and other receivables	29,789	52,873	80,791
Amount due from a related company	9,436	–	–
Derivative financial instruments	1,872	–	–
Restricted cash	8,877	5,510	5,509
Cash and cash equivalents	36,089	28,373	16,265
	129,840	115,314	137,249
Current liabilities			
Trade and other payables	91,153	67,256	72,214
Amount due to a related company	8,761	–	–
Amounts due to directors	994	–	–
Borrowings	23,266	49,697	65,921
Dividend payable	584	–	–
Current income tax liabilities	9,601	7,633	5,763
	134,359	124,586	143,898
Net current liabilities	(4,519)	(9,272)	(6,649)

Our current assets as at 31 March 2014, 31 March 2015 and 31 July 2015 mainly comprised (i) cash and cash equivalents and restricted cash of approximately HK\$45.0 million, HK\$33.9 million and HK\$21.8 million, respectively; (ii) inventories of approximately HK\$43.8 million, HK\$28.6 million and HK\$34.7 million, respectively; and (iii) trade and other receivables of approximately HK\$29.8 million, HK\$52.9 million and HK\$80.8 million, respectively. Our current liabilities as at 31 March 2014, 31 March 2015 and 31 July 2015 mainly comprised (i) trade and other payables of approximately HK\$91.2 million, HK\$67.3 million and HK\$72.2 million, respectively; and (ii) current portion of borrowings of approximately HK\$23.3 million, HK\$49.7 million and HK\$65.9 million, respectively. We expect to pay our liabilities from our internal financial resources, including but not limited to cash generated from operations as and when they fall due.

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Our Group recorded net current liabilities of approximately HK\$4.5 million as at 31 March 2014 and recorded net current liabilities of approximately HK\$9.3 million as at 31 March 2015, representing an increase of approximately 106.7%. Such increase was mainly due to (i) a decrease in inventories by approximately HK\$15.2 million; (ii) a decrease in restricted cash and cash and cash equivalents by approximately HK\$11.1 million; and (iii) an increase in the current portion of borrowings of approximately HK\$26.4 million; mitigated by (i) an increase in trade and other receivables of approximately HK\$23.1 million; and (ii) a decrease in trade and other payables of approximately HK\$23.9 million.

Our Group recorded net current liabilities of approximately HK\$6.6 million as at 31 July 2015 as compared to net current liabilities of approximately HK\$9.3 million as at 31 March 2015, representing a decrease of approximately 29.0%. Such decrease was mainly the combined effect of (i) the increase in trade and other receivables of approximately HK\$27.9 million; and (ii) the increase in inventories of approximately HK\$6.1 million, mitigated by (i) the increase in trade and other payables of approximately HK\$4.9 million; (ii) the decrease in cash and cash equivalents of approximately HK\$12.1 million; and (iii) the increase in current portion of borrowings of approximately HK\$16.2 million.

Our net current liabilities position was mainly due to (i) the use of short term borrowings to finance our capital expenditures and for trade finance purpose; and (ii) the classification of certain long term borrowings due for repayment after one year which contain a repayment on demand clause as current liabilities, which amounted to approximately HK\$11.8 million and HK\$7.2 million as at 31 March 2014 and 2015 respectively.

Historically, we have met our working capital and other liquidity requirements principally from cash generated from our operations and banking facilities. Although we recorded net current liabilities as at 31 March 2014, 31 March 2015 and 31 July 2015, our Directors considered that it will be improved, having considered (i) notwithstanding our restricted cash and cash and cash equivalents decreased by approximately HK\$11.1 million from 31 March 2014 to 31 March 2015, of which a significant amount of dividends of approximately HK\$26.6 million was paid during the year ended 31 March 2015; (ii) we recorded net operating cash inflow generated from our core business during the year ended 31 March 2015 of approximately HK\$11.6 million if excluding the payment of Listing expenses of approximately HK\$15.2 million which would be expensed off and not recurring in nature; and (iii) the fact that our current liabilities position improved from 31 March 2015 to 31 July 2015. Further, we will seek new financing from banks, if necessary, to strengthen the working capital for daily operation and we have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record Period. Our Directors expect to finance our usual and ordinary course of business, our general working capital requirement and payments of indebtedness and capital commitments with (i) net cash flow generated from operating activities; (ii) restricted cash and cash and cash equivalents available, which were approximately HK\$33.9 million as at 31 March 2015; and (iii) the estimated net proceeds of approximately HK\$24.5 million to be received by our Group from the Placing, after deducting Listing expenses (assuming a Placing Price of HK\$0.5 per Placing Share, being the mid-point of the proposed Placing Price range of HK\$0.4 to HK\$0.6 per Placing Share). Based on the above, our Directors are of the opinion that our Group has adequate working capital to meet its present requirements.

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DESCRIPTION AND ANALYSIS OF PRINCIPAL ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment consisted of buildings, leasehold improvements, furniture and fixtures, office equipment, plant and machinery and motor vehicles. The net carrying value of our property, plant and equipment amounted to approximately HK\$31.3 million and HK\$9.1 million as at 31 March 2014 and 31 March 2015, respectively. The amount decreased from 31 March 2014 to 31 March 2015 by approximately HK\$22.2 million, representing a decrease of approximately 70.9%. Such decrease mainly represented the net book value of the assets of Xinxing On Time of approximately HK\$21.3 million as at the date of disposal as a result of the disposal of Xinxing On Time which was completed in August 2014.

Intangible assets

Our intangible assets mainly represented the product development costs related to the new product model development projects of two-way radios and baby monitors. The costs include our engineering costs and development fees paid to third parties which meet the recognition criteria under HKAS 38.

All research costs are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when our Group can demonstrate that (i) it is technically feasible to complete the product so that it will be available for use; (ii) management intends to complete the product and use or sell it; (iii) there is an ability to use or sell the product; (iv) it can be demonstrated how the product will generate probable future economic benefits; (v) adequate technical, financial and other resources to complete the development and to use or sell the product are available; and (vi) the expenditure attributable to the product during its development can be reliably measured.

Our management determines the useful life of the new products model with reference to the product life cycle of similar products developed before, which is approximately three years and thus such intangible assets are amortised for the same period, which would be commenced since the research and development projects are completed.

Our intangible assets increased by approximately HK\$6.8 million from approximately HK\$1.6 million as at 31 March 2014 to approximately HK\$8.4 million as at 31 March 2015. The increase represented the relevant costs of approximately HK\$7.5 million incurred for the current ongoing projects which meet capitalisation criteria under HKAS 38, offset by the amortisation of approximately HK\$0.8 million for the year ended 31 March 2015. Our management considers that there is no impairment implication on the intangible assets as our Group has obtained orders from customers for our models which respective costs were capitalised during each of the two years ended 31 March 2015.

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Financial asset at fair value through profit or loss

Our financial asset at fair value through profit or loss represented the key-man insurance purchased for Mr. Tam, which is denominated in US\$. The key-man insurance was entered with a financial institution in 2011. The key-man insurance was recorded at fair value as at 31 March 2014 and 2015 and the valuation was determined and provided by an independent valuer and the discounted cash flow approach was adopted. The valuation focused on the economic benefits generated by the income producing capacity of an asset, which can be measured by the present worth of the economic benefits to be received over its economic life.

The amount of our financial asset at fair value through profit or loss has increased by approximately HK\$2.8 million from approximately HK\$11.7 million as at 31 March 2014 to approximately HK\$14.5 million as at 31 March 2015, representing an increase of approximately 23.9%, which was due to the changes in its fair value. For more details of the valuation of the key-man insurance, please refer to note 17 to the Accountant's Report.

Our Directors has assessed the credit quality of the financial institution and considered the credit risk is not significant. Such financial asset at fair value through profit or loss is used for securing the banking facilities of our Group as at 31 March 2014 and 2015.

Inventories

During the Track Record Period, inventories were one of the principal components of our Group's current assets. Our inventories amounted to approximately HK\$43.8 million and HK\$28.6 million as at 31 March 2014 and 31 March 2015, respectively, which accounted for approximately 33.7% and 24.8% of our total current assets as at 31 March 2014 and 31 March 2015 respectively.

Our Group's inventories comprised raw materials, which mainly comprised electronics parts, ICs, plastic, adaptors, batteries, work in progress and finished goods. The following table set out the breakdown of our inventory balance as at the end of each year of the Track Record Period:

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Raw materials	20,235	16,562
Work in progress	21,848	9,548
Finished goods	6,639	2,448
	48,722	28,558
Less: Provision for inventories	(4,945)	–
Total	43,777	28,558

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Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of work in progress and finished goods comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less variable selling expenses.

Our inventories decreased from approximately HK\$43.8 million as at 31 March 2014 to approximately HK\$28.6 million as at 31 March 2015 by approximately HK\$15.2 million, representing a decrease of approximately 34.7%.

Our raw materials decreased by approximately HK\$3.6 million from approximately HK\$20.2 million as at 31 March 2014 to approximately HK\$16.6 million as at 31 March 2015. Our work in progress decreased by approximately HK\$12.3 million from approximately HK\$21.8 million as at 31 March 2014 to approximately HK\$9.5 million as at 31 March 2015. The levels of raw materials and work in progress as at 31 March 2014 were higher than that as at 31 March 2015 which were in line with the higher sales incurred for the first two months of the year ended 31 March 2015 as compared to the first two months of that for the year ending 31 March 2016.

Our finished goods remained at a relatively low level, which only represented approximately 13.6% and 8.6% of our gross inventory balances as at 31 March 2014 and 31 March 2015, respectively, which was mainly due to the short detained time of the finished goods in our warehouse after production. Our finished goods decreased from approximately HK\$6.6 million as at 31 March 2014 to approximately HK\$2.4 million as at 31 March 2015, representing a decrease of approximately 63.6%. Such decrease was in line with our higher sales generated in April 2014 as compared to our sales generated in April 2015.

The following table sets forth our inventory turnover days during the Track Record Period:

	For the year ended 31 March	
	2014	2015
Inventory turnover days ^(Note)	50	46

Note: Inventory turnover days are calculated by dividing the average inventory balance by cost of sales multiplied by the number of days during the year (i.e. 365 days for each of the two years ended 31 March 2015). Average inventory balance is the average of the beginning and ending inventory balances for the relevant year.

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Our inventory turnover days for each of the two years ended 31 March 2015 were within our average production lead time of approximately 13 weeks from procurement to completion of plastic casing assembly. Our inventory turnover days decreased from approximately 50 days for the year ended 31 March 2014 to approximately 46 days for the year ended 31 March 2015. Such decrease was mainly due to our improvement in production planning and inventory control. The following table sets out the ageing analysis of our gross inventory balance as at the end of each year of the Track Record Period:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 360 days	43,777	27,972
More than 360 but less than 720 days	1,607	129
Over 720 days	3,338	457
Total	48,722	28,558

Approximately 89.9% and 97.9% of our inventories as at 31 March 2014 and 31 March 2015, respectively, were aged within 360 days. The carrying amount of inventories that aged more than 360 days but less than 720 days accounted for approximately 3.3% and 0.5% of our total inventories as at 31 March 2014 and 31 March 2015 respectively. The carrying amount of inventories that aged over 720 days accounted for approximately 6.8% and 1.6% of our total inventories as at 31 March 2014 and 31 March 2015 respectively.

We generally do not hold high levels of inventory and only purchase the electronic components when we receive confirmed orders from our customers. However, we keep buffer stocks for raw materials which are commonly used in our products or have longer delivery lead-time to ensure that we have sufficient quantity of raw materials to satisfy our customers' demands once their orders are confirmed. We closely monitor our inventory and seek to maintain low level of inventory. Physical inventory count on inventory would be conducted at least twice a year. Generally, provision will be made for inventories which have aged for more than one year and where there was no movement for the year. Our management performs regular review on the carrying amounts of the inventories with reference to ageing analysis of inventories, projection of expected future salability of goods and management judgement based on their experience. Our policy on obsolete or slow moving or damaged inventories is to write off such inventories when our management consider those inventories have no residual value. As at 31 March 2014, we made provisions of approximately HK\$4.9 million which were primarily related to the obsolete inventories of which (i) approximately HK\$4.2 million that had been previously provided for has been written-off during the year ended 31 March 2015 as our management considered these inventories were no longer suitable for sale or use and these inventories have no residual values; and (ii) approximately HK\$0.7 million has been reversed due to respective subsequent sale or usage. Furthermore, our Group has provided for and written off approximately HK\$0.8 million inventories during the year ended 31 March 2015 as our management consider those inventories have no residual value. In view of the subsequent usage and sale, our management considered that no provision of inventories was necessary as at 31 March 2015.

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As at the Latest Practicable Date, approximately 99.0% and 73.8% of our Group's inventory balances as at 31 March 2014 and 31 March 2015 were subsequently utilised or sold respectively.

Trade and other receivables

As at 31 March 2014 and 31 March 2015, our trade and other receivables mainly represented trade and bills receivable from customers for our products sold. The following table sets out the breakdown of our current portion of trade and other receivables as at the end of each year of the Track Record Period:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivable	21,839	36,703
Prepayments and other receivables:		
Prepayments – current portion	1,119	6,694
Value-added tax receivables	6,323	8,334
Other receivables and deposits	508	1,142
Subtotal	7,950	16,170
Total	29,789	52,873

Trade and bills receivable

Our trade and bills receivable increased by approximately HK\$14.9 million from approximately HK\$21.8 million as at 31 March 2014 to approximately HK\$36.7 million as at 31 March 2015, representing an increase of approximately 68.3%. Such increase was mainly due to the increase in trade and bills receivable from three of our five largest customers for the year ended 31 March 2015 by approximately HK\$12.8 million in aggregate as a result of (i) the increase in sales orders of two major customers in the fourth quarter of the year ended 31 March 2015 as compared to the corresponding period for the year ended 31 March 2014; and (ii) the trade receivables from CEC, our largest customer, increased as CEC requested us to provide a credit term of 30 days since February 2015, which its payments were previously made by letter of credit at sight.

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The following table sets out the ageing analysis of our trade and bills receivable based on the due date at the end of each year of the Track Record Period:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	8,712	20,667
1 to 30 days	12,512	15,672
31 to 60 days	171	4
61 to 90 days	392	235
91 to 180 days	1	113
Over 180 days	51	12
	21,839	36,703
Total	21,839	36,703

The following table sets out the ageing analysis of our trade and bills receivable based on the invoice date at the end of each year of the Track Record Period:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
1 to 30 days	16,864	28,467
31 to 60 days	2,605	3,541
61 to 90 days	2,275	4,564
91 to 180 days	45	10
Over 180 days	50	121
	21,839	36,703
Total	21,839	36,703

We generally granted credit period up to 90 days to our major customers.

Approximately 39.9% and 56.3% of the total trade and bills receivable as at 31 March 2014 and 31 March 2015 respectively were neither past due nor impaired and approximately 57.3% and 42.7% of the total trade and bills receivables as at 31 March 2014 and 31 March 2015 respectively were within 30 days past due. Our Directors considered that no impairment for those balances as they were slightly past due within acceptable timeframe.

Trade and bills receivable aged over 30 days accounted for only approximately 2.8% and 1.0% of the total balances as at 31 March 2014 and 31 March 2015, respectively. These balances mainly represented the balances due from our recurring customers, for whom there were no recent history of default and have no significant financial difficulty. Thus, our Directors are of the opinion that such receivables are fully recoverable.

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The receivables that were past due, amounting to approximately HK\$13.1 million and HK\$16.0 million, were assessed as not impaired as of 31 March 2014 and 31 March 2015, respectively. These relate to a number of independent customers, of which approximately HK\$9.9 million and HK\$10.2 million were due from four of our top five customers for the two years ended 31 March 2015, for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. Based on past experience, our Directors are of the opinion that no provision for impairment is necessary for the above balances as the balances are considered fully recoverable and there has not been significant change in credit quality of these customers.

	For the year ended 31 March	
	2014	2015
Trade and bills receivable turnover days ^(Note)	31	31

Note: Trade and bills receivable turnover days are calculated by dividing the average trade and bills receivable balance by revenue for the relevant year multiplied by the number of days during the year (i.e. 365 days for each of the two years ended 31 March 2015). Average trade and bills receivable balance is the average of the beginning and ending trade and bills receivable balances for the relevant year.

Our average trade and bills receivable turnover days for the two years ended 31 March 2015 fell within the average credit period we generally offered to our customers and remained stable.

As at the Latest Practicable Date, all of our trade and bills receivables as at 31 March 2014 and 31 March 2015, respectively were subsequently settled.

Prepayments and other receivables

As at 31 March 2014 and 31 March 2015, our Group had current portion of prepayments and other receivables of approximately HK\$8.0 million and HK\$16.2 million respectively, which mainly represented (i) value-added tax receivables of On Real (Shenzhen) and Xinxing Great Success; (ii) prepayments which were mainly for subcontracting fees, purchase of raw materials and Listing expenses; and (iii) other receivables which mainly included rental and utilities deposits. Recognition of value-added tax was subject to the approval from the relevant PRC tax bureau for the sale and/or purchase of registered products proved with the official invoices.

The significant increase was mainly due to (i) the increase in our current portion of prepayments of approximately HK\$5.6 million as a result of (a) deposits paid to suppliers of approximately HK\$3.5 million mainly for securing the supplies of parts and components for new series of our products, and (b) the prepaid Listing expenses of approximately HK\$2.4 million; and (ii) the increase in value-added tax receivables of On Real (Shenzhen) and Xinxing Great Success of approximately HK\$2.0 million in aggregate.

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Trade and other payables

Our Group's trade and other payables mainly represented trade payables to suppliers and subcontractors and other payables and accruals. The following table sets out the breakdown of our trade and other payables as at the end of each year of the Track Record Period:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	40,685	42,220
Other payables and accruals		
– Accruals for staff cost	9,982	7,615
– Accruals for retirement benefit costs and housing funds	31,715	7,663
– Advances from customers	3,909	574
– Advances from Solution Smart	1,531	–
– Accrual for Listing expenses	–	1,700
– Payable for property, plant and equipment	387	1,927
– Payable for intangible assets	–	1,048
– Other accruals and other payables	2,944	4,509
	91,153	67,256
Total	91,153	67,256

Trade payables

During the Track Record Period, the credit terms offered by our major suppliers were usually between 30 to 90 days from the date of monthly statement (meaning that shipments during a given month are settled at the end of the month with payment of the invoice(s) due in 30 to 90 days of the settlement date). The following table sets out our Group's trade payables based on the invoice date as at the end of each year of the Track Record Period:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	18,153	8,762
31 to 60 days	7,681	13,044
61 to 90 days	6,473	11,510
Over 90 days	8,378	8,904
	40,685	42,220
Total	40,685	42,220

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During the Track Record Period, our trade payables mainly represented payables to the suppliers of raw materials and subcontractors. Our trade payables slightly increased from approximately HK\$40.7 million as at 31 March 2014 to approximately HK\$42.2 million as at 31 March 2015 which was mainly because of (i) our increase in sales incurred in the last quarter of the year ended 31 March 2015 as compared to that of the corresponding period for the year ended 31 March 2014; and (ii) some of our major suppliers extended the credit terms offered to us in order to maintain business relationship with us for the year ended 31 March 2015.

The following table sets out our average trade payables turnover days for the Track Record Period:

	For the year ended 31 March	
	2014	2015
Trade payables turnover days ^(Note)	49	53

Note: Trade payables turnover days are calculated by dividing the average trade payables balance by cost of sales for the relevant year multiplied by the number of days during the year (i.e. 365 days for each of the two years ended 31 March 2015). Average trade payables balance is the average of the beginning and ending trade payables balances for the relevant year.

Our trade payables turnover days increased from approximately 49 days for the year ended 31 March 2014 to approximately 53 days for the year ended 31 March 2015. Such increase was mainly because (i) certain major suppliers extended the credit periods so as to maintain rapport with us; and (ii) there was a transition period after the disposal of Xinxing On Time as we took time to liaise with our suppliers regarding the arrangement of changing from Xinxing On Time to Xinxing Great Success for transactions and settlement.

As at the Latest Practicable Date, all of our trade payables as at 31 March 2014 and 31 March 2015, respectively were subsequently settled.

Other payables and accruals

Our other payables and accruals during the Track Record Period mainly comprised (i) accruals for staff cost; (ii) accruals for retirement benefit costs and housing funds; (iii) advances from customers; (iv) advances from Solution Smart; (v) accrual for Listing expenses; (vi) payable for property, plant and equipment; (vii) payable for intangible assets; and (viii) other accruals and other payables.

Accruals for staff cost decreased by approximately HK\$2.4 million, representing a decrease of approximately 24.0%, from approximately HK\$10.0 million as at 31 March 2014 to approximately HK\$7.6 million as at 31 March 2015 which was mainly due to the decrease in number of employees from 31 March 2014 to 31 March 2015 as we outsourced part of our PCBA and plastic casing assembly processes during the year ended 31 March 2015.

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Accruals for retirement benefit costs and housing funds represented (i) the provision for social insurance and housing provident fund contributions for our employees; and (ii) outstanding social insurance and housing provident fund contributions because we did not pay certain past social insurance and housing provident fund contributions during the Track Record Period. The amount of such accruals decreased by approximately HK\$24.0 million from approximately HK\$31.7 million as at 31 March 2014 to approximately HK\$7.7 million as at 31 March 2015, by approximately 75.7%. Such decrease was mainly due to (i) the decrease in number of employees from 31 March 2014 to 31 March 2015 as mentioned above and as a result of the disposal of Xinxing On Time; and (ii) the one-off reversal of the retirement benefit costs during the year ended 31 March 2015. For details, see “Risk Factors — Risks relating to our business — We could be subject to imposition of fines and penalties due to non-compliance with certain laws and regulations in relation to (i) social insurance and housing provident fund contribution; (ii) occupational disease prevention and control; and (iii) environmental protection in the PRC.”, “Business — Non-compliance” and Note 9(a) of the Accountant’s Report of the Appendix I to this prospectus.

Advances from customers represented the deposits or advance payments from the customers for our products. Generally we did not request our customers to pay deposit upon placing orders, except for few customers which we charged deposit upon issuing purchase orders. The timeframe from receipt of the deposits to the recognition of revenue usually takes approximately two months. The amount of the advances decreased from approximately HK\$3.9 million as at 31 March 2014 to approximately HK\$0.6 million as at 31 March 2015, representing a decrease of approximately 84.6%, which was generally in line with more sales incurred for the first two months of the year ended 31 March 2015 as compared to the corresponding period for the year ending 31 March 2016.

Advances from Solution Smart of approximately HK\$1.5 million as at 31 March 2014 represented the partial settlement amount of the Pre-IPO investment.

Accrual for Listing expenses of approximately HK\$1.7 million as at 31 March 2015 represented the professional fees payables incurred for Listing.

Payable for property, plant and equipment of approximately HK\$0.4 million and HK\$1.9 million as at 31 March 2014 and 31 March 2015 respectively represented the payables for our purchase of tooling for the production of our new products.

Payable for intangible assets represented the engineering costs and development fees payable for the new product model development projects of baby monitors.

Other accruals and other payables, which mainly included transportation cost, testing and inspection fee, rental payables and utilities payables, increased by approximately HK\$1.6 million from approximately HK\$2.9 million as at 31 March 2014 to approximately HK\$4.5 million as at 31 March 2015 due to (i) unpaid professional fees of approximately HK\$0.9 million; and (ii) other tax payables in respect of disposal of property, plant and equipment of approximately HK\$0.5 million.

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Amounts due from/to a related company and amounts due to directors

Amount due from a related company as at 31 March 2014 mainly represented the receivables of our sales of transistors to On Time (HK). Amount due to a related company as at 31 March 2014 mainly represented the funds transferred from On Time (HK) to our Group.

Amounts due to directors as at 31 March 2014 mainly represented the advances from our Directors, including Mr. Tam and Mr. Hsu for our Group's working capital purpose.

The amounts due from/to a related company and amounts due to Directors are unsecured, interest-free and repayable on demand.

Balances with a related company and our Directors have been fully settled either by cash or in the form of dividend paid by our Group or being forfeited by Mr. Tam and Mr. Hsu. For details, see Note 26 (iv) of the Accountant's Report contained in Appendix I to this prospectus.

As at the Latest Practicable Date, our Group did not have amounts due from/to a related company and our Directors.

Current income tax liabilities

Our current income tax liabilities comprise Hong Kong profits tax and the PRC enterprise income tax. Our current income tax liabilities decreased from approximately HK\$9.6 million as at 31 March 2014 to approximately HK\$7.6 million as at 31 March 2015 mainly because of income tax expenses of approximately HK\$4.4 million for the year ended 31 March 2015, netting off the payment of approximately HK\$6.8 million for such year. After the Track Record Period and up to the Latest Practicable Date, our Group made tax payment of approximately HK\$0.1 million, HK\$0.1 million and HK\$3.0 million in April 2015, May 2015 and June 2015 respectively.

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INDEBTEDNESS

Borrowings

During the Track Record Period, we used bank loans to manage our working capital requirements. The table below sets forth the breakdown of our total borrowings as of the dates indicated:

	As at 31 March		As at 31 July
	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Non-current			
Finance lease liabilities	434	32	–
Total non-current portion	434	32	–
Current			
Bank borrowings	17,207	15,135	12,415
Finance lease liabilities	728	383	281
Factoring loans	2,338	3,749	28,227
Import and export loans	2,993	30,430	24,998
Total current portion	23,266	49,697	65,921
Total borrowings	23,700	49,729	65,921

Bank borrowings

Bank borrowings represented the bank loans borrowed from major commercial banks, which included loans guaranteed by Hong Kong government under Small and Medium Enterprises Financing Guarantee Scheme (“**SME Scheme**”). Our total bank borrowings decreased by approximately HK\$2.1 million from approximately HK\$17.2 million as at 31 March 2014 to approximately HK\$15.1 million as at 31 March 2015, representing a decrease of approximately 12.2%. Such decrease was mainly due to the net effect of our additional borrowings of HK\$10.1 million, offset by our repayment of bank borrowings of approximately HK\$12.2 million during the year ended 31 March 2015. Our total bank borrowings decreased by approximately HK\$2.7 million from approximately HK\$15.1 million as at 31 March 2015 to approximately HK\$12.4 million as at 31 July 2015, representing a decrease of approximately 17.9%. Such decrease was due to our repayment of bank borrowings of approximately HK\$2.7 million from April to July 2015.

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Finance lease liabilities

Our Group had machineries for production acquired under finance leases. The carrying value of finance leases payables amounted to approximately HK\$1.2 million, HK\$0.4 million and HK\$0.3 million as at 31 March 2014, 31 March 2015 and 31 July 2015 respectively. The lease terms were approximately three years. The finance leases carried effective interest rate of approximately 8.0% per annum.

Factoring loans

Factoring loans represented factored trade receivables of our few major customers to the banks for the arrangement of settlement of trade receivables. As our Group still retained risks and rewards associated with the default and delay in payment by the debtors, such proceeds from the factoring of these trade receivables have been accounted for as our Group's liabilities. The loans carried interest rate of (i) 2.3% per annum over three months Singapore Interbank Offered Rate, (ii) 0.75% per annum below standard bill rate of respect financial institution for factoring loans denominated in USD; and (iii) 4% per annum below standard bill rate of respect financial institution for factoring loans denominated in HKD during the Track Record Period. Our factoring loans increased by approximately HK\$1.4 million from approximately HK\$2.3 million as at 31 March 2014 to approximately HK\$3.7 million as at 31 March 2015, which was mainly due to the increase in factoring loans from one of our major customers in March 2015.

Our factoring loans increased by approximately HK\$24.5 million from approximately HK\$3.7 million as at 31 March 2015 to approximately HK\$28.2 million as at 31 July 2015, representing an increase of approximately 662.2%. Such increase was due to the increase in factoring loans from our two largest customers from April to July 2015.

Import loans and export loans

Our import and export loans are incurred for trade finance purpose. Our import loans mainly represented the advances from banks for the procurement of raw materials from the suppliers as approved by the banks. Our export loans mainly represented the loans with trade finance nature to our customers.

Our import loans amounted to approximately HK\$1.1 million, HK\$28.6 million and HK\$18.0 million as at 31 March 2014, 31 March 2015 and 31 July 2015, respectively. The amount increased by approximately HK\$27.5 million from approximately HK\$1.1 million as at 31 March 2014 to approximately HK\$28.6 million as at 31 March 2015, representing an increase of approximately 25.0 times. Such increase was mainly due to the intention of our Group to obtain surplus fund for purchasing raw materials and operation. The amount decreased by approximately HK\$10.6 million from approximately HK\$28.6 million as at 31 March 2015 to approximately HK\$18.0 million as at 31 July 2015, representing a decrease of approximately 37.1%. Such decrease was due to the repayment of import loans from April to July 2015.

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Our export loans amounted to approximately HK\$1.9 million, HK\$1.8 million and HK\$7.0 million as at 31 March 2014, 31 March 2015 and 31 July 2015, respectively. Our export loans remained stable as at 31 March 2014 and 31 March 2015. The amount increased by approximately HK\$5.2 million from approximately HK\$1.8 million as at 31 March 2015 to approximately HK\$7.0 million as at 31 July 2015, representing an increase of approximately 288.9%. Such increase was mainly due to the increase of the trade receivables from some of our customers for the sales transactions recognised from June to July 2015.

Our borrowings are denominated in US\$ and HK\$, of which approximately 98.2%, 99.9% and 100% of the borrowings were repayable within one year or repayable after one year subject to a repayable on demand clause in the facility letters as at 31 March 2014, 31 March 2015 and 31 July 2015, respectively. The borrowings were interest bearing. As of 31 March 2014, 31 March 2015 and 31 July 2015, the weighted average effective interest rate of our bank loans were approximately 2.9%, 3.3% and 3.2% per annum, respectively.

As at 31 March 2014, 31 March 2015 and 31 July 2015, we had total facilities of approximately HK\$107.4 million, HK\$91.8 million and HK\$108.2 million respectively, of which approximately HK\$23.7 million, HK\$49.7 million and HK\$65.9 million, respectively were utilised and the remaining banking facilities of approximately HK\$83.7 million, HK\$42.1 million and HK\$42.3 million were not utilised respectively.

The borrowings and facilities were secured by (i) personal guarantees given by our Controlling Shareholders; (ii) pledge of key-man insurance as mentioned in the sub-paragraph headed the “financial asset at fair value through profit or loss”; (iii) bank deposits of approximately HK\$8.9 million, HK\$5.5 million and HK\$5.5 million as at 31 March 2014, 31 March 2015 and 31 July 2015, respectively; and (iv) government guarantee under SME Scheme.

We plan to repay our borrowings with cash generated from our operations as and when they fall due. The personal guarantee by our Controlling Shareholders for certain banking facilities granted to our Group is expected to be released upon Listing. Upon Listing, the guarantees provided by our Group and personal guarantees provided by our Controlling Shareholders will be released and replaced by corporate guarantees provided by our Company. It is not expected to have any material change in terms of the borrowings upon release of the aforesaid guarantees and charges.

Our Directors confirmed that there was neither material delay nor default in payment of our trade payables and bank borrowings, nor did we breach any relevant finance covenants, during the Track Record Period. There was no material covenant relating to our Group’s outstanding debts. We intend to continue to finance portions of our capital expenditure primarily with cash generated from our operating activities and proceeds from the Placing. We currently do not have plan for other material external debt financing.

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As at 31 July 2015, except as disclosed in this section, our Group did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities. Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our indebtedness since 31 July 2015.

WORKING CAPITAL

During the Track Record Period, we met our capital requirement principally with cash generated from our operations and short-term bank borrowings. After taking into account the cash flows from the operating activities and the existing financial resources available to our Group as follows:

- cash and cash equivalents and restricted cash of approximately HK\$45.0 million and HK\$33.9 million as at 31 March 2014 and 2015, respectively;
- cash and cash equivalents and restricted cash of approximately HK\$21.8 million as at 31 July 2015 based on our Group's unaudited management accounts;
- the undrawn banking facilities of approximately HK\$42.3 million as at 31 July 2015, being the latest practicable date for the purpose of ascertaining the information contained in the indebtedness statement prior to the printing of this prospectus; and
- the estimated net proceeds of approximately HK\$24.5 million to be received by our Group from the Placing (assuming a Placing Price of HK\$0.5 per Placing Share, being the mid-point of the proposed Placing Price range of HK\$0.4 to HK\$0.6 per Placing Share).

Taking into account the financial resources available to our Group, including the internally generated funds, available banking facilities and the estimated proceeds from the Placing, our Directors are of the opinion that our Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this prospectus.

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KEY FINANCIAL RATIOS

	For the year ended 31 March	
	2014	2015
Net profit margin before interest and tax (<i>Note 1</i>)	8.9%	4.5%
Net profit margin (<i>Note 2</i>)	6.9%	3.0%
Return on equity (<i>Note 3</i>)	51.8%	40.1%
Return on assets (<i>Note 4</i>)	13.6%	7.0%
Interest coverage ratio (<i>Note 5</i>)	48.9	28.2
	As at 31 March	
	2014	2015
Current ratio (<i>Note 6</i>)	1.0	0.9
Quick ratio (<i>Note 7</i>)	0.6	0.7
Gearing ratio (<i>Note 8</i>)	49.4%	189.4%
Debt to equity ratio (<i>Note 9</i>)	N/A	81.2%

Notes:

1. Net profit margin before interest and tax is calculated based on the net profit before interest and tax divided by total revenue for the year multiplied by 100%.
2. Net profit margin is calculated by dividing the net profit for the year by total revenue for the year and multiplied by 100%.
3. For the two years ended 31 March 2015, return on equity equals to net profit for the year divided by total equity at the end of the year and multiplied by 100%.
4. Return on assets equals to net profit for the year divided by total assets at the end of the year and multiplied by 100%.
5. Interest coverage ratio equals to the net profit before interest and tax for the year divided by the net interest expenses for the year.
6. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the year.
7. Quick ratio is calculated based on the total current assets netting of inventories divided by the total current liabilities as at the end of the year.
8. Gearing ratio is calculated by dividing the sum of borrowings by the total equity as at the end of each year and multiplied by 100%.
9. Debt to equity ratio is calculated by netting off the sum of borrowings with cash and cash balances (but excluding restricted cash) then divided by the total equity as at the end of each year and multiplied by 100%.

Net profit margin before interest and tax

Our net profit margin before interest and tax decreased from approximately 8.9% for the year ended 31 March 2014 to approximately 4.5% for the year ended 31 March 2015. Such decrease was mainly due to (i) the non-recurring Listing expenses of approximately HK\$16.9 million incurred during the year ended 31 March 2015; and (ii) the increase in our other general administrative expenses of approximately HK\$7.4 million.

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Net profit margin

As a result of the foregoing, our net profit margin decreased from approximately 6.9% for the year ended 31 March 2014 to approximately 3.0% for the year ended 31 March 2015.

Return on equity

Our return on equity decreased from approximately 51.8% for the year ended 31 March 2014 to approximately 40.1% for the year ended 31 March 2015. Such decrease was mainly due to the decrease in net profit as a result of the non-recurring Listing expenses and the increase in our general administrative expenses. Our equity decreased by approximately 45.3% from 31 March 2014 to 31 March 2015 mainly due to the dividends paid to shareholders of the subsidiaries of our Group, mitigated by (a) profit for the year ended 31 March 2015; and (b) increase in capital reserve arising from deemed contribution upon disposal of a subsidiary and issue of shares of On Real. The decrease in net profit of approximately 57.7% prevailed over the decrease in total equity of approximately 45.3% from 31 March 2014 to 31 March 2015 and thus resulting in the decrease in the return on equity from the year ended 31 March 2014 to the year ended 31 March 2015.

Return on assets

Our return on assets decreased from approximately 13.6% for the year ended 31 March 2014 to approximately 7.0% for the year ended 31 March 2015. Such decrease was mainly due to the decrease in net profit as a result of the non-recurring Listing expenses and the increase in our general administrative expenses. The decrease in net profit of approximately 57.7% from the year ended 31 March 2014 to the year ended 31 March 2015 outweighed the decrease in total assets of approximately 17.5% from 31 March 2014 to 31 March 2015 and thus resulting in the decrease in the return on assets from the year ended 31 March 2014 to the year ended 31 March 2015.

Interest coverage ratio

Our interest coverage ratios were approximately 48.9 times and 28.2 times for the two years ended 31 March 2015, respectively. The decrease in interest coverage ratio was mainly due to the decrease in profit before interest and tax.

Current ratio

Our Group recorded current ratios of approximately 1.0 and 0.9 as at 31 March 2014 and 31 March 2015, respectively. Our current ratios remained stable at each of the years end during the Track Record Period.

Quick ratio

Our quick ratios of our Group were approximately 0.6 and 0.7 as at 31 March 2014 and 31 March 2015, respectively. Taking into account the inventory balances of approximately HK\$43.8 million and HK\$28.6 million as at the respective years end, the quick ratios followed the same trend as the current ratios.

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Gearing ratio

Our gearing ratio increased from approximately 49.4% as at 31 March 2014 to approximately 189.4% as at 31 March 2015, mainly due to (i) decrease in the total equity from 31 March 2014 to 31 March 2015 mainly as a result of the dividends paid to shareholders of the subsidiaries of our Group, mitigated by (a) profit for the year ended 31 March 2015; and (b) increase in capital reserve arising from deemed contribution upon disposal of a subsidiary and issue of shares of On Real; and (ii) the increase in borrowings of approximately HK\$26.0 million from 31 March 2014 to 31 March 2015.

Debt to equity ratio

Our Group recorded a net cash position as at 31 March 2014 as our Group's cash and cash equivalents was greater than our debt amount as at 31 March 2014. The debt to equity ratio of our Group was approximately 81.2% as at 31 March 2015.

SENSITIVITY AND BREAKEVEN ANALYSIS

Sensitivity analysis

Our cost of sales mainly comprised the cost of inventories, which represented the purchase cost of raw materials for the manufacturing of our products, which amounted to approximately HK\$199.2 million and HK\$182.3 million for the two years ended 31 March 2015, respectively, representing approximately 65.7% and 63.9% of the total cost of sales respectively. Any material fluctuation in our cost of inventories which we cannot reflect in the prices offered to our customers may affect the result of our operations. A hypothetical sensitivity analysis on the approximate impact of 5%, 10% and 15% changes in cost of inventories with all other variables remain constant, on our profit for each year during the Track Record Period is illustrated below:

	Increase/(decrease) in profit	
	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Increase 5%	(9,958)	(9,114)
Decrease 5%	9,958	9,114
Increase 10%	(19,917)	(18,229)
Decrease 10%	19,917	18,229
Increase 15%	(29,875)	(27,343)
Decrease 15%	29,875	27,343

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Breakeven analysis

For the year ended 31 March 2014, it is estimated that (i) with a decrease in turnover of approximately 8.8% and all other variables held constant, our Group would achieve breakeven; and (ii) with an increase in cost of inventories of approximately 15.7% and all other variables held constant, our Group would achieve breakeven.

For the year ended 31 March 2015, it is estimated that (i) with a decrease in turnover of approximately 4.3% and all other variables held constant, our Group would achieve breakeven; and (ii) with an increase in cost of inventories of approximately 8.2% and all other variables held constant, our Group would achieve breakeven.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in Note 31 to the Accountant's Report. Our Directors confirm that these transactions were conducted on arm's length basis, normal commercial terms and were no less favourable than terms available from Independent Third Parties which are considered fair and reasonable.

Having considered that the amounts of these related party transactions are immaterial, our Directors are of the view that the aforesaid related party transactions did not distort our financial results during the Track Record Period or cause our Track Record Period results to be unreflective of our future performance.

OFF-BALANCE SHEET TRANSACTIONS

We have not entered into any material off-balance sheet transactions or arrangements during the Track Record Period.

PROPERTY INTERESTS

We leased a property in Hong Kong for use as our office and five properties in the PRC as our office, factory and staff quarters as at the Latest Practicable Date, see "Business — Property".

CAPITAL EXPENDITURES

Historical capital expenditures

During the Track Record Period, our capital expenditures primarily comprised (i) purchase of property, plant and equipment of approximately HK\$2.6 million and HK\$6.9 million for the two years ended 31 March 2015, respectively; and (ii) research and development costs which have been capitalised as intangible assets of approximately HK\$1.7 million and HK\$7.5 million for the two years ended 31 March 2015, respectively. We principally funded our capital expenditures through internal resources and finance lease arrangement.

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Planned capital expenditures

Save for the planned usage of the net proceeds from the Placing as disclosed in “Future Plans and Use of Proceeds” and the additions of property, plant and equipment and intangible assets necessary for our business operations which will be made by our Group from time to time, our Group had no material planned capital expenditures as at the Latest Practicable Date.

CONTRACTUAL OBLIGATIONS

Operating lease commitments

During the Track Record Period, we leased certain of our office premises, factories and staff quarters under operating lease arrangements. The leases are negotiated for terms ranging from one to three years. As at 31 March 2014, 31 March 2015 and 31 July 2015, our Group had the following future minimum rental payable under non-cancellable operating leases:

	As at 31 March		As at 31 July
	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
No later than 1 year	714	3,106	2,961
Later than 1 year but no later than 5 years	12	3,445	2,579
Total	726	6,551	5,540

The operating lease commitments increased by approximately HK\$5.9 million from approximately HK\$0.7 million as at 31 March 2014 to approximately HK\$6.6 million as at 31 March 2015, representing an increase of approximately 8.4 times, which was mainly due to (i) the new tenancy agreement of Songgang Production Facility; and (ii) the new tenancy agreement of the office of On Real located in Hong Kong Science Park, Pak Shek Kok, Hong Kong, which were entered during the year ended 31 March 2015.

Capital commitments

As at 31 March 2014, 31 March 2015 and 31 July 2015, our Group had the following capital commitments:

	As at 31 March		As at 31 July
	2014	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for			
– Property, plant and equipment	32	981	714
– Intangible assets ^(Note)	2,585	1,460	581
	2,617	2,441	1,295

Note: It represented our capital commitment in relation to the development costs to be paid which has been contracted.

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DIVIDEND POLICY

Onward declared dividends in the sum of approximately HK\$0.5 million for the year ended 31 March 2014 to its then shareholders. On Real declared (i) dividends in the total sum of approximately HK\$7.3 million for the year ended 31 March 2014 and approximately HK\$16.0 million for the year ended 31 March 2015 to its then shareholders; (ii) a special dividend payment in the sum of approximately HK\$35.0 million (HK\$10.0 million in cash and approximately HK\$25.0 million for settlement of disposal of its 100% equity interest in Xinxing On Time) to its then shareholders; and (iii) a special dividend of approximately HK\$1.0 million to its then shareholders which was fully set off against the same amount of receivables due to us from our Controlling Shareholders as at 30 November 2014. Save for the aforesaid, no dividends have been declared and paid by the companies now comprising our Group to their then respective shareholders during the Track Record Period and up to the Latest Practicable Date.

The declaration of future dividends will be subject to our Directors' decision and will depend on, among other things, our earnings, cash flow, financial condition, capital requirements, statutory reserve requirements and any other factors our Directors may consider relevant. The amount of dividend will be determined upon the completion of financial audit and will be referred to distributable profit shown on audited financial report. Currently, we do not have any predetermined dividend distribution ratio.

After completion of the Placing, our Shareholders will be entitled to receive dividends only when declared by our Directors. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend on the future operations and earnings, capital requirements and surplus, general financial condition and other factors that our Directors deem relevant. As these factors and the payment of dividends is at the discretion of our Board, which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Placing on the net tangible assets of our Group attributable to owners of our Company as of 31 March 2015 as if the Placing had taken place on 31 March 2015.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 31 March 2015 or at any future dates following the Placing. It is prepared based on the consolidated net assets of our Group as at 31 March 2015 as set out in the Accountant's Report of our Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

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	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2015 <i>(Note (1))</i> <i>HK\$'000</i>	Estimated net proceeds from Placing <i>(Note (2))</i> <i>HK\$'000</i>	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company as at 31 March 2015 <i>(Note (3))</i> <i>HK\$'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>(Note (4))</i> <i>HK\$</i>
Based on a Placing Price of HK\$0.4 per Share	17,857	29,860	47,717	0.10
Based on a Placing Price of HK\$0.6 per Share	17,857	53,020	70,877	0.15

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of our Company as at 31 March 2015 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to owners of our Company as at 31 March 2015 of approximately HK\$26,260,000 with an adjustment for the intangible assets as at 31 March 2015 of HK\$8,403,000.
- (2) The estimated net proceeds from the Placing are based on the indicative Placing Price of HK\$0.40 and HK\$0.60 per Share, being low and high end of the indicative Placing Price range, after deduction of the estimated underwriting fees and other related expenses (excluding listing expenses of approximately HK\$16,943,000 which have been accounted for prior to 31 March 2015) payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate, respectively.
- (3) The unaudited pro forma adjusted net tangible assets per Share has been arrived at after having made the adjustments referred to in the preceding paragraphs and on the basis of a total of 480,000,000 Shares in issue assuming that the Placing has been completed on 31 March 2015 but without taking into account any Shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate to Issue Shares or the 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 our Group entered into subsequent to 31 March 2015.

LISTING EXPENSES

Our Directors are of the view that the financial results of our Group for the year ending 31 March 2016 is expected to be adversely affected by, among others, the Listing expenses in relation to the Placing, the nature of which is non-recurring. Listing expenses directly attributable to issuing the Placing Shares are recognised in equity, while other Listing expenses are recognised as other expenses in our consolidated income statement. The total Listing expenses in relation to the Placing, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately HK\$35.5 million (based on the mid-point of the indicative Placing Price range). Among the estimated total Listing expenses, (i) approximately HK\$10.4 million is expected to be accounted for as a deduction from equity upon Listing; and (ii) approximately HK\$25.1 million is expected to be recognised as expenses in our consolidated income statement, of which approximately HK\$16.9 million was charged to the consolidated income statement for the year ended 31 March 2015 and the remaining of approximately HK\$8.2 million is expected to be charged to our consolidated income statement for the year ending 31 March 2016.

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Our Directors would like to emphasise that the amount of the Listing expenses is a current estimate for reference only and the final amount to be recognised in the consolidated financial statement of our Group for the year ending 31 March 2016 is subject to adjustment based on audit and the then changes in variables and assumptions.

Prospective investors should note that the financial performance of our Group for the year ending 31 March 2016 is expected to be adversely affected by the estimated non-recurring Listing expenses mentioned above, and may or may not be comparable to the financial performance of our Group in the past. See “Risk Factors — Risks relating to our business — Our financial performance for the year ending 31 March 2016 will be affected by certain non-recurring expenses.” for details.

DISTRIBUTABLE RESERVES

Under the Companies Law, we may pay dividends out of our profit or our share premium account in accordance with the provisions of our Articles of Association, provided that immediately following the date on which the dividend is proposed to be distributed, we remain able to pay our debts as and when they fall due in the ordinary course of business. Our Company was incorporated on 30 June 2014 and there was no distributable reserve as at 31 March 2014 and 31 March 2015, respectively.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Save as disclosed in this prospectus, our Directors confirm that as at the Latest Practicable Date, there are no circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

EVENTS AFTER THE BALANCE SHEET DATE

For details of the events after 31 March 2015, being the date to which our latest audited financial information was prepared, see Note 32 of the Accountant’s Report contained in Appendix I to this prospectus.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

Based on the unaudited financial information of our Company, our sales for the four months ended 31 July 2015 decreased by approximately 15.5% as compared to that for the corresponding period in 2014, which was mainly because of the decrease in sales of products shipped to the US. Retail sales in the US shrunk in the first quarter of 2015, mainly due to the harsh weather which kept customers away from showrooms and malls and thus weakened consumption level, which in turn slow down the movement of inventories of our customers and holdup their procurement from us. Such decrease was partially offset by the increase in our sales to Customer A for the four months ended 31 July 2015 as compared to the same period in 2014. During the Track Record Period, Customer A placed purchase orders to us for the products shipped to Asia, Europe and UK only until we incurred sales to Customer A for the products which were shipped to the US since February 2015. In addition to its launch of new models of two-way radios, our sales to Customer A for the four months ended 31 July 2015 increased significantly as compared to the same period in 2014. Further, we received two project awards in March 2015 from a new customer, Customer E, which is a subsidiary of a

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Japanese company listed on the Tokyo Stock Exchange which manufactures and markets wireless consumer electronic products worldwide, thus it is expected that revenue will be generated from Customer E in the year ending 31 March 2016 despite no revenue has been generated from Customer E as at the Latest Practicable Date. As such, our Directors consider that our sales growth will recover and increase gradually. The revenue for the four months ended 31 July 2015 was extracted from our unaudited condensed consolidated financial statements for the four months ended 31 July 2015 prepared by our Directors in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, which were reviewed by PricewaterhouseCoopers, our reporting accountants, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

During the year ended 31 March 2015, we outsourced part of our labour-intensive manufacturing processes to subcontractors which allows us to reduce our labour cost and achieve greater flexibility in allocating our resources. As we had to assess the performance of the subcontractors when we started using their services, the cost effectiveness of subcontracting had not been reflected during the transitional period. The cost effectiveness of subcontracting had been achieved since January 2015 and we recorded a higher gross profit and gross profit margin for the four months ended 31 July 2015 when compared with the same period in 2014, mainly as a result of lower direct labour cost incurred. We recorded a higher net profit for the four months ended 31 July 2015 as compared to the corresponding period in 2014 primarily due to the increase in our gross profit as discussed above and the decrease in the Listing expenses (of which approximately HK\$16.9 million was charged to the consolidated income statement for the year ended 31 March 2015 and the remaining of approximately HK\$8.2 million is expected to be charged to the consolidated income statement for the year ending 31 March 2016) incurred. Based on the foregoing, it is expected that our net profit will be improved accordingly.

The impact of the Listing expenses disclosed in “— Listing expenses” on our Group’s consolidated income statement is expected to result in or have resulted in material adverse changes in the financial or trading position or prospect of our Group since 31 March 2015, being the date to which our latest audited financial information were prepared.

Save as disclosed above, our Directors confirm that as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects of our Group since 31 March 2015, being the date to which our latest audited financial information was prepared and there had been no event since 31 March 2015 which would materially and adversely affect the information shown in our consolidated financial information included in the Accountant’s Report.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. Our Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our Group’s financial performance. Our Group uses derivative financial instruments to hedge certain risk exposures.

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Risk management is carried out by finance department under policies approved by the Board. Finance department of our Group identifies, evaluates and hedge financial risks in close co-operation with our Group's operating units. The board provides guidance for overall risk management and specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Our Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollars ("HK\$") and the Chinese Yuan ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, our Group enters into foreign exchange forward contracts with external financial institutions to partially hedge against such foreign exchange risk. Our Group also mitigates this risk by maintaining HK\$ and RMB bank accounts which are used by our Group to pay for the transactions denominated in these currencies.

The HK\$ is pegged to the US\$ and thus foreign currency exposure is considered as minimal and is not hedged.

At 31 March 2014, if the RMB had weakened/strengthened by 5% against the HK\$ with all other variables held constant, the pre-tax profit for the year would have been HK\$244,000 higher/lower, mainly as a result of foreign exchange losses/gains on translation of RMB-denominated trade and other receivables, trade and other payables and cash and bank balances.

At 31 March 2015, if the RMB had weakened/strengthened by 5% against the HK\$ with all other variables held constant, the pre-tax profit for the year would have been HK\$1,210,000 higher/lower, mainly as a result of foreign exchange losses/gains on translation of RMB-denominated trade and other receivables, trade and other payables and cash and bank balances.

(ii) Cash flow interest rate risk

Our Group's interest rate risk arises from bank borrowings. Borrowings obtained at variable rates expose our Group to cash flow interest rate risk. During the Track Record Period, our Group's borrowings at variable rates were denominated in the HK\$ and the US\$, respectively. Borrowing obtained at variable rates expose our Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates.

Our Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, our Group calculates the impact on consolidated income statements of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

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Our Group's cash flow interest rate risk arises from bank balances at floating interest rates.

At 31 March 2014, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK\$113,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 March 2015, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK\$247,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk of our Group mainly arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers such as trade and bills receivable and other receivables. The carrying amount of these balances in the consolidated statements of financial position represents our Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 March 2014 and 31 March 2015, 27% and 17% respectively of our Group's cash at banks were deposited in financial institutions with no credit rating provided by Standard and Poor's. Our Group only maintained sufficient deposit in these financial institutions without credit rating in order to satisfy the payments which required to be settled through these bank accounts. Management does not expect any losses arising from non-performance by these counterparties as at the balance sheet date.

Bank balances are deposited in reputable banks. Management does not expect any losses from non-performance by these banks.

Debtors of our Group may be affected by the unfavorable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on its financial position, past experience and other factors. Our Group has policies in place to ensure that sales of products are made to customers with appropriate credit histories.

As at 31 March 2014 and 31 March 2015, our Group had a concentration of credit risk given that the top 5 customers account for 78.2% and 78.0% of our Group's total year end trade receivable balances, respectively. Our Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in our Group's outstanding receivable balances due from these customers. However, our Group does not believe that the credit risk in relation to these customers is significant because they have no history of default in recent years.

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Our Group performs periodic credit evaluations of its customers. For the trade and bills receivable proved to be impaired, management has provided sufficient provision on those balances.

Management considers the credit risk on amount due from a related company is minimal after considering the financial conditions of the entity as at 31 March 2014. Management has performed assessment over the recoverability of this balance and management does not expect any losses from non-performance by this company.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. Our Directors aim to maintain flexibility in funding by keeping credit lines available and obtaining additional funding from the loan facilities and monitoring cash flow forecast to maintain its going concern.

Management monitors our Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 27 of Accountant's Report) at all times so that our Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Surplus cash held by our Group entities over and above balances required for working capital management is invested in interest-bearing bank accounts and bank deposits with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

As at 31 March 2014 and 31 March 2015, our Group had net current liabilities of approximately HK\$4,519,000 and HK\$9,272,000. Our Directors have reviewed our Group's cash flow projections covering a period of not less than twelve months from the balance sheet date. In the opinion of our Directors, based on the cash flow projections and taking into account the reasonably possible changes in the operating performance, our Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. Accordingly, our Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The following tables analyses our Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date our Group can be required to pay, except for long term bank borrowings subject to a repayment on demand clause.

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Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The undiscounted cash flow does not include interest payments computed using contractual rates if the lender does not invoke their unconditional rights. The maturity analysis for other bank borrowings and finance lease liabilities is prepared based on the scheduled repayment dates.

	On demand	Within 3 months	More than 3 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash outflows
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2014						
Long term bank borrowings subject to a repayment on demand clause	16,990	–	–	–	–	16,990
Other bank borrowings	–	5,553	–	–	–	5,553
Finance lease liabilities	–	199	596	420	33	1,248
Trade and other payables	654	44,893	–	–	–	45,547
Amount due to a related company	8,761	–	–	–	–	8,761
Amounts due to directors	994	–	–	–	–	994
	<u>27,399</u>	<u>50,645</u>	<u>596</u>	<u>420</u>	<u>33</u>	<u>79,093</u>
At 31 March 2015						
Long term bank borrowings subject to a repayment on demand clause	15,135	–	–	–	–	15,135
Other bank borrowings	–	34,179	–	–	–	34,179
Finance lease liabilities	–	123	279	32	–	434
Trade and other payables	654	49,911	–	–	–	50,565
	<u>15,789</u>	<u>84,213</u>	<u>279</u>	<u>32</u>	<u>–</u>	<u>100,313</u>

The table below summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account our Group's financial position, our Directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. Our Directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

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Maturity analysis – Bank borrowings subject to a repayment on demand clause based on scheduled repayments

	Within 3 months	More than 3 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total Outflows
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2014	1,533	4,011	4,279	8,353	18,176
At 31 March 2015	2,140	6,119	3,924	3,689	15,872

The table below analyses our Group's net-settled financial derivative assets which have contractual maturities in less than one year.

**Less than
1 year**
HK\$'000

At 31 March 2014

Forward foreign exchange contracts:

Assets

Net inflows 1,872

At 31 March 2015

Forward foreign exchange contracts:

Assets

Net inflows –

Capital risk management

Our Group's objectives when managing capital are to safeguard our 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, our Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, our Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position.

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As at 31 March 2014 and 2015, the gearing ratios were as follows:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total debt	23,700	49,729
Total capital	47,994	26,260
Gearing ratio	49.4%	189.4%

Fair value estimation

The table below analyses our Group's financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents our Group's assets that are measured at fair value.

	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2014				
Assets				
– Derivative financial instruments (<i>Note (i)</i>)	–	1,872	–	1,872
– Financial asset at fair value through profit or loss (<i>Note (ii)</i>)	–	–	11,680	11,680
Total	–	1,872	11,680	13,552

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	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2015				
Asset				
– Financial asset at fair value through profit or loss (<i>Note (ii)</i>)	–	–	14,458	14,458

Notes:

- (i) The fair values of derivative financial instruments, which primarily represented the forward foreign exchange contracts and are not traded in an active market, are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- (ii) The following table presents the changes in level 3 instruments for the two years ended 31 March 2015:

	Financial asset at fair value through profit or loss	
	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	12,578	11,680
Interest income	333	342
Administrative expense charged to consolidated income statement	(122)	(125)
Changes in fair value	(1,109)	2,561
At end of the year	11,680	14,458

Please refer to Note 17 of Accountant's Report for the details of the revaluation of the financial asset at fair value through profit or loss.

There were no transfers between levels 2 and 3 during the Track Record Period.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVE

Our business objectives are to grow our existing business, diversify our revenue streams and expand our customer base by expanding product offerings and features, improving information management system and strengthening management and widening sales channel.

BUSINESS STRATEGIES

We will endeavour to achieve our business objectives by implementing the following business strategies in accordance with the schedule set out in “— Implementation plan”. The respective scheduled completion times are based on certain bases and assumptions as set out in “— Bases and assumptions”. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in “Risk Factors”. Therefore, there is no assurance that our business plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished at all. We currently have no intention to change our operating and management system, including our procurement procedures, human resources management, quality control system and management reporting system.

1. Strengthen our product portfolio

Building on our knowledge in two-way radios and RF technology, we plan to strengthen our product portfolio by expanding our product offerings and adding new features to our existing products to appeal to our customers and other customer segments through the following means:

- *Develop new products and/or product models*

We have been developing and selling two-way radios and baby monitors in the past which are products premised on the use of RF technology. We consider that product innovation, product design and development and technological knowhow are key factors for a competitive edge in the industry we operate in. In order to maintain our competitiveness and to appeal to a broader customer base, our Directors believe that we should enhance our existing products and develop new products that are based on our know-how and expertise in RF technology as this is where the strength of our product development team lies. For details of our upcoming product development activities, see “Business — Our products — New products — New product models”.

We plan to engage external design partners with specialised expertise in the product that we intend to develop while we provide our input in RF technology. The design partners would be responsible for selecting and evaluating a product platform (a framework to which a product will be based on) and provide assistance in designing and developing the hardware, software and mechanical features according to our product specification. Our product development team will be able to work closely with the design partners in further design and development as our input in RF technology is essential to the product. We expect to develop three to six new products and/or product models in each year.

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- ***Develop IoT connectivity***

We anticipate that IoT will be increasingly relevant to our products as internet access by the general public becomes easier due to rapid growth in mobile internet access. We plan to engage technology companies to develop IoT connectivity for our products such that end-users can link our products with their IoT-enabled devices such as smart phones and computers through the internet and to store and share information with greater ease and convenience. We believe by enabling IoT on our products, they would appeal to customers who regularly use the internet.

It is expected that the technology companies will design and develop appropriate software and hardware to enable our products to be able to connect to IoT-enabled devices. For software, this would mainly consist of (i) writing programs (also known as applications) for common IoT-enabled devices such as smart phones and tablets and (ii) supporting our product development team in the software coding of our products. For hardware, this would mainly consist of providing us with an information technology infrastructure that can handle the transfer of data between our products and the customers' IoT-enabled devices.

- ***Purchase tooling***

As we plan to devote resources in expanding our product portfolio, we would need to purchase tooling to support our new products. Tooling is necessary in our manufacturing process to ensure a consistent appearance of our products. For every new product we develop, it may consist of different series which will have different outlook and appearance. Each series would require a different set of tooling and therefore multiple sets of tooling may be purchased to achieve various product outlooks.

With respect to our plan to strengthen our product portfolio, the intended use of the estimated net proceeds from the Placing from the Latest Practicable Date to 30 September 2018 has taken into account the number of products and/or product models we expect to develop in each year (i.e. three to six), the costs required for the development of potential products and/or product models historically and the product and technology requirements of the potential products and/or product models, among others. We expect to incur the estimated net proceeds for such purpose on engaging external designers, technology companies and purchasing tooling and we have obtained price quotations from designers, technology companies and tooling suppliers which provide the relevant services.

The table below sets forth our use of proceeds on our new products during the period from the Latest Practicable Date to 30 September 2018:

- Two-way radio with built-in Bluetooth: HK\$1.4 million will be used for product development;
- Digital video baby monitor with non-invasive movement sensing capability: HK\$1.4 million will be used for product development;

FUTURE PLANS AND USE OF PROCEEDS

- IoT connectivity accessory: HK\$1.8 million will be used for product design and development activities;
- IoT connectivity accessory (second generation): HK\$1.8 million will be used for product design and development activities;
- Power bank with built-in RF module: HK\$1.8 million will be used for product design and development activities;
- High-end dPMR two-way radio product with IPX-7 waterproof standard and floating features: HK\$1.8 million will be used for product design and development activities;
- High-end two-way radio product with GPS/Bluetooth: HK\$1.8 million will be used for product design and development activities;
- Digital audio baby monitor with non-invasive movement sensing, enhanced features (such as MP3 playback) and performance improvement (better sound quality, longer distance and low power consumption) — second generation: HK\$1.8 million will be used for product design and development activities;
- Digital video baby monitor with non-invasive movement sensing and enhanced features such as higher display resolution, internet connectivity, touch screen — second generation: HK\$1.8 million will be used for product design and development activities; and
- Digital video baby monitor with non-invasive movement sensing and enhanced features such as higher resolution, high-speed internet connectivity, touch screen, data analysis — third generation: HK\$1.8 million will be used for product design and development activities.

2. Enhance our information management systems

Key stages of our business operations are recorded on our ERP system, which allows us to monitor and manage the entire process of our business workflow. We plan to improve our information management systems to cope with the increasing complexity of our business by upgrading our existing ERP system to put in place enhanced ERP features so that we will benefit from higher efficiency, flexibility, accuracy and timeliness in budgeting and financial reporting. We also plan to purchase new computer systems to accommodate our information technology needs.

FUTURE PLANS AND USE OF PROCEEDS

3. Strengthen our marketing efforts

Our Directors believe that leveraging on our becoming a listed company on the Stock Exchange, our corporate image would be enhanced and potential customers would have more confidence in our business. We plan to (i) expand our sales and marketing team by recruiting one management staff with at least ten years experience in consumer electronic products to lead our product offerings expansion plans and hiring sales agent with international sales experience to focus on the soliciting of new customers, in particular international brands that would consider purchasing our products in our expanding product portfolio; and (ii) continue to participate in exhibitions to maintain market presence and to introduce our products and services to potential customers.

IMPLEMENTATION PLAN

We will endeavour to achieve the following milestone events during the period from the Latest Practicable Date to 30 September 2018, and their respective scheduled completion time are based on certain bases and assumptions as set out in “— Bases and assumptions”.

For the period from the Latest Practicable Date to 31 March 2016

Business strategy	Use of proceeds	Implementation plan
Strengthen our product portfolio	HK\$4.7 million	<ul style="list-style-type: none">• Engage external design partners to assist in developing new products• Engage external technology companies to develop IoT connectivity• Acquire six sets of tooling for new product

FUTURE PLANS AND USE OF PROCEEDS

Business strategy	Use of proceeds	Implementation plan
Enhance our information management systems	HK\$2.0 million	<ul style="list-style-type: none">• Upgrade ERP system• Acquire computers and servers to support new ERP system• Recruit one management staff into our sales and marketing team• Engage external sales agents to solicit new customers• Attend the Hong Kong Electronics Fair (a trade exhibition in Hong Kong)
Strengthen our marketing efforts	HK\$0.6 million	<ul style="list-style-type: none">• Cost will be incurred as remuneration payable to the one management staff recruited into our sales and marketing team• Continue to engage external sales agent to solicit new customers• Attend the Hong Kong Electronics Fair (a trade exhibition in Hong Kong)

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 30 September 2016

Business strategy	Use of proceeds	Implementation plan
Strengthen our product portfolio	HK\$4.1 million	<ul style="list-style-type: none">• Engage external design partners to assist in developing new products• Engage external technology companies to develop IoT connectivity• Acquire two sets of tooling for new products
Strengthen our marketing efforts	HK\$0.5 million	<ul style="list-style-type: none">• Cost will be incurred as remuneration payable to the one management staff recruited into our sales and marketing team• Continue to engage external sales agent to solicit new customers• Attend the Hong Kong Electronics Fair (a trade exhibition in Hong Kong)

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 March 2017

Business strategy	Use of proceeds	Implementation plan
Strengthen our product portfolio	HK\$3.7 million	<ul style="list-style-type: none"> • Engage external design partners to assist in developing new products • Engage external technology companies to develop IoT connectivity • Acquire four sets of tooling for new products
Strengthen our marketing efforts	HK\$0.5 million	<ul style="list-style-type: none"> • Cost will be incurred as remuneration payable to the one management staff recruited into our sales and marketing team • Continue to engage external sales agent to solicit new customers

For the six months ending 30 September 2017

Business strategy	Use of proceeds	Implementation plan
Strengthen our product portfolio	HK\$1.6 million	<ul style="list-style-type: none"> • Engage external design partners to assist in developing new products • Engage external technology companies to develop IoT connectivity • Acquire four sets of tooling for new products
Strengthen our marketing efforts	HK\$0.5 million	<ul style="list-style-type: none"> • Cost will be incurred as remuneration payable to the one management staff recruited into our sales and marketing team • Continue to engage external sales agent to solicit new customers

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 March 2018

Business strategy	Use of proceeds	Implementation plan
Strengthen our product portfolio	HK\$3.1 million	<ul style="list-style-type: none">• Engage external design partners to assist in developing new products• Engage external technology companies to develop IoT connectivity• Acquire four sets of tooling for new products
Strengthen our marketing efforts	HK\$0.5 million	<ul style="list-style-type: none">• Cost will be incurred as remuneration payable to the one management staff recruited into our sales and marketing team• Continue to engage external sales agent to solicit new customers

For the six months ending 30 September 2018

Business strategy	Use of proceeds	Implementation plan
Strengthen our marketing efforts	HK\$0.5 million	<ul style="list-style-type: none">• Cost will be incurred as remuneration payable to the one management staff recruited into our sales and marketing team• Continue to engage external sales agent to solicit new customers

FUTURE PLANS AND USE OF PROCEEDS

BASES AND ASSUMPTIONS

Potential investors should note that the attainability of our business objectives depends on the following general assumptions and specific assumptions:

- there will be no material changes in the existing political, legal, fiscal, social or economic conditions in Hong Kong or in any other places in which any member of our Group carries on its business or will carry on its business;
- 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;
- there will be no material changes in legislation or regulations whether in Hong Kong or elsewhere materially affecting the business carried on by our Group;
- there will be no significant changes in our business relationship with our major customers and suppliers;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined in “— Implementation plan”;
- the Placing will be completed in accordance with and as described in “Structure and Conditions of the Placing”;
- we will not be materially affected by the risk factors as set out in “Risk Factors”;
- and
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate.

REASONS FOR THE PLACING AND USE OF PROCEEDS

Our Company intends to raise funds by the Placing in order to pursue our business objectives as set out in “— Business objective”. Our Directors believe that the Listing will enhance our Group’s profile and the net proceeds from the Placing will strengthen our Group’s financial position.

We estimate that the net proceeds from the Placing, after deducting the underwriting commission and related expenses payable by our Company in the aggregate amount of HK\$35.5 million will be approximately HK\$24.5 million (assuming a Placing Price of HK\$0.50 per Placing Share, being the mid-point of the indicative price range). We intend to apply such net proceeds from the Placing as follows:

- approximately HK\$17.2 million, representing about 70.1% of the net proceeds from the Placing, will be used for strengthening our product portfolio;
 - approximately HK\$14.1 million, representing about 57.5% of the net proceeds from the Placing, will be used for developing new product;

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$1.9 million, representing about 7.7% of the net proceeds from the Placing, will be used for purchasing tooling; and
- approximately HK\$1.2 million, representing about 4.9% of the net proceeds from the Placing, will be used for developing IoT connectivity.
- approximately HK\$2.0 million, representing about 8.0% of the net proceeds from the Placing, will be used for enhancing our information management system;
- approximately HK\$3.1 million, representing about 12.8% of the net proceeds from the Placing, will be used for strengthening our marketing efforts; among which:
 - approximately HK\$2.2 million, representing about 8.8% of the net proceeds from the Placing, will be used for recruitment of one senior management staff;
 - approximately HK\$0.5 million, representing about 2.2% of the net proceeds from the Placing, will be used for hiring sales agent; and
 - approximately HK\$0.4 million, representing about 1.8% of the net proceeds from the Placing, will be used for participation in exhibitions.
- approximately HK\$2.2 million, representing about 9.1% of the net proceeds from the Placing, will be used towards working capital and other general corporate purposes.

In the event that any part of the future plans does not materialise or proceed as planned, we will carefully evaluate the situation and may reallocate the intended funding to our other future plans and/or to place the proceeds on short-term interest bearing deposit accounts with licenced banks and/or financial institutions in Hong Kong so long as we consider it to be in the best interest of our Company and our Shareholders taken as a whole. Should our Directors decide to allocate the net proceeds from the Placing to business plans and/or new projects of our Group other than those disclosed in this prospectus after the Listing, we will make an announcement to notify our Shareholders and investors of the changes in compliance with the GEM Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

According to current estimates, our Directors anticipate that the net proceeds from the Placing is approximately HK\$24.5 million (based on a Placing Price of HK\$0.50 per Placing Share, being the mid-point of the indicative Placing Price range), the cash and cash equivalents as at the Latest Practicable Date together with the projected cashflows from operations will be sufficient to finance the implementation of our Company's future plans up to 30 September 2018.

If the final Placing Price is set at the highest or lowest point of the indicative Placing Price range, the net proceeds of the Placing will increase or decrease by approximately HK\$11.6 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above irrespective of whether the Placing Price is determined at the highest or lowest of the indicative Placing Price range.

In summary, the implementation of the future plans for the period from the Latest Practicable Date to 30 September 2018 will be funded by the net proceeds from the Placing as follows (based on a Placing Price of HK\$0.50 per Placing Share, being the mid-point of the indicative Placing Price range):

	For the six months ending						Total
	From the Latest Practicable Date to 31 March 2016	30 September 2016	31 March 2017	30 September 2017	31 March 2018	30 September 2018	
	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>
Strengthen our product portfolio	4.7	4.1	3.7	1.6	3.1	-	17.2
Enhance our information management systems	2.0	-	-	-	-	-	2.0
Strengthen our marketing efforts	0.6	0.5	0.5	0.5	0.5	0.5	3.1
Working capital and other general corporate purposes	0.6	0.4	0.4	0.3	0.3	0.2	2.2
Total	7.9	5.0	4.6	2.4	3.9	0.7	24.5

SPONSOR'S INTEREST

Save as disclosed in this prospectus, neither the Sponsor nor any of its close associates has or may have, as a result of the Placing, any interest in any securities of our Company or any other member of our Group (including rights to subscribe for such securities).

Neither the Sponsor nor any of its close associates has accrued any material benefit as a result of the successful outcome of the Placing, other than the following:

- (i) by way of the documentation and financial advisory fee to be paid to the Sponsor for acting as the sponsor of the Listing;
- (ii) by way of the compliance adviser fee to be paid to the Sponsor for acting as our Company's compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules; and
- (iii) certain close associates of the Sponsor whose usual and ordinary courses of business involve trading of and dealing in securities may derive commissions from the trading of and dealing in securities of our Company or provide margin financing in connection thereto or purchase or sell securities of our Company or hold securities of our Company for investment purposes after the Listing on GEM.

None of the directors and employees of the Sponsor has any directorship in our Company or any other companies comprising our Group.

UNDERWRITING

UNDERWRITERS

Quam Securities Company Limited

Pacific Foundation Securities Limited

UNDERWRITING ARRANGEMENTS, COMMISSIONS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company is offering the Placing Shares for subscription by way of Placing at the Placing Price.

Subject to, among other conditions, the Stock Exchange granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Underwriting Agreement being fulfilled, the Underwriters have severally agreed to subscribe for or procure subscribers for their respective applicable proportions of the Placing Shares on the terms and conditions of the Underwriting Agreement and this prospectus.

Grounds for termination

The Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters) shall have the absolute right to terminate the Underwriting Agreement by notice in writing to our Company with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sponsor and/or the Joint Lead Managers:
 - (i) any statement contained in this prospectus, the post hearing information pack, the placing letter, the formal notice, any submission, document or information provided to the Sponsor and/or the Joint Lead Managers and any announcement or document issued by our Company in connection with the Placing (including any supplement or amendment thereto) (the “**Relevant Documents**”) which, considered by the Sponsor and/or the Joint Lead Managers in its/their sole and absolute opinion was, when it was issued, or has become, or been discovered to be untrue, incorrect, inaccurate or misleading in any material respect or any expression of opinion, intention or expectation contained in any such document is not in all material respects fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which, had it arisen or been discovered immediately before the date of this prospectus, would have constituted, in the sole and absolute opinion of the Sponsor and/or the Joint Lead Managers, a material omission from the Relevant Documents in the context of the Placing; or

UNDERWRITING

- (iii) either (1) there has been a breach of any of the representations, warranties and undertakings or any other provisions contained in the Underwriting Agreement by any party thereto (other than the Sponsor, the Joint Lead Managers and the Underwriters); or (2) any matter or event showing or rendering any of the representations, warranties and undertakings or any other provisions contained in the Underwriting Agreement, in the sole and absolute opinion of the Sponsor and/or the Joint Lead Managers, to be untrue, incorrect, inaccurate or misleading in any material respect when given or repeated; or
- (iv) any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Company or any of our Controlling Shareholders and the executive Directors pursuant to the indemnity provisions under the Underwriting Agreement or the Placing to be performed or implemented as envisaged; or
- (v) any event, series of events, matter or circumstance occurs or arises on or after the date of the Underwriting Agreement and prior to 8:00 a.m. on the Listing Date, being an event, a series of events, matter or circumstance which, if it had occurred before the date of the Underwriting Agreement, would have rendered any of the representations, warranties or undertakings contained in the Underwriting Agreement, in the sole and absolute opinion of the Sponsor and/or the Joint Lead Managers, untrue, incorrect, inaccurate or misleading in any material respect; or
- (vi) approval by the Stock Exchange for the listing of, and permission to deal in, the Shares is refused or not granted before the Listing Date, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vii) our Company withdraws any of the Relevant Documents (and/or any other documents used in connection with the contemplated issue of the Placing Shares); or
- (viii) any person (other than the Sponsor, the Joint Lead Managers and any of the Underwriters) has withdrawn or sought to withdraw its consent to the issue of any of the Relevant Documents with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

UNDERWRITING

- (b) there shall develop, occur, happen, exist or come into effect:
- (i) any event, or series of events in the nature of force majeure, including, without limitation, acts of government or orders of any courts, labour disputes, riots, strikes, calamity, crisis, public disorder, lock-outs (whether or not covered by insurance), fire, explosion, flooding, earthquake, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, economic sanctions, outbreaks of diseases or epidemics (including but not limited to swine influenza (H1N1 flu), severe acute respiratory syndrome and avian influenza A (H5N1) and other related or mutated forms), accidents, interruption or delay in transportation, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in Hong Kong or anywhere in the world; or
 - (ii) any change or development involving a prospective change, or any event or series of events, matters or circumstances likely to result in or represent any change or development involving a prospective change, in the local, national, regional, international financial, economic, political, military, industrial, fiscal, regulatory, currency, equity securities, credit, market, exchange control, stock market, financial market or other market conditions or any monetary or trading settlement system or matters and/or disaster (including without limitation any change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar, or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency, or any interruption in securities settlement or clearance service or procedures) in or affecting Hong Kong or anywhere in the world; or
 - (iii) any change in the general fund raising environment in Hong Kong or elsewhere; or
 - (iv) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the BVI or the Cayman Islands or any other jurisdictions relevant to any member of our Group or the Placing (the “**Relevant Jurisdictions**”); or
 - (v) the imposition of economic sanctions or changes in existing economic sanctions, or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
 - (vi) any change or development involving a prospective change in any taxation or exchange control (or the implementation of any exchange control, currency exchange rates or foreign investment laws or regulations) in any of the Relevant Jurisdictions; or

UNDERWRITING

- (vii) any change or development involving a prospective change, or a materialisation of, any of the risks in “Risk Factors”; or
- (viii) any litigation or claim of material importance being threatened or instigated against any member of our Group or any Director; or
- (ix) a Director being charged with an indictable offence or prohibited by operation of law or regulation or otherwise disqualified from taking part in the management of a company; or
- (x) the chairman or chief executive officer of our Company vacating his office; or
- (xi) the commencement by any governmental, regulatory or political body or organisation of any investigation or other action against a Director or any member of our Group or an announcement by any governmental, judicial, regulatory or political body or organisation that it intends to take any such action; or
- (xii) any contravention by any member of our Group or any Director or any Controlling Shareholder of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law, the PRC Company Law, the GEM Listing Rules, the SFO or any applicable laws and regulations; or
- (xiii) a prohibition on our Company for whatever reason from offering, allotting or issuing any of the Placing Shares pursuant to the terms of the Placing; or
- (xiv) non-compliance by any member of our Group or any Director or any Controlling Shareholder of this prospectus (and/or any other documents used in connection with the issue of the Placing Shares) or any aspect of the Placing with the GEM Listing Rules or any other applicable laws and regulations; or
- (xv) other than with the written approval from the Sponsor and/or the Joint Lead Managers, the issue or requirement to issue by our Company of a supplement or amendment to any of the Relevant Documents (and/or any other documents used in connection with the issue of the Placing Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the GEM Listing Rules; or
- (xvi) a demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (xvii) any material loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xviii) any change or prospective change in the earnings, results of operations, business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of any member of our Group (including any litigation or claim of material importance being threatened or instigated against any member of our Group); or

UNDERWRITING

- (xix) a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or any analogous matter thereto occurs in respect of any member of our Group; or
- (xx) a disruption in or any general moratorium on commercial banking activities or foreign exchange trading or securities settlement, or payment or clearance services or procedures in or affecting any of the Relevant Jurisdictions; or
- (xxi) the imposition of any moratorium, suspension or restriction on trading in shares or securities generally on or by the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or minimum or maximum prices for trading having been fixed, or minimum or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority,

which, in each case or in aggregate, in the sole and absolute opinion of the Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters):

- (A) is or may or will be or is likely to be materially adverse to or may prejudicially affect the general affairs, management, business, financial, trading or other condition or prospects of our Group taken as a whole or any member of our Group or to any present or prospective shareholder in his, her or its capacity as such; or
- (B) has or may or will or is likely to have a material adverse effect on the success, marketability or pricing of the Placing or the level of interest under the Placing or the distribution of the Placing Shares or the demand or market price of the Shares following the Listing; or
- (C) makes or may or will make it inadvisable, inexpedient or impracticable to proceed with or to market the Placing on the terms and in the manner contemplated by the Underwriting Agreement and this prospectus; or
- (D) has or may or will or is likely to have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of implementation or performance in accordance with its terms and in the manner contemplated by any of the Relevant Documents and the Underwriting Agreement or which prevents the processing of applications and/or payments pursuant to the Placing or pursuant to the underwriting thereof.

UNDERWRITING

Lock-up Undertakings

Undertakings pursuant to the Underwriting Agreement

Undertakings by our Company

Pursuant to the Underwriting Agreement, our Company has undertaken to and covenanted with each of the Sponsor, the Joint Lead Managers, the Sole Bookrunner and the Underwriters that our Company will not, and each of our Controlling Shareholders and executive Directors has undertaken to and covenanted with the Sponsor, the Joint Lead Managers, the Sole Bookrunner and the Underwriters that he will procure our Company not to, without the prior written consent of the Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters) and unless in compliance with the requirements of the GEM Listing Rules, except for the issue of Shares under the Placing, the Capitalisation Issue, the grant of any option under the Share Option Scheme or the issue of Shares upon exercise of any option granted under the Share Option Scheme:

- (i) at any time during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), offer, allot, issue, agree to allot or issue, sell, lend, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any options, rights or warrants to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase any of the share capital or other securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein), or enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of share capital or such other securities, in cash or otherwise, or publicly disclose that our Company will or may enter into any of the foregoing transactions (whether or not such transaction will be completed in the aforesaid period); and
- (ii) at any time during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), issue or grant (conditionally or unconditionally) any options or right to subscribe for or otherwise convert into or exchange for Shares or securities of our Company so as to result in any of our Controlling Shareholders ceasing to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company;

and in the event our Company enters into any transaction specified in sub-paragraph (i) above during the Second Six-month Period (whether or not such transaction will be completed in the aforesaid period), it shall take all reasonable steps to ensure that any such transaction, agreement, or as the case may be, announcement will not create a disorderly or false market in the securities of our Company.

UNDERWRITING

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to and covenanted with each of our Company, the Sponsor, the Joint Lead Managers, the Sole Bookrunner and the Underwriters that, without the prior written consent of the Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters) and unless in compliance with the requirements of the GEM Listing Rule), he shall not, and will procure that none of his close associates or companies controlled by him or any nominee or trustee holding in trust for him shall:

- (i) at any time during the First 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 of the securities of our Company in respect of which he is shown by this prospectus to be the beneficial owner (whether direct or indirect); and
- (ii) at any time during 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 of the securities referred to in sub-paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company;

and in the event that he enters into any transaction specified in sub-paragraph (i) above during the Second Six-month Period (whether or not such transaction will be completed in the aforesaid period), he will take all reasonable steps to ensure that any such transaction, agreement or, as the case may be, announcement will not create a disorderly or false market in the securities of our Company.

Undertakings pursuant to the GEM Listing Rules

Undertakings by our Company

Our Company has undertaken to the Stock Exchange that no further shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an 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 those permitted in accordance with Rule 17.29(1) to (5) of the GEM Listing Rules.

UNDERWRITING

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to our Company and to the Stock Exchange that, except pursuant to the Placing, he shall not and shall procure that the relevant registered holder(s) shall not:

- (i) at any time during the First-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 of those securities of our Company in respect of which he is shown by this prospectus to be the beneficial owner(s) (whether direct or indirect);
- (ii) at any time during 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 of the securities referred to in sub-paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would cease to be our Controlling Shareholder; and
- (iii) in the event of a disposal by him of any of the share capital of our Company or any interest therein during the Second Six-month Period (whether or not such disposal will be completed in the aforesaid period), he will take all steps to ensure that such a disposal will not create a disorderly or false market in the securities of our Company.

Each of our Controlling Shareholders has undertaken to and covenanted with our Company, the Sponsor, the Joint Lead Managers, the Sole Bookrunner, the Underwriters and the Stock Exchange that:

- (i) in the event that he pledges or charges any of his direct or indirect interest in the Shares or other securities of our Company under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders in our Company is made in this prospectus and ending on the date on which the Second Six-month Period expires, he must inform our Company, the Sponsor and the Joint Lead Managers immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (ii) having pledged or charged any of his interests in the Shares or other securities of our Company under sub-paragraph (i) above, he must inform our Company, the Sponsor and the Joint Lead Managers immediately in the event that he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares or other securities of our Company affected.

Our Company will also inform the Stock Exchange as soon as our Company has been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters by way of announcement in accordance with Rule 17.43 of GEM Listing Rules as soon as possible after being so informed by any of our Controlling Shareholders.

UNDERWRITING

Our Company, our Controlling Shareholders and the executive Directors have agreed to indemnify the Underwriters from certain losses which they may suffer, including losses arising from their performance of their obligations under the Underwriting Agreement and any breach by our Company or our Controlling Shareholders or the executive Directors of the Underwriting Agreement.

Commission and expenses

The Underwriters will receive an underwriting commission of 2% of the aggregate Placing Price of all Placing Shares, which are to be borne by our Company, out of which the Underwriters will pay any sub-underwriting commission and will be reimbursed for their reasonable expenses. The Company will also pay to each of the Joint Lead Managers a praecipium fee of 0.2% of the aggregate Placing Price of all Placing Shares. The total expenses relating to the Placing and Listing (including the GEM Listing fees, legal and other professional fees, and printing), are estimated to be approximately HK\$35.5 million, assuming a Placing Price of HK\$0.50, being the mid-point of the indicative Placing Price range, which will be payable by our Company.

Underwriters' interest in our Company

Save as disclosed in this prospectus and as contemplated pursuant to the Underwriting Agreement, none of the Underwriters or any of its close associates is interested legally or beneficially in the shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or nominate persons to subscribe for or purchase any Shares.

STRUCTURE AND CONDITIONS OF THE PLACING

PRICE PAYABLE ON SUBSCRIPTION

Applicants shall have to pay on application the maximum Placing Price of HK\$0.60 per Placing Share plus 1.0% brokerage fee, a 0.005% Stock Exchange trading fee and a 0.0027% SFC transaction levy amounting to a total of approximately HK\$3,030.2 per board lot of 5,000 Shares.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

- (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein on GEM;
- (ii) the Price Determination Agreement having been executed by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company and becoming effective on the Price Determination Date; and
- (iii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise),

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 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 Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published on the website of the Stock Exchange at www.hkexnews.com and our Company's website at www.on-real.com on the next business day following such lapse.

THE PLACING

The 120,000,000 Placing Shares are being offered in the Placing, representing in aggregate 25% of our Company's enlarged share capital immediately after the completion of the Placing and the Capitalisation Issue. A total of 120,000,000 Placing Shares will be offered under the Placing, which will be conditionally placed with professional, institutional and/or other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing is fully underwritten by the Underwriters, subject to the terms and conditions of the Underwriting Agreement, including the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company agreeing the Placing Price. The minimum subscription or

STRUCTURE AND CONDITIONS OF THE PLACING

purchase size for each subscriber of the Placing Share is 5,000 Placing Shares and thereafter in integral multiples of board lot size of 5,000 Shares. Investors subscribing for the Placing Shares are required to pay the Placing Price plus 1.0% brokerage, a 0.005% Stock Exchange trading fee and a 0.0027% SFC transaction levy for each board lot of 5,000 Shares.

BASIS OF ALLOCATION

Allocation of the Placing Shares to selected professional, institutional and/or other investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to purchase further Shares or hold or sell their Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, which provides that not more than 50% of the Shares in public hands at the time of Listing will be owned by the three largest public Shareholders. There will not be any preferential treatment in the allocation of the Placing Shares to any persons. Save with the prior written consent of the Stock Exchange, no allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed.

DETERMINATION OF THE PLACING PRICE

The Placing Price will not be more than HK\$0.60 per Placing Share and is expected to be not less than HK\$0.40 per Placing Share. Subscribers, when subscribing for the Placing Shares, shall pay the Placing Price plus 1.0% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy. Assuming the Placing Price of HK\$0.60 or HK\$0.40 per Share (being the highest and lowest points of the indicative Placing Price range respectively), subscribers shall pay HK\$3,030.2 and HK\$2,020.2 for every board lot of 5,000 Shares, respectively.

The Placing Price is expected to be fixed by the Price Determination Agreement to be entered into between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or about Tuesday, 22 September 2015 or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree. If, for any reason, the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Placing Price by the Price Determination Date, the Placing will not become unconditional and will lapse.

Prospective investors of the Placing Shares should be aware that the Placing Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Placing Price range stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE PLACING

If, the Joint Lead Managers (for themselves and on behalf of the Underwriters), with the consent of our Company, considers it appropriate (for instance, if based on the level of interest expressed by prospective investors), the indicative Placing Price range may be reduced below that stated in this prospectus at any time prior to the Price Determination Date. In such a case, our Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than 9:00 a.m. on the Price Determination Date cause to be published on the website of the Stock Exchange at www.hkexnews.com and our Company's website at www.on-real.com notice of the reduction of the indicative Placing Price range.

The indication of level of interest in the Placing and the basis of allocations of the Placing Shares will be announced on the website of the Stock Exchange at www.hkexnews.com and our Company's website at www.on-real.com on or before Tuesday, 29 September 2015.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM 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.

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.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Wednesday, 30 September 2015. Shares will be traded in board lots of 5,000 Shares and are fully transferable. The GEM stock code for the Share is 8245.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

18 September 2015

The Board of Directors
On Real International Holdings Limited

Quam Capital Limited

Dear Sirs,

We report on the financial information of On Real International Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at 31 March 2014 and 31 March 2015, the statement of financial position of the Company as at 31 March 2015, 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 March 2014 and 31 March 2015 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 18 September 2015 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 30 June 2014 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. Pursuant to a group reorganisation as described in Note 1(b) of Section II headed "Reorganisation" below, which was completed on 31 October 2014, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1(b) of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

The directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSAs”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their respective places of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II below.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1(c) of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1(c) of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1(c) of Section II below, a true and fair view of the state of affairs of the Company as at 31 March 2015 and the state of affairs of the Group as at 31 March 2014 and 31 March 2015 and of the Group's results and cash flows for the Relevant Periods.

I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 March 2014 and 31 March 2015 and for the each of the years ended 31 March 2014 and 31 March 2015 (the "Financial Information"), presented on the basis set out in Note 1(c) of Section II below:

(A) CONSOLIDATED INCOME STATEMENTS

	<i>Note</i>	Year ended 31 March	
		2014	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	358,129	346,191
Cost of sales	8	(303,018)	(285,165)
Gross profit		55,111	61,026
Other income – net	6	1,745	4,454
Other gains – net	7	3,523	1,775
Selling and distribution expenses	8	(4,555)	(3,710)
Administrative expenses	8	(23,814)	(48,079)
Operating profit		32,010	15,466
Finance income	10	447	604
Finance costs	10	(1,102)	(1,152)
Finance costs – net	10	(655)	(548)
Profit before income tax		31,355	14,918
Income tax expenses	11	(6,474)	(4,382)
Profit for the year		24,881	10,536
Profit attributable to:			
Owners of the Company		24,722	10,536
Non-controlling interests		159	–
Profit for the year		24,881	10,536
Earnings per share attributable to owners of the Company for the year – Basic and diluted (expressed in HK cents per share)	12	9.54	3.50
Dividends	13	7,833	52,007

(B) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	24,881	10,536
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Currency translation differences	555	(413)
Recycle of currency translation differences upon disposal of a subsidiary	—	(1,552)
Total comprehensive income for the year	<u>25,436</u>	<u>8,571</u>
Total comprehensive income attributable to:		
Owners of the Company	25,322	8,571
Non-controlling interests	114	—
Total comprehensive income for the year	<u>25,436</u>	<u>8,571</u>

(C) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 March	
		2014	2015
		HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Land use rights	14	5,741	–
Property, plant and equipment	15	31,298	9,068
Intangible assets	16	1,644	8,403
Financial asset at fair value through profit or loss	17	11,680	14,458
Prepayments	21	2,452	3,000
Deferred income tax assets	18	132	635
Total non-current assets		<u>52,947</u>	<u>35,564</u>
Current assets			
Inventories	19	43,777	28,558
Trade and other receivables	21	29,789	52,873
Amount due from a related company	31(b)	9,436	–
Derivative financial instruments	22	1,872	–
Restricted cash	23	8,877	5,510
Cash and bank balances	23	36,089	28,373
Total current assets		<u>129,840</u>	<u>115,314</u>
Total assets		<u>182,787</u>	<u>150,878</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	–	–
Reserves	26	47,994	26,260
Total equity		<u>47,994</u>	<u>26,260</u>
LIABILITIES			
Non-current liability			
Borrowings	27	434	32
Total non-current liability		<u>434</u>	<u>32</u>
Current liabilities			
Trade and other payables	28	91,153	67,256
Amount due to a related company	31(b)	8,761	–
Amounts due to directors	31(b)	994	–
Borrowings	27	23,266	49,697
Dividend payable		584	–
Current income tax liabilities		9,601	7,633
Total current liabilities		<u>134,359</u>	<u>124,586</u>
Total liabilities		<u>134,793</u>	<u>124,618</u>
Total equity and liabilities		<u>182,787</u>	<u>150,878</u>
Net current liabilities		<u>(4,519)</u>	<u>(9,272)</u>
Total assets less current liabilities		<u>48,428</u>	<u>26,292</u>

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	<i>Note</i>	As at 31 March 2015 HK\$'000
ASSET		
Non-current asset		
Investment in a subsidiary — unlisted	24	<u>22,126</u>
Total asset		<u>22,126</u>
EQUITY		
Share Capital	25	—
Reserve	26	<u>22,126</u>
Total equity		<u>22,126</u>
Net current asset		<u>—</u>
Total asset less current liability		<u>22,126</u>

(D) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Subtotal		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Balance at 1 April 2013	–	7,888	30,019	37,907	(2,014)	35,893
Profit for the year	–	–	24,722	24,722	159	24,881
Other comprehensive income						
Currency translation differences	–	600	–	600	(45)	555
Total other comprehensive income, net of tax	–	600	–	600	(45)	555
Total comprehensive income	–	600	24,722	25,322	114	25,436
Total distribution to owners of the Company, recognised directly in equity						
Dividends relating to year ended 31 March 2014 (Note 13)	–	–	(7,833)	(7,833)	–	(7,833)
Acquisition of additional interest in a subsidiary from non-controlling interests (Note 26(i))	–	(1,900)	–	(1,900)	1,900	–
Distribution to owners of a subsidiary (Note 26(ii))	–	(5,502)	–	(5,502)	–	(5,502)
Appropriation to statutory reserve	–	73	(73)	–	–	–
Total transactions with owners, recognised directly in equity	–	(7,329)	(7,906)	(15,235)	1,900	(13,335)
Balance at 31 March 2014	–	1,159	46,835	47,994	–	47,994

	<u>Attributable to owners of the Company</u>			
	<u>Share</u>	<u>Other</u>	<u>Retained</u>	<u>Total</u>
	<u>capital</u>	<u>reserves</u>	<u>earnings</u>	<u>equity</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 April 2014	–	1,159	46,835	47,994
Profit for the year	–	–	10,536	10,536
Other comprehensive income				
Currency translation differences	–	(413)	–	(413)
Recycle of currency translation differences upon disposal of a subsidiary	–	(1,552)	–	(1,552)
Total other comprehensive income, net of tax	–	(1,965)	–	(1,965)
Total comprehensive income	–	(1,965)	10,536	8,571
Total contribution from and distribution to owners of the Company, recognised directly in equity				
Dividend relating to year ended 31 March 2015 (Note 13)	–	–	(16,000)	(16,000)
Special dividend (Note 13)	–	–	(36,007)	(36,007)
Deemed contribution upon disposal of a subsidiary (Note 1(b)(iv))	–	7,169	–	7,169
Issue of shares of On Real (Note 1(b)(v))	–	11,610	–	11,610
Contribution from owners (Note 26(iv))	–	2,923	–	2,923
Appropriation to statutory reserve	–	1,933	(1,933)	–
Total transactions with owners, recognised directly in equity	–	23,635	(53,940)	(30,305)
Balance at 31 March 2015	–	22,829	3,431	26,260

(E) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 March	
		2014	2015
		HK\$'000	HK\$'000
Cash flows from operating activities			
Cash generated from operations	29	49,456	4,356
Interest paid		(1,102)	(1,152)
Income tax paid		(5,517)	(6,824)
Net cash generated from/(used in) operating activities		42,837	(3,620)
Cash flows from investing activities			
Payments of development expenses capitalised as intangible assets		(3,552)	(6,593)
Purchases of property, plant and equipment		(3,227)	(5,776)
Proceeds from disposals of property, plant and equipment	29(a)	258	4,122
(Increase)/decrease in restricted cash		(4,345)	3,367
(Increase)/decrease in bank deposit with original maturity over 3 months		(1,594)	1,594
Interest received		114	262
Net cash used in investing activities		(12,346)	(3,024)
Cash flows from financing activities			
Proceeds from bank borrowings		–	26,757
Repayments of bank borrowings		(17,125)	–
Repayments of obligation under finance lease		(512)	(728)
Capital injection by Solution Smart and Pacific Able		1,531	10,079
Dividends paid to the subsidiaries' shareholders		(7,833)	(26,584)
Cash outflow upon disposal of a subsidiary	1(b)(iv)	–	(6,442)
Distribution to owners of a subsidiary	26(ii)	(5,502)	–
Payment for listing expenses		–	(2,425)
Net cash (used in)/generated from financing activities		(29,441)	657
Net increase/(decrease) in cash and cash equivalents		1,050	(5,987)
Cash and cash equivalents at beginning of the year		33,332	34,495
Exchange gains/(losses) on cash and cash equivalents		113	(135)
Cash and cash equivalents at end of the year	23	34,495	28,373

II NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 Corporation information, reorganisation and basis of presentation

(a) General information

On Real International Holdings Limited (“the Company”) was incorporated in the Cayman Islands on 30 June 2014 as an exempted company with limited liability under Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised), of the Cayman Islands. The address of its registered office is P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is Room 2401-02, 24/F., Jubilee Centre, 46 Gloucester Road, Wanchai, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in the trading and manufacturing of two-way radio, baby monitors and other communication devices and servicing business of the above products (the “Listing Business”). The controlling shareholders of the Listing Business are Mr. Tam Wing Ki (“Mr. Tam”) and Mr. Hsu Wing Sang (“Mr. Hsu”) (collectively, the “Controlling Shareholders”).

The Financial Information is presented in thousands of Hong Kong dollars (“HK\$’000”), unless otherwise stated.

(b) 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 companies now comprising the Group (collectively the “Operating Companies”). The Operating Companies were collectively controlled by Mr. Tam and Mr. Hsu throughout the Relevant Periods.

In preparation for listing of the Company’s shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation to transfer the Listing Business to the Company principally through the following steps:

- (i) On 22 May 2014, Xinxing On Time Electronics Limited (“Xinxing On Time”), a wholly-owned subsidiary of On Real Limited (“On Real”), which was owned as to 69.23% and 30.77% by Mr. Tam and Mr. Hsu, respectively, transferred employees, certain assets and its operation to Xinxing Great Success Plastic Limited (“Xinxing Great Success”), a wholly-owned subsidiary of On Real.
- (ii) On 30 June 2014, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each. On the same day, one subscriber’s share was transferred to Mr. Tam, and 6,922 and 3,077 ordinary shares were allotted and issued at par to Mr. Tam and Mr. Hsu, respectively, representing 69.23% and 30.77% of the issued shares of the Company, respectively.
- (iii) On 4 July 2014, On Real (BVI) Limited (“On Real (BVI)”) was incorporated in the British Virgin Islands (“BVI”).
- (iv) On 31 August 2014, On Real disposed of Xinxing On Time to Shine View Development Limited (“Shine View”), which is controlled by the Controlling Shareholders but is not a member of the Group, at a consideration of US\$3,200,000 (equivalent to HK\$24,960,000). Details of the assets and liabilities disposed are as follows.

	HK\$’000
Consideration settled through dividends (Non-cash transaction)	24,960
Less assets and liabilities disposed of:	
Land use right (<i>Note 14</i>)	5,627
Property, plant and equipment (<i>Note 15</i>)	21,339
Trade and other receivables and prepayments	12,847
Cash and cash equivalents	6,442
Trade payables, accruals and other payables	(28,464)
	<hr/>
Net Assets	17,791
	<hr style="border-top: 1px dashed black;"/>
Deemed contribution upon disposal of a subsidiary	7,169
	<hr style="border-top: 3px double black;"/>

- (v) On 30 October 2014, On Real and the Controlling Shareholders entered into subscription agreements with two independent investors, namely Solution Smart Holdings Limited ("Solution Smart") and Pacific Able Limited ("Pacific Able") pursuant to which Solution Smart and Pacific Able subscribed for 518,614 and 259,167 new shares of On Real, respectively, at considerations of US\$1,000,000 and US\$500,000, respectively (equivalent to HK\$7,740,000 and HK\$3,870,000, respectively), resulting in Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able holding 49.85%, 22.15%, 18.67% and 9.33% of the total issued share capital of On Real, respectively.
- (vi) On 31 October 2014, On Real (BVI) acquired 49.85%, 22.15%, 18.67% and 9.33% equity interest in On Real from Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able, respectively, at a consideration to be satisfied by the allotment and issue of 3,047, 1,353, 3,734 and 1,866 shares of the Company to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able, respectively. In consideration of the Company's allotment and issue of a total of 10,000 consideration shares to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able, the Company was allotted and issued one share of On Real (BVI).
- (vii) On 16 September 2015, the authorised share capital of the Company increased from HK\$390,000 to HK\$7,800,000 by the creation of an additional 741,000,000 shares of HK\$0.01 each.
- (viii) On 16 September 2015, the Company capitalised an amount of HK\$3,599,800 by crediting to the share premium account of the Company and that the said sum be applied in paying up in full for 359,980,000 shares, representing 99.994% of the enlarged issued share capital of the Company. Such shares are allotted and issued, credited as fully paid, to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able as to 179,450,030 shares, 79,735,570 shares, 67,208,266 shares and 33,586,134 shares, respectively, in proportion to their then respective shareholdings in the Company of 49.85%, 22.15%, 18.67% and 9.33% respectively.

Upon the completion of the Reorganisation and up to the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Name of subsidiary	Date of incorporation	Place of incorporation/ Principal place of business	Issued share capital/Registered capital	Effective interest held by the Group	Principal activities	Name of statutory auditor	
						2014	2015
Directly held:							
On Real (BVI)	4 July 2014	BVI/BVI	US\$1	100%	Investment holding	(a)	(a)
Indirectly held:							
On Real Limited ("On Real")	29 January 2001	Hong Kong/The People's Republic of China ("PRC")	HK\$2,000,000	100%	Trading of two-way radios and servicing business	(b)	(e)
On Real Electronics (Shenzhen) Limited	9 May 2002	PRC/PRC	HK\$5,000,000	100%	Manufacturing and selling of two-way radios	(c)	(c)
Onward Technology Development Limited ("Onward")	28 September 2004	Hong Kong/PRC	HK\$10,000	100% (Note i)	Trading of plastic covers to On Real and its subsidiaries	(b)	(e)
Starian Caring Limited (Note ii)	24 October 2013	Hong Kong/PRC	HK\$10,000	100%	Trading of baby monitors	(n/a)	(e)
Xinxing Great Success	24 March 2011	PRC/PRC	HK\$3,000,000	100%	Manufacturing of plastic covers, two-way radios and baby monitors	(d)	(d)

Note i: Before 29 May 2013, the Group held 68.5% effective interests of in this subsidiary. On 29 May 2013, the Group acquired additional 31.5% equity interests in this subsidiary from a non-controlling shareholder (Note 26(i)).

Note ii: The company was incorporated on 24 October 2013 and it is required to submit the first set of audited financial statement within 18 months of incorporation.

All companies now comprising the Group, except for On Real Electronics (Shenzhen) Limited and Xinxing Great Success, have adopted 31 March as the financial year end date.

Notes:

- (a) No audited financial statements were issued as there is no statutory audit requirement
- (b) Zhonghui Anda CPA Limited, Hong Kong
- (c) Shenzhen Minghua Certified Public Accountants, Guangdong, PRC
- (d) 廣州皓程會計師事務所有限公司, Guangdong, PRC
- (e) PricewaterhouseCoopers, Certified Public Accountants, Hong Kong

(c) Basis of presentation

The companies now comprising the Group, engaging in the Listing Business, were under common control of Mr. Tam and Mr. Hsu, the Controlling Shareholders, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of this report, the Financial Information has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants.

The Financial Information has been prepared by including the financial information of the companies engaged in the Listing Business under the common control of Mr. Tam and Mr. Hsu immediately before and after the Reorganisation and now comprising the Group as if the current group structure had been in existence throughout the periods presented. The financial information of Xinxing On Time from 1 April 2013 up to the date of the disposal of it to Shine View has also been consolidated in the Financial Information as Xinxing On Time was an integral part of the Listing Business prior to the disposal. The net assets of the companies were combined using the existing book values from the Controlling Shareholders’ perspective. No amount is recognised in consideration for goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of the business combination, to the extent of the continuation of the controlling party’s interest.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

As at 31 March 2014 and 31 March 2015, the Group had net current liabilities of approximately HK\$4,519,000 and HK\$9,272,000. The Company’s directors have reviewed the Group’s cash flow projections covering a period of not less than twelve months from the balance sheet date. In the opinion of the directors, based on the cash flow projections and taking into account the reasonably possible changes in the operating performance, the Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by HKICPA. The Financial Information have been prepared under the historical cost convention, as modified by the revaluation of financial assets (including derivative financial instruments and key man insurance) at fair value through profit or loss, which are carried at fair value.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its 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 Financial Information are disclosed in Note 4.

The following are the new standards, amendments to standards and annual improvement that are effective for annual periods beginning on or after 1 July 2014, and have not been applied in preparing the Financial Information:

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	The disclosure initiative	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: bearer plants	1 January 2016
HKAS 19 (Amendment)	Employee benefits on defined benefit plans	1 July 2014
HKAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investments entities: applying the consolidation exception	1 January 2016
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operation	1 January 2016
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
Annual improvement to HKFRSs	2010-2012 cycle	1 July 2014
Annual improvement to HKFRSs	2011-2013 cycle	1 July 2014
Annual improvement to HKFRSs	2012-2014 cycle	1 January 2016

The Group plans to adopt the above new and revised standards, amendments to standards and annual improvement to the standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standards, amendments to standards and annual improvement to existing standards and is in the process of assessing their impact on future accounting periods.

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.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) *Business combinations*

Except for the Reorganisation and the acquisition of the entire interests in Onward (Note 26(i)), 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 to the former owners of the acquiree 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.

Acquisition-related costs are expensed as incurred.

(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 disposals 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 consolidated income statements. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture 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 consolidated income statements.

2.2.2 *Separate financial statements*

Investment in subsidiary is accounted for 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 investment in subsidiary is required upon receiving a dividend from the investment 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 consolidated financial statements of the investee's net assets including goodwill.

2.3 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive director that makes strategic decisions.

2.4 *Foreign currency translation*

(a) *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'). Majority of the Group's subsidiaries' functional currency are United States dollars ("US\$") or Chinese Renminbi ("RMB") since their activities are conducted in US\$ or RMB. The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognised in the consolidated income statements.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statements within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated income statements within 'other gains – net'.

(c) Group companies

The results and financial position 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:

- (i) assets and liabilities for each consolidated statements of financial position presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated income statements 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
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.5 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for period of 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use right from the dates the respective rights were granted.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item 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 the consolidated income statements during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost over their estimated useful lives, where appropriate, as follows:

Buildings	20 years
Leasehold improvements	Shorter of lease term or 5 years
Furniture and fixtures	5 years
Office equipment	5 years
Plant and machinery	3 – 5 years
Motor vehicles	5 years

The assets' 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 (Note 2.8).

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other income – net' in the consolidated income statements.

2.7 *Intangible assets*

Costs associated with research activities are recognised as an expense as incurred. Development costs that are directly attributable to the engineering and testing of identifiable and unique products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the product so that it will be available for use;
- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- The expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalised include the product development employee costs and engineering cost paid to third party vendors. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs recognised as assets are amortised over their estimated useful lives of three years.

2.8 *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 *Financial assets*

2.9.1 *Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

- (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, restricted cash and cash and cash equivalents (Notes 2.13 and 2.14) and amount due from a related company in the consolidated statements of financial position.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statements. 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 rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the consolidated income statements within “other gains — net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statements as part of other income when the Group’s right to receive payments is established.

2.9.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statements. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statements.

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values. Changes in the fair value of these derivative financial instruments are recognised immediately in the consolidated income statements within “other gains — net”. The Group does not have any derivative that is designated as a hedging instrument.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade, bills and other receivables

Trade and bills receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less, 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 provision for impairment.

2.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade payable

Trade payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statements over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 *Borrowing costs*

All borrowing costs are recognised in consolidated income statements in the period in which they are incurred.

2.19 *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statements, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries 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.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is 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 balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income 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 income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 *Employee benefits*

(a) *Retirement benefit obligations*

Hong Kong

The Group operates a defined contribution Mandatory Provident Fund Scheme (the “MPF Scheme”) which is registered under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held in a separately administered fund. The MPF Scheme is generally funded by payments from employees and by the Group.

The Group has no further payment obligations once the contribution has been paid. The contributions are recognised as employee benefit expense when they are due.

The PRC

The Group companies in the PRC participate in defined contribution retirement plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities for employee in the PRC. The Group contributes to these plans based on certain percentages of the total salary of employees, subject to a certain ceiling, as stipulated by the relevant regulations.

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.

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) *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.

2.21 *Provisions*

Provisions for legal claims 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.

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 expenditure 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 interest expense.

2.22 *Warranty claim*

The Group generally offers warranties of one to three years for its communication products and caring products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

2.23 *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) *Sale of goods*

Sale of goods is recognised when products have been delivered to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) *Servicing business income*

Servicing business income is recognised when such services are rendered.

(iii) *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

(iv) *Rental income*

Rental income is recognised on a straight-line basis over the term of the respective lease.

2.24 *Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statements on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statements over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.25 *Dividend distribution*

Dividend distribution to the then shareholders of the entities now comprising the Group is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the then shareholders.

2.26 *Government grants*

Grants from the government are recognised at their fair value in the consolidated income statements where there is a reasonable assurance that the grant will be received and the Group has complied with all attached conditions.

3 **Financial risk management**

3.1 *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow 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. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by finance department under policies approved by the Board of Directors. Finance department of the Group identifies, evaluates and hedge financial risks in close co-operation with the Group's operating units. The Board provides guidance for overall risk management and specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK\$ and the RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group enters into foreign exchange forward contracts with external financial institutions to partially hedge against such foreign exchange risk. The Group also mitigates this risk by maintaining HK\$ and RMB bank accounts which are used by the Group to pay for the transactions denominated in these currencies.

The HK\$ is pegged to the US\$ and thus foreign currency exposure is considered as minimal and is not hedged.

At 31 March 2014, if the RMB had weakened/strengthened by 5% against the HK\$ with all other variables held constant, the pre-tax profit for the year would have been HK\$244,000 higher/lower, mainly as a result of foreign exchange losses/gains on translation of RMB-denominated trade and other receivables, trade and other payables and cash and bank balances.

At 31 March 2015, if the RMB had weakened/strengthened by 5% against the HK\$ with all other variables held constant, the pre-tax profit for the year would have been HK\$1,210,000 higher/lower, mainly as a result of foreign exchange losses/gains on translation of RMB-denominated trade and other receivables, trade and other payables and cash and bank balances.

(ii) Cash flow interest rate risk

The Group's interest rate risk arises from bank borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. During the Relevant Periods, the Group's borrowings at variable rates were denominated in the HK\$ and the US\$, respectively. Borrowing obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated income statements of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

The Group's cash flow interest rate risk arises from bank balances at floating interest rates.

At 31 March 2014, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK\$113,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 March 2015, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been HK\$247,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) *Credit risk*

Credit risk of the Group mainly arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers such as trade and bills receivable and other receivables. The carrying amount of these balances in the consolidated statements of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 March 2014 and 31 March 2015, 27% and 17% respectively of the Group's cash at banks were deposited in financial institutions with no credit rating provided by Standard and Poor's. The Group only maintained sufficient deposit in these financial institutions without credit rating in order to satisfy the payments which required to be settled through these bank accounts. Management does not expect any losses arising from non-performance by these counterparties as at the balance sheet date.

Bank balances are deposited in reputable banks. Management does not expect any losses from non-performance by these banks.

Debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on its financial position, past experience and other factors. The Group has policies in place to ensure that sales of products are made to customers with appropriate credit histories.

As at 31 March 2014 and 31 March 2015, the Group had a concentration of credit risk given that the top 5 customers account for 78.2% and 78.0% of the Group's total year end trade receivable balances, respectively. The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balances due from these customers. However, the Group does not believe that the credit risk in relation to these customers is significant because they have no history of default in recent years.

The Group performs periodic credit evaluations of its customers. For the trade and bills receivable proved to be impaired, management has provided sufficient provision on those balances.

Management considers the credit risk on amount due from a related company is minimal after considering the financial conditions of the entity as at 31 March 2014. Management has performed assessment over the recoverability of the balance and management does not expect any losses from non-performance by the company.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. The directors aim to maintain flexibility in funding by keeping credit lines available and obtaining additional funding from the loan facilities and monitoring cash flow forecast to maintain its going concern.

Management monitors the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 27) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Surplus cash held by the Group entities over and above balances required for working capital management is invested in interest-bearing bank accounts and bank deposits with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

As at 31 March 2014 and 31 March 2015, the Group had net current liabilities of approximately HK\$4,519,000 and HK\$9,272,000. The Company's directors have reviewed the Group's cash flow projections covering a period of not less than twelve months from the balance sheet date. In the opinion of the directors, based on the cash flow projections and taking into account the reasonably possible changes in the operating performance, the Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The following tables analyses the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Group can be required to pay, except for long term bank borrowings subject to a repayment on demand clause.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The undiscounted cash flow does not include interest payments computed using contractual rates if the lender does not invoke their unconditional rights. The maturity analysis for other bank borrowings and finance lease liabilities is prepared based on the scheduled repayment dates.

	On demand	Within 3 months	More than 3 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash outflows
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 March 2014						
Long term bank borrowings subject to a repayment on demand clause	16,990	-	-	-	-	16,990
Other bank borrowings	-	5,553	-	-	-	5,553
Finance lease liabilities	-	199	596	420	33	1,248
Trade and other payables	654	44,893	-	-	-	45,547
Amount due to a related company	8,761	-	-	-	-	8,761
Amounts due to directors	994	-	-	-	-	994
	<u>27,399</u>	<u>50,645</u>	<u>596</u>	<u>420</u>	<u>33</u>	<u>79,093</u>
At 31 March 2015						
Long term bank borrowings subject to a repayment on demand clause	15,135	-	-	-	-	15,135
Other bank borrowings	-	34,179	-	-	-	34,179
Finance lease liabilities	-	123	279	32	-	434
Trade and other payables	654	49,911	-	-	-	50,565
	<u>15,789</u>	<u>84,213</u>	<u>279</u>	<u>32</u>	<u>-</u>	<u>100,313</u>

The table below summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Maturity analysis – Bank borrowings subject to a repayment on demand clause based on scheduled repayments

	Within 3 months	More than 3 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total Outflows
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 March 2014	1,533	4,011	4,279	8,353	18,176
At 31 March 2015	<u>2,140</u>	<u>6,119</u>	<u>3,924</u>	<u>3,689</u>	<u>15,872</u>

The table below analyses the Group's net-settled financial derivative assets which have contractual maturities in less than 1 year.

	<u>Less than 1 year</u>
	<i>HK\$'000</i>
At 31 March 2014	
Forward foreign exchange contracts:	
Assets	
Net inflows	1,872
	<u> </u>
At 31 March 2015	
Forward foreign exchange contracts:	
Assets	
Net inflows	–
	<u> </u>

3.2 Capital risk 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 dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings. Total capital is calculated as "equity" as shown in the consolidated statements of financial position.

As at 31 March 2014 and 31 March 2015, the gearing ratios were as follows:

	<u>As at 31 March</u>	
	<u>2014</u>	<u>2015</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total debt	23,700	49,729
Total capital	47,994	26,260
Gearing ratio	49.4%	189.4%
	<u> </u>	<u> </u>

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's assets that are measured at fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2014				
Assets				
– Derivative financial instruments (Note (i))	–	1,872	–	1,872
– Financial asset at fair value through profit or loss (Note (ii))	–	–	11,680	11,680
Total assets	<u>–</u>	<u>1,872</u>	<u>11,680</u>	<u>13,552</u>
At 31 March 2015				
Asset				
– Financial asset at fair value through profit or loss (Note (ii))	–	–	14,458	14,458
	<u>–</u>	<u>–</u>	<u>14,458</u>	<u>14,458</u>

Notes:

- (i) The fair values of derivative financial instruments, which primarily represented the forward foreign exchange contracts and are not traded in an active market, are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- (ii) The following table presents the changes in level 3 instruments for the years ended 31 March 2014 and 31 March 2015:

	Financial asset at fair value through profit or loss	
	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	12,578	11,680
Interest income	333	342
Administrative expense charged to consolidated income statement	(122)	(125)
Changes in fair value (<i>Note 7</i>)	(1,109)	2,561
At end of the year	<u>11,680</u>	<u>14,458</u>

Please refer to Note 17 for the details of the revaluation of the financial asset at fair value through profit or loss.

There were no transfers between levels 2 and 3 during the Relevant Periods.

4 Critical accounting estimates and judgements

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.

(a) *Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) *Useful lives of property, plant and equipment and intangible assets*

The Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation where useful lives for its property, plant and equipment and intangible assets are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable and therefore depreciation/amortisation in future periods.

(c) *Impairment of property, plant and equipment, land use rights and intangible assets*

Property, plant and equipment, land use rights and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable such as declines in asset's market value and significant increase in interest rates that may affect the discount rate used in calculating the asset's recoverable amount. The recoverable amounts have been determined based on fair value less cost to sell calculations or value in use calculations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continuous use of the asset in the business; (iii) whether a decline in asset's market value, increase in interest rates or other market rates that may affect the discount rate used in calculating the asset's recoverable amount; (iv) whether there is any assets are being obsolescence or any plan to discontinue or restructure; and (v) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

(d) Leasehold improvements on leased premises

The Group operates office premises, factories and staff quarters on leased premises in the PRC which are located on the land that the lessors did not possess the relevant property ownership certificates and construction works planning permits. The relevant authorities of the PRC may deem the leases invalid owing to the lessors not having obtained the relevant certificates and the Group may not be able to continue to occupy and conduct operations at the relevant leased properties if the leases are adjudicated as invalid or the leased properties are ordered to be demolished by the relevant PRC governmental authorities as illegal buildings. Management considered that such problem is unlikely to cause any interruption or termination of the leases or to have a material effect on the carrying amounts of the related leasehold improvements of HKD1,186,000 and HKD500,000 respectively as at 31 March 2014 and 31 March 2015. Accordingly, no impairment for such leasehold improvements is considered necessary to be made according to the Group's accounting policies.

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at the end of each reporting period.

(f) Impairment of trade, bills and other receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at the end of each reporting period.

(g) Fair value of financial asset at fair value through profit or loss

The Group recognises the change in fair value of financial asset at fair value through profit or loss in the consolidated income statement. It obtains independent valuations at least annually. The fair value of financial asset at fair value through profit or loss is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 17.

5 Segment information

The Group is principally engaged in the trading and manufacturing of two-way radios, baby monitors, other communication devices and servicing business of the above products.

The executive directors have been identified as the chief operating decision makers. The executive directors have determined the operating segments based on the reports reviewed by them that are used to make strategic decisions.

Management considers the business from a product perspective whereby management assesses the performance of two-way radios, baby monitors, other communication devices and servicing business based on gross profit arising in the course of the ordinary activities of a recurring nature.

The segment information provided to the executive directors for the reportable segments for the years ended 31 March 2014 and 31 March 2015 is as follows:

	Two-way radios	Baby monitors	Servicing business	Other products (Note (i))	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended 31 March 2014					
Total segment revenue (from external customers)	324,523	7,237	2,509	23,860	358,129
Segment results for the year	49,814	1,137	470	3,690	55,111
Other segment items:					
Amortisation of land use rights and intangible assets	163	4	2	11	180
Depreciation of property, plant and equipment	6,425	147	61	475	7,108
Capital expenditures (Note (ii))	6,024	138	57	446	6,665
Provision for inventories	109	2	1	8	120
For the year ended 31 March 2015					
Total segment revenue (from external customers)	322,619	7,346	1,638	14,588	346,191
Segment results for the year	50,757	1,085	350	3,167	55,359
Other segment items:					
Amortisation of land use rights and intangible assets	765	16	5	48	834
Depreciation of property, plant and equipment	5,496	117	38	343	5,994
Capital expenditures (Note (ii))	11,517	177	64	611	12,369
Provision for inventories	72	2	1	4	79

Notes:

- (i) Other products include DECT phones, transistors, ICs, plastic casings, rechargeable battery chargers, ultrasonic cleansers, inductive emergency flashlights and accessories such as headsets, belt clips, chargers and power adaptors, etc.
- (ii) Capital expenditure comprises payments to property, plant and equipment and intangible assets.

Total revenue recognised during the year are as follows:

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Sales of goods	355,620	344,553
Sales of service	2,509	1,638
	<u>358,129</u>	<u>346,191</u>

The revenue from external parties is derived from numerous external customers and the revenue reported to the management is measured in a manner consistent with that in the consolidated income statements.

A reconciliation of total segment profit to the profit for the year is provided as follows:

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Segment results	55,111	55,359
Effect of one-off reversal of retirement benefit costs (<i>Note 9(a)</i>)	–	5,667
	<u>55,111</u>	<u>61,026</u>
Other income – net	1,745	4,454
Other gains – net	3,523	1,775
Selling, distribution and administrative expenses	<u>(28,369)</u>	<u>(51,789)</u>
Operating profit	32,010	15,466
Finance costs – net	<u>(655)</u>	<u>(548)</u>
Profit before income tax	<u>31,355</u>	<u>14,918</u>

An analysis of revenue by geographic location is set out below:

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
US	125,684	148,606
Europe (<i>Note 1</i>)	52,614	54,857
The Netherlands	38,068	41,675
Asia (<i>Note 2</i>)	42,940	37,745
UK	28,452	23,002
Germany	37,851	18,858
Others (<i>Note 3</i>)	32,520	21,448
	<u>358,129</u>	<u>346,191</u>

Note 1: Europe includes but is not limited to France, Italy and Belgium but excludes UK, Germany and the Netherlands.

Note 2: Asia includes but is not limited to the PRC and Hong Kong.

Note 3: Others include but is not limited to Brazil, Canada and Russia.

Revenue is allocated based on the shipping destination.

Non-current assets are located in the PRC and Hong Kong.

Details of the customers accounting for 10% or more of total revenue are as follows:

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Customer A	161,965	161,537
Customer B	38,387	34,361 ¹
	<u>200,352</u>	<u>195,898</u>

¹ Sales to Customer B did not exceed 10% of total revenue for the year ended 31 March 2015. The amount shown above is for comparative purpose only.

6 Other income – net

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Government grant	999	–
Staff quarters rental income	531	232
(Loss)/gain on disposal of property, plant and equipment	(2)	2,602
Recycle of currency translation differences upon disposal of a subsidiary	–	1,552
Others	217	68
	1,745	4,454

7 Other gains – net

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Fair value gains/(losses) on derivative financial instruments		
– net gains/(losses) on forward foreign exchange contracts	570	(1,872)
Net exchange gains on forward foreign exchange contracts	4,027	708
Exchange gains, net	35	378
Fair value (losses)/gains on financial asset at fair value through profit or loss (<i>Note 3.3</i>)	(1,109)	2,561
	3,523	1,775

8 Expenses by nature

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses (<i>Note 19</i>)	199,167	182,288
Employee benefit expenses (<i>Note 9</i>)	93,691	70,174
Subcontracting fees (<i>Note i</i>)	–	24,032
Auditors' remuneration	334	326
Amortisation of land use rights (<i>Note 14</i>)	133	55
Amortisation of intangible assets (<i>Note 16</i>)	47	779
Depreciation of property, plant and equipment (<i>Note 15</i>)	7,108	5,994
Provision for inventories (<i>Note 19</i>)	120	79
Operating leases		
– office premises and staff quarters	685	1,996
– factories	1,567	3,064
Transportation expenses	2,122	1,619
Travelling expenses	1,166	1,537
Bank charges	1,682	1,794
Declaration and documentation fee	2,137	1,858

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Other tax and surcharges	2,127	3,946
Fuel and utility expenses	5,564	4,929
Inspection fee	1,205	1,702
Office expenses	1,085	1,943
Repair and maintenance expenses	570	497
Tooling and consumables	7,074	4,504
Listing expenses	–	16,943
Consultancy fee	1,177	2,945
Other expenses	2,626	3,950
	<u>331,387</u>	<u>336,954</u>
Representing:		
Cost of sales	303,018	285,165
Selling and distribution expenses	4,555	3,710
Administrative expenses	23,814	48,079
	<u>331,387</u>	<u>336,954</u>

Note i: Subcontracting fees

The amount represents the fee paid to engage independent subcontractors for manufacturing processes.

9 Employee benefit expenses – including directors' emoluments

(a) *Employee benefit expenses during the year are as follows:*

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Wages, salaries and allowances	93,644	75,075
Retirement benefit costs – defined contribution plans:		
– Hong Kong	70	159
– PRC	(23)	(3,390)
	<u>93,691</u>	<u>71,844</u>

Note:

Retirement benefit costs of the Group's subsidiaries established in the PRC for the years ended 31 March 2014 and 31 March 2015 mainly comprised cost of HK\$17,516,000 and HK\$12,399,000 respectively, offset by the reversal of provision for prior years of HK\$17,539,000 and HK\$15,789,000, respectively. The Group reversed the provision for retirement benefits costs after considering the relevant local rules and regulations and the legal opinion received from the Company's PRC Legal Advisers that the Social Insurance Fund Management Bureau are time-barred from ordering payment based on the two-year statute of limitation. For the year ended 31 March 2015, the reversal of provision of HK\$15,789,000 included an amount of reversal of provision of HK\$5,667,000 since the Group has received a written confirmation from the Social Insurance Fund Management Bureau of Xinxing on 16 September 2014 confirming that it has not issued and will not issue an order requiring the subsidiary in Xinxing to repay the social insurance or impose administrative penalty on the subsidiary.

Staff costs of HK\$1,670,000 were capitalised in intangible assets for the year ended 31 March 2015.

(b) Directors' and senior management's emoluments

The remuneration of directors and senior management for the years ended 31 March 2014 and 31 March 2015 are set out below:

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Employer's contribution to pension scheme	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended					
31 March 2014					
<u>Executive directors</u>					
Tam Wing Ki (<i>Chief Executive Officer and Chairman</i>)	396	1,002	458	15	1,871
Hsu Wing Sang	171	775	–	15	961
<u>Senior management</u>					
Ho Kwok Ming	–	390	–	11	401
Tao Hong Ming	–	160	–	3	163
Yu Wai Keung	–	80	–	3	83
	567	2,407	458	47	3,479
	567	2,407	458	47	3,479
For the year ended					
31 March 2015					
<u>Executive directors</u>					
Tam Wing Ki (<i>Chief Executive Officer and Chairman</i>)	–	1,592	–	17	1,609
Hsu Wing Sang	–	1,054	–	17	1,071
Tao Hong Ming (<i>Chief Operating Officer</i>) (Note (i))	–	320	–	6	326
<u>Non-executive director</u>					
Chau Wai Hung, Andy (Note (i))	–	–	–	–	–
<u>Senior management</u>					
Tao Hong Ming (<i>Chief Operating Officer</i>)	–	773	–	12	785
Ho Kwok Ming	–	368	–	12	380
Yu Wai Keung	–	480	–	16	496
Kong Kwok Pun, Anthony	–	628	–	17	645
Cheung Chung Yuen, Wilson	–	156	–	5	161
	–	5,371	–	102	5,473
	–	5,371	–	102	5,473

Notes:

- (i) Mr. Tao Hong Ming (陶康明) and Mr. Chau Wai Hung, Andy (周焯雄) were appointed as the Company's executive director and non-executive director respectively on 10 December 2014. Prior to their appointments, they were the employees of the Group. The remuneration received by them from the Group prior to the date of their appointment was not included in the capacity of a director of the Company and the subsidiaries of the Group.

- (ii) Mr. Cheng Yuk Kin (鄭煜健), Mr. Fan Chun Wah Andrew (范駿華) and Ms. Reina Lim Yan Xin (林延芯) were appointed as the Company's independent non-executive directors on 16 September 2015. During the Relevant Periods, independent non-executive directors had not been appointed and therefore did not receive any remuneration in their capacity as the Company's directors.
- (iii) During the Relevant Periods, none of the directors of the Company waived any emoluments paid or payable by the Group companies and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

The five individuals whose emoluments were the highest in the Group include 2 and 3 directors for the years ended 31 March 2014 and 31 March 2015, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 and 2 individuals for the years ended 31 March 2014 and 31 March 2015, respectively, are as follows:

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Wages, salaries and allowances	1,095	1,317
Retirement benefit costs - defined contribution plans	18	33
	<u>1,113</u>	<u>1,350</u>

The emoluments of above individuals are within the following band:

	Number of individuals	
	Year ended 31 March	
	2014	2015
Emoluments band Nil – HK\$1,000,000	<u>3</u>	<u>2</u>

10 Finance costs – net

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Interest expense on bank borrowings		
– Repayable within 5 years	970	1,086
Interest expense on finance leases	132	66
Finance costs	<u>1,102</u>	<u>1,152</u>
Interest income from bank deposits	(114)	(262)
Interest income from financial asset at fair value through profit or loss	(333)	(342)
Finance income	<u>(447)</u>	<u>(604)</u>
Finance costs – net	<u>655</u>	<u>548</u>

11 Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit during the Relevant Periods.

The PRC enterprise income tax is provided at the rate of 25% during the Relevant Periods.

The amount of income tax expenses charged to the consolidated income statements represents:

	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax	6,516	4,192
Deferred income tax (<i>Note 18</i>)	(42)	(503)
Withholding tax	–	693
	<hr/>	<hr/>
Income tax expenses	6,474	4,382
	<hr/> <hr/>	<hr/> <hr/>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group's subsidiaries as follows:

	Year ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	<hr/> 31,355	<hr/> 14,918
Tax calculated at domestic tax rates applicable to profits in the respective countries	5,652	2,846
Expenses not deductible for tax purposes	1,443	2,827
Non-taxable income	(73)	(875)
Tax losses not recognised	–	135
Tax impact of temporary differences not recognised	(548)	(1,244)
Withholding tax	–	693
	<hr/>	<hr/>
Income tax expenses	6,474	4,382
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) Expenses not deductible for tax purposes mainly comprised the tax effect of expenses not supported by PRC tax invoices for the years ended 31 March 2014 and 31 March 2015 and non-deductible listing expenses for the year ended 31 March 2015.
- (ii) The effective tax rate was 20.6% and 29.4% for the years ended 31 March 2014 and 31 March 2015. The increase is due to the increase in profitability of certain Group companies in the PRC and the tax effect of non-deductible listing expenses for the year ended 31 March 2015.

12 Earnings per share attributable to owners of the Company for the year – Basic and diluted**(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. In determining the weighted average number of ordinary shares, the 14,400 ordinary shares of the Company issued to Mr. Tam and Mr. Hsu during the Reorganisation (Note 1(b)(ii) and Note 1(b)(vi)) and the additional 259,185,600 shares under the proposed capitalisation on 16 September 2015 (Note 1(b)(viii)) were treated as if they had been in issue retrospectively; and 5,600 shares issued to Solution Smart and Pacific Able during the Reorganisation (Note 1 (b)(vi)) and the additional 100,794,400 shares issued under the proposed capitalisation on 16 September 2015 (Note 1(b)(viii)) were treated as if they had been in issue since 30 October 2014.

	Year ended 31 March	
	2014	2015
Profit attributable to owners of the Company (HK\$'000)	24,722	10,536
Weighted number of ordinary shares in issue ('000)	259,200	300,900
Basic earnings per share (HK cents per share)	9.54	3.50

(b) Diluted

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares during the Relevant Periods.

13 Dividends

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Dividends	7,833	52,007

During each of the years ended 31 March 2014 and 31 March 2015, certain subsidiaries of the Group declared interim dividends to their then equity holders amounting HK\$7,833,000 and HK\$16,000,000, respectively.

In addition, for the year ended 31 March 2015, a subsidiary declared (i) a special dividend of HK\$24,960,000 for settlement of consideration payable by Shine View in connection with the disposal of the entire equity interest in a subsidiary (see Note 1(b)(iv)), (ii) a special dividend of HK\$1,047,000 to settle the net balances with the Controlling Shareholders (see Note 31(b)(iii)) and (iii) cash dividend of HK\$10,000,000.

The number of shares ranking for dividends and the dividends per share are not presented as such information is not considered meaningful for the purpose of this report.

14 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Outside Hong Kong held on: Leases of between 10 to 50 years	5,741	–

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
At beginning of the year	5,735	5,741
Amortisation of land use rights	(133)	(55)
Disposal of a subsidiary (<i>Note 1(b)(iv)</i>)	–	(5,627)
Exchange differences	139	(59)
At end of the year	5,741	–

Amortisation expense for the years ended 31 March 2014 and 31 March 2015 of HK\$133,000 and HK\$55,000 respectively, has been charged to cost of sales.

15 Property, plant and equipment

	Buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Plant and machinery	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2013							
Cost	28,206	3,675	308	2,138	43,723	2,383	80,433
Accumulated depreciation	(4,699)	(2,366)	(180)	(1,226)	(35,027)	(1,761)	(45,259)
Net book amount	23,507	1,309	128	912	8,696	622	35,174
Year ended 31 March 2014							
Opening net book amount	23,507	1,309	128	912	8,696	622	35,174
Additions	–	622	27	504	1,483	–	2,636
Depreciation	(1,490)	(777)	(66)	(475)	(4,004)	(296)	(7,108)
Disposal	–	–	–	–	(59)	(201)	(260)
Exchange differences	572	32	4	22	214	12	856
Closing net book amount	22,589	1,186	93	963	6,330	137	31,298
At 31 March 2014							
Cost	28,889	4,386	342	2,694	45,864	2,018	84,193
Accumulated depreciation	(6,300)	(3,200)	(249)	(1,731)	(39,534)	(1,881)	(52,895)
Net book amount	22,589	1,186	93	963	6,330	137	31,298
Year ended 31 March 2015							
Opening net book amount	22,589	1,186	93	963	6,330	137	31,298
Additions	–	1,055	34	262	5,530	–	6,881
Depreciation	(612)	(452)	(27)	(322)	(4,458)	(123)	(5,994)
Disposal	(1,454)	(8)	(34)	–	(24)	–	(1,520)
Disposal of a subsidiary (<i>Note 1(b)(iv)</i>)	(20,303)	(779)	(44)	(212)	–	(1)	(21,339)
Exchange differences	(220)	(9)	(1)	(7)	(20)	(1)	(258)
Closing net book amount	–	993	21	684	7,358	12	9,068
At 31 March 2015							
Cost	–	2,739	34	2,172	51,232	1,841	58,018
Accumulated depreciation	–	(1,746)	(13)	(1,488)	(43,874)	(1,829)	(48,950)
Net book amount	–	993	21	684	7,358	12	9,068

Depreciation expense for the years ended 31 March 2014 and 31 March 2015, HK\$4,875,000 and HK\$4,811,000 respectively, has been charged to cost of sales.

Depreciation expense for the years ended 31 March 2014 and 31 March 2015, HK\$2,233,000 and HK\$1,183,000 respectively, has been charged to administrative expenses.

Plant and machinery includes the following amounts where the Group is a lessee under non-cancellable finance lease agreements. The leases have bargain purchase options with terms of 2 to 5 years, and at the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased assets.

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost – capitalised finance leases	9,212	9,168
Accumulated depreciation	(6,456)	(8,180)
Net book amount	<u>2,756</u>	<u>988</u>

16 Intangible assets

	Product development costs
	<i>HK\$'000</i>
At 1 April 2013	
Cost	–
Accumulated amortisation	–
Net book amount	<u>–</u>
Year ended 31 March 2014	
Opening net book amount	–
Additions	1,691
Amortisation charge	(47)
Closing net book amount	<u>1,644</u>
At 31 March 2014	
Cost	1,691
Accumulated amortisation	(47)
Net book amount	<u>1,644</u>

	Product development costs
	<i>HK\$'000</i>
Year ended 31 March 2015	
Opening net book amount	1,644
Additions	7,528
Amortisation charge	(779)
Exchange differences	10
	<hr/>
Closing net book amount	8,403
	<hr/> <hr/>
At 31 March 2015	
Cost	9,229
Accumulated amortisation	(826)
	<hr/>
Net book amount	8,403
	<hr/> <hr/>

Amortisation expense for the years ended 31 March 2014 and 31 March 2015, HK\$47,000 and HK\$779,000 respectively, has been charged to cost of sales.

17 Financial asset at fair value through profit or loss

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Key-man insurance, at fair value	11,680	14,458
	<hr/> <hr/>	<hr/> <hr/>

The financial asset at fair value through profit or loss represents key-man insurance purchased for a director of the Company, which is denominated in US\$. The premium of the insurance is approximately HK\$7,740,000. The sum insured is approximately HK\$41,693,000.

The valuation of key-man insurance is determined and provided by an independent valuer using the discounted cash flow approach. The discounted cash flow approach focuses on the economic benefits generated by the income producing capability of an asset. The underlying theory of this approach is that the value of an asset can be measured by the present worth of the economic benefits to be received over its economic life. This approach needs to estimate the future cash flows and then discounts these cash flows to its present value using a discount rate appropriate for the risks associated with realising those cash flows.

Management has assessed the credit quality of the financial institution and considered the credit risk to be not significant.

The financial asset at fair value through profit or loss is pledged as security for the banking facilities of the Group as at 31 March 2014 and 31 March 2015 (Note 27).

An independent valuation of the Group's financial asset at fair value through profit or loss was performed by the valuer, International Valuation Limited, to determine the fair value of the key-man insurance as at 31 March 2014 and 31 March 2015. These valuation results are then reported to the chief financial officer and senior management of the Group for discussions in relation to the valuation processes and the reasonableness of valuation results. The fair value gains or losses is included in 'Other gains – net' in consolidated income statements (Note 7).

The valuation was determined using discounted cash flow ("DCF") projections based on significant unobservable inputs. These input include:

Future cash inflows	Based on the interest income derived from the first premium paid under the insurance policy, interest credited into the account and the expected death benefit based on mortality
Future cash outflows	Based on policy expense charge, policy premium charge and cost of insurance
Discount rates	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows
Mortality rate	Based on 2011 Hong Kong life table for males
Future crediting rate	Based on the current rate of interest credit to the insurance policy

There were no changes to the valuation techniques during the Relevant Periods.

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Unobservable inputs	Range of unobservable inputs as at 31 March 2014	Range of unobservable inputs as at 31 March 2015	Relationship of unobservable inputs to fair value
Financial asset at fair value through profit or loss	Discounted rate	3.56%	2.54%	The lower the discounted rate, the higher the fair value
	Future crediting rate	4.40%	4.40%	The higher the crediting rate, the higher the fair value

The sensitivity of the financial asset at fair value through profit or loss to changes in the weighted principal assumption is:

	Change in assumption	Impact on financial asset at fair value through profit or loss	
		Increase in assumption	Decrease in assumption
Year ended 31 March 2014			
Discount rate	1%	Decrease by HK\$1,958,000	Increase by HK\$2,531,000
Future crediting rate	0.1%	Increase by HK\$1,780,200	Decrease by HK\$510,800
Year ended 31 March 2015			
Discount rate	1%	Decrease by HK\$2,531,000	Increase by HK\$3,305,000
Future crediting rate	0.1%	Increase by HK\$960,000	Decrease by HK\$867,000

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the financial asset at fair value through profit or loss to significant actuarial assumptions, the same method (present value of the financial asset at fair value through profit or loss calculated with discounted cash flow approach at the end of the reporting period) has been applied.

18 Deferred income tax

The analysis of deferred income tax assets is as follows:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax assets:		
– Deferred income tax assets to be recovered within 12 months	132	635

The gross movements in the deferred income tax account are as follows:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	88	132
Credited to consolidated income statements (<i>Note 11</i>)	42	503
Exchange differences	2	–
At end of the year	132	635

The movements in deferred income tax assets during the year are as follows:

	Decelerated/ (accelerated) tax depreciation	Provisions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	At 1 April 2013	88	–
Credited to consolidated income statements	42	–	42
Exchange differences	2	–	2
At 31 March 2014	132	–	132
At 1 April 2014	132	–	132
(Charged)/credited to consolidated income statements	(137)	640	503
At 31 March 2015	(5)	640	635

Deferred income tax assets are recognised for tax losses and other timing differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 March 2014 and 31 March 2015, the Group had unrecognised deferred income tax assets in respect of tax losses amounting to (i) HK\$nil and HK\$816,000 respectively; and (ii) in respect of other timing differences amounting to HK\$9,539,000 and HK\$1,997,000 respectively, as it is uncertain whether they will be utilised in the foreseeable future. The unutilised tax losses has no expiry date.

Deferred tax liabilities of HK\$439,000 and HK\$949,000 as at 31 March 2014 and 31 March 2015, respectively have not been recognised for the withholding tax that would be payable on the unremitted retained earnings of certain subsidiaries, as the Directors intend to reinvest such retained earnings.

19 Inventories

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	20,235	16,562
Work in progress	21,848	9,548
Finished goods	6,639	2,448
	48,722	28,558
Less: Provision for inventories	(4,945)	–
	<u>43,777</u>	<u>28,558</u>

The movements of provision for inventories are as follows:

At beginning of the year	4,828	4,945
Provision for inventories	120	79
Write-off of provision for inventories	–	(4,963)
Exchange difference	(3)	(61)
	<u>4,945</u>	<u>–</u>

Note: The cost of inventories recognised as expenses of HK\$199,167,000 and HK\$182,288,000 for the years ended 31 March 2014 and 31 March 2015 are included in “cost of sales” on the face of the consolidated income statements.

20 Financial instruments by category

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Assets as per consolidated statements of financial position		
Loans and receivables		
– Trade and bills receivable	21,839	36,703
– Other receivables	508	1,142
– Amount due from a related company	9,436	–
– Restricted cash	8,877	5,510
– Bank deposit with original maturity over 3 months	1,594	–
– Cash and cash equivalents	34,495	28,373
	76,749	71,728
Financial assets at fair value through profit and loss		
– Derivative financial instruments	1,872	–
– Key-man insurance	11,680	14,458
	90,301	86,186
Liabilities as per consolidated statements of financial position		
Other financial liabilities subsequently measured at amortised cost		
– Trade payables	40,685	42,220
– Other payables (excluding non-financial liabilities)	4,862	8,345
– Amount due to a related company	8,761	–
– Amounts due to directors	994	–
– Borrowings (excluding finance lease liabilities)	22,538	49,314
– Finance lease liabilities	1,162	415
	79,002	100,294

21 Trade and other receivables

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Trade and bills receivable (<i>Note a</i>)	21,839	36,703
Prepayments (<i>Note b</i>)	3,571	9,694
Value-added tax receivables	6,323	8,334
Other receivables and deposits	508	1,142
	32,241	55,873
Less non-current portion: prepayment	(2,452)	(3,000)
	29,789	52,873

(a) Trade and bills receivable

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivable	21,839	36,703

The carrying amounts of trade and bills receivable approximate their fair values.

The Group normally grants credit terms to its customers ranging from 0 to 90 days. The ageing analysis of the trade and bills receivable based on invoice date is as follows:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
1 to 30 days	16,864	28,467
31 to 60 days	2,605	3,541
61 to 90 days	2,275	4,564
91 to 180 days	45	10
Over 180 days	50	121
Total	21,839	36,703

As at 31 March 2014 and 31 March 2015, trade and bills receivable of HK\$13,127,000 and HK\$16,036,000 were past due but not impaired. These relate to a number of independent customers, of which HK\$9,898,000 and HK\$10,234,000 were due from four of the top five customers for the years ended 31 March 2014 and 2015 respectively, for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

The ageing analysis of the trade and bills receivable based on due date is as follows:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	8,712	20,667
1 to 30 days	12,512	15,672
31 to 60 days	171	4
61 to 90 days	392	235
91 to 180 days	1	113
Over 180 days	51	12
Amounts past due but not impaired	13,127	16,036
Total	21,839	36,703

The carrying amounts of the Group's trade and bills receivable are denominated in the following currencies:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$	20,599	36,463
HK\$	27	24
RMB	1,213	216
	<u>21,839</u>	<u>36,703</u>

The maximum exposure to credit risk at the reporting date is the carrying value of the receivables mentioned above. The Group does not hold any collateral as security.

(b) *Prepayments*

The prepayments comprise the following:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments for listing expense	–	2,425
Prepayments for property, plant and equipment	591	1,026
Prepayments for purchase of inventories	19	3,459
Prepayments for research and development	1,861	1,974
Other prepayments	1,100	810
	<u>3,571</u>	<u>9,694</u>

22 **Derivative financial instruments**

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Forward foreign exchange contracts	<u>1,872</u>	<u>–</u>

The notional principal amounts of the outstanding forward foreign exchange contracts were approximately HK\$100,620,000 and HK\$nil as at 31 March 2014 and 2015, respectively.

23 Cash and bank balances and restricted cash

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Pledged bank deposits (<i>Note (a)</i>)	8,877	5,510
Bank deposit with original maturity over 3 months (<i>Note (b)</i>)	1,594	–
Cash at bank and on hand (<i>Note (c)</i>)	34,495	28,373
Total	<u>44,966</u>	<u>33,883</u>

Notes:

- (a) The pledged bank deposits are held in designated bank accounts as securities for the Group's banking facilities (*Note 27*).
- (b) The effective interest rate on bank deposits with original maturity over 3 months as at 31 March 2014 was 2.00% per annum. These deposits have an average maturity period of 39 days from the balance sheet date.
- (c) The amounts represent cash and cash equivalents in the consolidated statements of cash flows.
- (d) The Group's cash and bank balances and restricted cash are denominated in the following currencies:

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
US\$	12,606	16,108
RMB	27,976	12,376
HK\$	4,372	5,387
Euro	12	12
	<u>44,966</u>	<u>33,883</u>

The conversion of Renminbi denominated balances into foreign currencies and the remittance of these funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

24 Investment in a subsidiary

	As at
	31 March
	2015
	HK\$'000
Investment at cost	<u>22,126</u>

As at 31 March 2015, investment in a subsidiary represents 100% interest in On Real (BVI). On 31 October 2014, as part of the Reorganisation, the entire equity interests of On Real (BVI) was transferred to the Company (*Note 1(b)(vi)*). The investment in a subsidiary was stated at the then carrying value of On Real (BVI)'s consolidated net assets.

25 Share capital

The Group and the Company

The Company was incorporated on 30 June 2014 in the Cayman Islands with an authorised share capital of 39,000,000 ordinary shares of HK\$0.01 each.

	Number of shares issued and fully paid	Share capital <i>HK\$'000</i>
As at 30 June 2014 (date of incorporation) (<i>Note 1(b)(ii)</i>)	10,000	–
Issue of shares to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able on 31 October 2014 (<i>Note 1(b)(vi)</i>)	10,000	–
As at 31 March 2015	<u>20,000</u>	<u>–</u>

26 Reserves

The Group

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	PRC statutory reserve (<i>Note iii</i>) <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2013	–	2,000	1,134	4,754	30,019	37,907
Profit for the year	–	–	–	–	24,722	24,722
Currency translation differences	–	–	26	574	–	600
Dividend relating to year ended 31 March 2014 (<i>Note 13</i>)	–	–	–	–	(7,833)	(7,833)
Acquisition of additional interest in a subsidiary from non-controlling interests (<i>Note (i)</i>)	–	(1,900)	–	–	–	(1,900)
Distribution to owners of a subsidiary (<i>Note (ii)</i>)	–	(5,502)	–	–	–	(5,502)
Appropriation to PRC statutory reserve	–	–	73	–	(73)	–
At 31 March 2014	<u>–</u>	<u>(5,402)</u>	<u>1,233</u>	<u>5,328</u>	<u>46,835</u>	<u>47,994</u>
At 1 April 2014	–	(5,402)	1,233	5,328	46,835	47,994
Profit for the year	–	–	–	–	10,536	10,536
Currency translation differences	–	–	16	(429)	–	(413)
Recycle of currency translation differences upon disposal of a subsidiary	–	–	–	(1,552)	–	(1,552)
Dividend relating to year ended 31 March 2015 (<i>Note 13</i>)	–	–	–	–	(16,000)	(16,000)
Deemed contribution upon disposal of a subsidiary (<i>Note 1(b)(iv)</i>)	–	7,169	–	–	–	7,169
Special dividend (<i>Note 13</i>)	–	–	–	–	(36,007)	(36,007)
Issue of shares of On Real (<i>Note 1(b)(v)</i>)	–	11,610	–	–	–	11,610
Shares issued pursuant to the Reorganisation (<i>Note 1(b)(vi)</i>)	22,126	(22,126)	–	–	–	–
Contribution from owners (<i>Note (iv)</i>)	–	2,923	–	–	–	2,923
Appropriation to PRC statutory reserve	–	–	1,933	–	(1,933)	–
At 31 March 2015	<u>22,126</u>	<u>(5,826)</u>	<u>3,182</u>	<u>3,347</u>	<u>3,431</u>	<u>26,260</u>

Notes:

- (i) On 29 May 2013, Ms. Chang Gen Gi (“Ms. Chang”), spouse of Mr. Tsang Wan Loi (the “Ex-shareholder”), transferred her 31.5% equity interest in Onward Technology Development Limited (“Onward”) to Ms. Tang Yin Ping and Ms. Chan Nga Fun, the respective spouses of Mr. Tam and Mr. Hsu, and who were holding Onward’s equity interest on behalf of Mr. Tam and Mr. Hsu, respectively, resulting an elimination of the non-controlling interests of HK\$1,900,000.
- (ii) On 9 December 2013, On Real acquired 100% equity interests in Onward at a consideration of HK\$5,502,000 which is a business combination under common control and the consideration is treated as deemed distribution to the Controlling Shareholders.
- (iii) As required by the relevant PRC rules and regulation, the PRC subsidiaries of the Group is required to transfer 10% of their profit after tax to statutory reserve until the reserve balance reaches 50% of the registered capital. Appropriations to the reserves were approved by the respective boards of directors and made before distribution of dividend to the shareholders.

For the entities concerned, statutory reserves can be used to make good previous years’ losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity’s registered capital.

- (iv) As at 23 February 2015, the Group had an amount due from On Time (HK) Limited of HK\$215,000 and an amount due to Xinxing On Time of HK\$3,138,000. Both Xinxing On Time and On Time (HK) Limited are controlled by the Controlling Shareholders. Pursuant to an agreement dated 23 February 2015, the Controlling Shareholders, On Time (HK) Limited, Xinxing On Time and the Group had entered into an assignment agreement where all the balances between the Group, On Time (HK) Limited and Xinxing On Time are assigned to the Controlling Shareholders. During the year ended 31 March 2015, the Controlling Shareholders agreed to forfeit an amount owed by the Group of HK\$2,923,000. The forfeiture of the balance was regarded as contribution from owners.

The Company

Reserve movement of the Company

	<u>Share premium</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2014	–	–
Shares issued pursuant to the Reorganisation	22,126	22,126
At 31 March 2015	<u>22,126</u>	<u>22,126</u>

The Company’s reserve represents the difference between the nominal value of the Company shares issued and the aggregate net asset value of the subsidiaries acquired pursuant to the Reorganisation.

27 Borrowings

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current, secured		
Finance lease liabilities	434	32
	434	32
Current, secured		
Bank borrowings due for repayment within 1 year	5,372	7,900
Bank borrowings due for repayment after 1 year which contain a repayment on demand clause	11,835	7,235
Finance lease liabilities	728	383
Factoring loans	2,338	3,749
Import and export loans	2,993	30,430
	23,266	49,697
Total borrowings	23,700	49,729

All borrowings, including the term loans repayable on demand, are carried at amortised cost.

As at 31 March 2014 and 31 March 2015, the Group factored approximately 80% of trade receivables of HK\$2,914,000 and HK\$4,667,000 respectively to the banks. As the Group still retained risks and rewards associated with the default and delay in payment by the debtors, the financial asset derecognition conditions as stipulated in HKAS 39 "Financial Instruments: Recognition and Measurement" have not been fulfilled. Accordingly, the proceeds from the factoring of these trade receivables have been accounted for as the Group's liabilities and included in "factoring loans".

As at 31 March 2014 and 31 March 2015, bank borrowings amounting to HK\$12,410,000 and HK\$8,414,000 respectively were drawn under the SME Financing Guarantee Scheme (the "Scheme") launched by The Hong Kong Mortgage Corporation Limited ("the SME Loan"). After the Listing, the Group will no longer be eligible to apply for the Scheme, which is not available to listed companies. The bank reserves the right to cancel the banking facilities and demand for full repayment without further notice.

As at 31 March 2014 and 31 March 2015, the Group's borrowings were repayable as follows:

	Bank borrowings		Finance lease liabilities		Factoring loans		Import and export loans		Total	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	5,372	7,900	728	383	2,338	3,749	2,993	30,430	11,431	42,462
Bank borrowings due for repayment after 1 year which contain a repayment on demand clause	11,835	7,235	-	-	-	-	-	-	11,835	7,235
Bank borrowings due for repayment after 1 year (<i>Note</i>):										
After 1 year but within 2 years	-	-	402	32	-	-	-	-	402	32
After 2 years but within 5 years	-	-	32	-	-	-	-	-	32	-
	-	-	434	32	-	-	-	-	434	32
	17,207	15,135	1,162	415	2,338	3,749	2,993	30,430	23,700	49,729

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$	9,356	33,230
HK\$	14,344	16,499
	<u>23,700</u>	<u>49,729</u>

As at 31 March 2014 and 31 March 2015, the Group had aggregate banking facilities of approximately HK\$107,405,000 and HK\$91,840,000 respectively including loans, trade financing and bank guarantees. Unused facilities as at the same dates amounted to approximately HK\$83,705,000 and HK\$42,111,000 respectively. These facilities are secured/guaranteed by:

- (i) joint and several guarantee executed by the Controlling Shareholders, Mr Tam and Mr Hsu;
- (ii) pledge of life insurance amounting to HK\$11,680,000 and HK\$14,458,000 as at 31 March 2014 and 31 March 2015, respectively (Note 17);
- (iii) bank deposits of HK\$8,877,000 and HK\$5,510,000 as at 31 March 2014 and 31 March 2015, respectively (Note 23); and
- (iv) government guarantee for the SME Loan.

The carrying amounts of the borrowings approximate their fair values, the weighted average interest rates are 2.94% and 3.27% as at 31 March 2014 and 31 March 2015, respectively.

The rights to the leased asset are reverted to the lessor in the event of default of the lease liabilities by the Group.

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	795	402
Later than 1 year and no later than 5 years	453	32
	<u>1,248</u>	<u>434</u>
Future finance charges on finance leases	(86)	(19)
Present value of finance lease liabilities	<u>1,162</u>	<u>415</u>
The present value of finance lease liabilities is as follows:		
No later than 1 year	728	383
Later than 1 year and no later than 5 years	434	32
	<u>1,162</u>	<u>415</u>

28 Trade and other payables

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Trade payables (<i>Note (a)</i>)	40,685	42,220
Other payables and accruals		
– Accruals for staff cost	9,982	7,615
– Accruals for retirement benefit costs and housing funds	31,715	7,663
– Advances from customers	3,909	574
– Advances from Solution Smart	1,531	–
– Accrual for listing expenses	–	1,700
– Payable for property, plant and equipment	387	1,927
– Payable for intangible assets	–	1,048
– Other accruals and other payables	2,944	4,509
	<u>91,153</u>	<u>67,256</u>

(a) Trade payables

As at 31 March 2014 and 31 March 2015, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
0 to 30 days	18,153	8,762
31 to 60 days	7,681	13,044
61 to 90 days	6,473	11,510
Over 90 days	8,378	8,904
	<u>40,685</u>	<u>42,220</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
US\$	2,719	1,324
HK\$	5,070	2,016
RMB	32,896	38,880
	<u>40,685</u>	<u>42,220</u>

The carrying amounts of trade payables approximate their fair values.

29 Cash generated from operations

(a) Reconciliation of cash generated from operations:

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Profit before income tax	31,355	14,918
Adjustments for:		
Finance income (Note 10)	(447)	(604)
Finance costs (Note 10)	1,102	1,152
Fair value (gains)/losses on derivative financial instruments (Note 7)	(570)	1,872
Amortisation of land use rights (Note 8)	133	55
Amortisation of intangible assets (Note 8)	47	779
Depreciation of property, plant and equipment (Note 8)	7,108	5,994
Fair value losses/(gains) on financial asset at fair value through profit or loss (Note 3.3)	1,109	(2,561)
Administrative expense for financial asset at fair value through profit or loss (Note 3.3)	122	125
Provision for inventories (Note 8)	120	79
Loss/(gain) on disposal of property, plant and equipment	2	(2,602)
Recycle of currency translation differences upon disposal of a subsidiary	–	(1,552)
Operating profit before working capital changes	40,081	17,655
Changes in working capital		
Inventories	(4,616)	15,140
Trade and other receivables	12,920	(23,122)
Trade and other payables	1,927	(7,428)
Amount due from a related company	(492)	311
Amount due to a related company	–	2,794
Amounts due to directors	(364)	(994)
Cash generated from operations	49,456	4,356

In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Net book amount (Note 15)	260	1,520
(Loss)/gain on disposal of property, plant and equipment	(2)	2,602
Proceeds from disposal of property, plant and equipment	258	4,122

30 Commitments*(a) Capital commitments*

As at 31 March 2014 and 31 March 2015, the Group has the following capital commitments:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for		
– Property, plant and equipment	32	981
– Intangible assets	2,585	1,460
	<u>2,617</u>	<u>2,441</u>

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings		
– No later than 1 year	714	3,106
– Later than 1 year and no later than 5 years	12	3,445
	<u>726</u>	<u>6,551</u>

The Company has no other material commitments as at 31 March 2014 and 31 March 2015.

31 Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following companies were related parties that had transactions or balances with the Group during the years ended 31 March 2014 and 31 March 2015:

Name of the related party	Relationship with the Group
On Time (HK) Limited	Controlled by Mr. Tam and Mr. Hsu
Shine View	Controlled by Mr. Tam and Mr. Hsu
Xinxing On Time	Controlled by Mr. Tam and Mr. Hsu
Global Leader Enterprises Limited	Controlled by the sole shareholder of Solution Smart

In addition to the related party information disclosed in Note 13 and 26(iv), the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the Relevant Periods, and balances arising from related party transactions as at 31 March 2014 and 31 March 2015.

(a) *Transactions with related parties*

	Year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Sales of goods to a related company		
– On Time (HK) Limited	4,076	4,234
Disposal of a subsidiary to a related company		
– Shine View	–	24,960
Consultancy fee paid to a related company		
– Global Leader Enterprises Limited	–	(2)
Rental expenses charged by a related company		
– Xinxing On Time	–	(815)
	<u>4,076</u>	<u>24,177</u>

Certain administrative expenses of the Company incurred during the year ended 31 March 2015 were borne by On Real, the subsidiary indirectly held by the Company.

(b) *Balances with related parties*

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Amount due from a related company		
– On Time (HK) Limited (<i>Note (i)</i>)	9,436	–
Amount due to a related company		
– On Time (HK) Limited (<i>Note (ii) and (iii)</i>)	(8,761)	–
Amounts due to directors		
– Mr. Tam Wing Ki	(783)	–
– Mr. Hsu Wing Sang	(211)	–
	<u>9,436</u>	<u>–</u>

Note (i): As at 31 March 2014 and 31 March 2015, the amount due from On Time (HK) Limited arose mainly from sale transactions. The amount is unsecured and interest-free. The ageing analysis of the amount due from a related company based on due date is as follows:

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
1 to 30 days	232	–
31 to 60 days	206	–
61 to 90 days	460	–
91 to 180 days	2,443	–
Over 180 days	6,095	–
	<u>9,436</u>	<u>–</u>
Total	<u>9,436</u>	<u>–</u>

Note (ii): As at 31 March 2014 and 31 March 2015, the amount due to On Time (HK) Limited is unsecured and interest-free. The ageing analysis of the amount due to a related company based on invoice date is as follows:

	As at 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	(25)	–
31 to 60 days	(95)	–
61 to 90 days	(328)	–
Over 90 days	(8,313)	–
Total	<u>(8,761)</u>	<u>–</u>

Note (iii): As at 30 November 2014, the Group had an amount due from Xinxing On Time of HK\$9,464,000 and an amount due to On Time (HK) Limited of HK\$8,417,000. Both Xinxing On Time and On Time (HK) Limited are controlled by the Controlling Shareholders. Pursuant to an agreement dated 31 January 2015, the Controlling Shareholders, Xinxing On Time, On Time (HK) Limited and the Group had entered into an assignment agreement where all the balances between the Group, On Time (HK) Limited and Xinxing On Time were assigned to the Controlling Shareholders. During the year ended 31 March 2015, the Company declared a special dividend of HK\$1,047,000 (Note 13) to settle the net balances with the Controlling Shareholders.

Maximum amount due from a related company outstanding during the year were as follows:

	Years ended 31 March	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
On Time (HK) Limited	<u>9,436</u>	<u>10,384</u>

The amounts due from/(to) a related company and directors of subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts approximate their fair value. Except for the amount due to a related company which is denominated in HK\$, other balances are denominated in RMB.

(c) Key management compensation

Key management includes directors (executive and non-executive) and the senior management of the Group. The compensation paid or payable to key management for employee services is disclosed in Note 9(b).

(d) Guarantees from related parties

As at 31 March 2014 and 31 March 2015, bank and other borrowings of the Group of HK\$23,700,000 and HK\$49,729,000, respectively, were guaranteed by the directors of the Company. Upon Listing of the Company, this guarantee will be released and will be replaced by the corporate guarantee of the Company.

32 Events after the balance sheet date

- (i) On 16 September 2015, the authorised share capital of the Company increased from HK\$390,000 to HK\$7,800,000 by the creation of an additional 741,000,000 shares of HK\$0.01 each.
- (ii) On 16 September 2015, the Company capitalised an amount of HK\$3,599,800 by crediting to the share premium account of the Company and that the said sum be applied in paying up in full for 359,980,000 shares, representing 99.994% of the enlarged issued share capital of the Company. Such shares are allotted and issued, credited as fully paid to Mr. Tam, Mr. Hsu, Solution Smart and Pacific Able as to 179,450,030 shares, 79,735,570 shares, 67,208,266 shares and 33,586,134 shares, respectively, in proportion to their then respective shareholdings in the Company of 49.85%, 22.15%, 18.67% and 9.33%, respectively.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2015 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2015.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following information does not form part of the Accountant's Report prepared by PricewaterhouseCoopers, Certified Public Accountants, the Reporting Accountant of the Company, as set forth in Appendix I to this document, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this document and the Accountant's Report set forth in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Placing on the net tangible assets of our Group attributable to owners of our Company as of 31 March 2015 as if the Placing had taken place on 31 March 2015.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 31 March 2015 or at any future dates following the Placing. It is prepared based on the consolidated net assets of our Group as at 31 March 2015 as set out in the Accountant's Report of our Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2015	Estimated net proceeds from Placing	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company as at 31 March 2015	Unaudited pro forma adjusted net tangible assets per Share
	<i>(Note (1))</i>	<i>(Note (2))</i>	<i>(Note (3))</i>	<i>(Note (4))</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on a Placing Price of HK\$0.4 per Share	17,857	29,860	47,717	0.10
Based on a Placing Price of HK\$0.6 per Share	17,857	53,020	70,877	0.15

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of the Company as at 31 March 2015 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 March 2015 of approximately HK\$26,260,000 with an adjustment for the intangible assets as at 31 March 2015 of HK\$8,403,000.
- (2) The estimated net proceeds from the Placing are based on the indicative Placing Price of HK\$0.40 and HK\$0.60 per Share, being low and high end of the indicative Placing Price range, after deduction of the estimated underwriting fees and other related expenses (excluding listing expenses of approximately HK\$16,943,000 which have been accounted for prior to 31 March 2015) payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate, respectively.
- (3) The unaudited pro forma adjusted net tangible assets per Share has been arrived at after having made the adjustments referred to in the preceding paragraphs and on the basis of a total of 480,000,000 Shares in issue assuming that the Placing has been completed on 31 March 2015 but without taking into account any Shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme or any Share which may be allotted and issued or repurchased by the Company pursuant to the General Mandate to Issue Shares or the 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 31 March 2015.

B. REPORT FROM THE REPORTING ACCOUNTANT ON 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.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

TO THE DIRECTORS OF ON REAL INTERNATIONAL HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of On Real International 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 31 March 2015, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 in Appendix II to the Company's prospectus dated 18 September 2015 (the "Prospectus"), in connection with the proposed placing of shares of the Company. The basis on which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed placing of shares on the Group's financial position as at 31 March 2015 as if the proposed placing of shares had taken place at 31 March 2015. As part of this process, information about the Group's financial position as at 31 March 2015 has been extracted by the directors from the Group's financial information for the year ended 31 March 2015, 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 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(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 complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 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 placing of shares at 31 March 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- 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 7.31(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 18 September 2015

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 June, 2014 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Memorandum of Association (the “**Memorandum**”) and the Articles of Association (the “**Articles**”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 16 September 2015 to take effect on the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may

determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
 - (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.
- (vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons

as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or

representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been given in accordance with the Articles (see paragraph 2(i) below for further details).

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition, notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange (as defined in the Articles), it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent. (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent. (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf

of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be

entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 15 July 2014.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off

or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation and registration of our Company under Part 16 of the Companies Ordinance**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 30 June 2014. Our Company has established a principal place of business in Hong Kong at Room 2401-02, 24/F, Jubilee Centre, 46 Gloucester Road, Wanchai, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 18 August 2014. Ms. Au Annie Man Wai of Room 2401-02, 24/F, Jubilee Centre, 46 Gloucester Road, Wanchai, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws of the Cayman Islands and our constitution which comprises the Memorandum and the Articles. A summary of various provisions of our Company's constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital

Our Company was incorporated on 30 June 2014. As at the date of incorporation, the authorised share capital of our Company was HK\$390,000 divided into 39,000,000 Shares with a nominal value of HK\$0.01 each. On the same day, one subscriber's Share was transferred to Mr. Tam, and additional 6,922 and 3,077 Shares were allotted and issued as fully paid to Mr. Tam and Mr. Hsu respectively.

Pursuant to the written resolutions of the Shareholders passed on 16 September 2015, the authorised share capital of our Company was increased from HK\$390,000 to HK\$7,800,000 by the creation of an additional 741,000,000 Shares.

Assuming that the Placing and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made but taking no account of any Shares which may be issued upon exercise of the options which may be granted under the Share Option Scheme, the issued share capital of our Company immediately following completion of the Placing and the Capitalisation Issue will be HK\$4,800,000 divided into 480,000,000 Shares, fully paid or credited as fully paid, with 300,000,000 Shares remaining unissued.

Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme below, our Company does not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as aforesaid and as mentioned in “— 3. Written resolutions of our Shareholders passed on 16 September 2015”, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Written resolutions of our Shareholders passed on 16 September 2015

On 16 September 2015, written resolutions of our Shareholders were passed, pursuant to which, among other things:

- (a) the increase of the authorised share capital of our Company from HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each to HK\$7,800,000 divided into 780,000,000 Shares of HK\$0.01 each by the creation of an additional 741,000,000 Shares which shall rank *pari passu* in all respects with the then existing issued Shares was approved;
- (b) conditional on the share premium account of our Company being credited as a result of the Placing, our Directors were authorised to capitalise an amount of HK\$3,599,800 from the amount standing to the credit of the share premium account of our Company and that the said sum be applied in paying up in full 359,980,000 Shares, such Shares to be allotted and issued, credited as fully paid to our Shareholders appearing on the register of members of our Company at the close of business on the date of this prospectus (or such holders may direct) in proportion (as nearly as possible without fractions) to their then respective shareholdings in our Company and so that such Shares to be allotted and issued shall rank *pari passu* in all respects with the then existing issued Shares;
- (c) conditional on (i) the Listing Division granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares which may be issued pursuant to the Capitalisation Issue or pursuant to the exercise of any options which may be granted under the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreement:
 - (i) the Placing was approved and that our Directors were authorised to allot and issue the Placing Shares pursuant to the Placing on and subject to the terms and conditions stated in this prospectus;
 - (ii) the rules of the Share Option Scheme (the principal terms of which are set out in “— D. Share Option Scheme”) were approved and adopted and our Directors or any such committee thereof be and were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected by the Stock Exchange, and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal

with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme; and

- (d) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of our subsidiaries or any other person of Shares or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or any issue of Shares upon exercise of rights of subscription or conversion attaching to any securities of our Company (if any) which are convertible into Shares or the Placing or a specific authority granted by our Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of the total nominal value of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue (excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing such mandate given to our Directors;
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on GEM or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with a total nominal value not exceeding 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Placing and Capitalisation Issue (excluding any Shares which may be issued pursuant upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;

- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any applicable laws of the Cayman Islands to be held; or
- (iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing such mandate given to our Directors;
- (f) the general unconditional mandate granted to our Directors as mentioned in paragraph (d) above was extended by the addition to the total nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted, issued or dealt with by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above provided that such extended amount shall not exceed 10% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Placing and the Capitalisation Issue (excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme);
- (g) our Company approved and adopted the Articles in substitution for and to the exclusion of the then existing articles of association of our Company with effect from the Listing Date; and
- (h) our Company approved and adopted the Memorandum.

4. Corporate reorganisation

The members of our Group underwent the Reorganisation to rationalise the business and the structure of our Group in anticipation of the Placing. See “History, Reorganisation and Corporate Structure” for details on the steps involved in the Reorganisation.

5. Changes in share capital of subsidiaries of our Company

The subsidiaries of our Company are referred to in the Accountant’s Report.

Save as disclosed in “History, Reorganisation and Corporate Structure”, there has been no other change to the share capital of the subsidiaries of our Company within two years preceding the date of this prospectus.

6. Repurchase by our Company of its own securities

This section includes information relating to the repurchase of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) *Relevant Legal and Regulatory Requirements*

The GEM Listing Rules permit Shareholders to grant our Directors a general mandate to repurchase its securities that are listed on the Stock Exchange.

(b) *Shareholder's Approval*

All proposed repurchases of its securities (which must be fully paid up) must be approved in advance by an ordinary resolution of our Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions passed by the Shareholders on 16 September 2015, our Directors were granted a general unconditional mandate to repurchase (the “**Repurchase Mandate**”) up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue (excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme) on GEM or on any other stock exchange on which the securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of the next annual general meeting of our Company, (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or applicable laws of the Cayman Islands to be held, or (iii) the passing of an ordinary resolution by Shareholders in general meeting revoking, varying or renewing the authority given to our Directors.

(c) *Source of Funds*

The repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for such purpose in accordance with the Memorandum and Articles of Association and the applicable laws of the Cayman Islands and any other laws and regulations applicable to our Company. Our Company may not repurchase its own securities on the Stock Exchange for consideration other than cash or for the settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under the Cayman Islands law, any repurchase by our Company may be made out of profits of our Company, out of our Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profit of our Company or from sums standing to the credit of the share premium account of our Company or subject to the provisions of the Companies Law, out of capital.

(d) Trading Restrictions

Our Company may repurchase up to 10% of the issued share capital immediately after completion of the Placing and the Capitalisation Issue (excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme). Our Company may not issue or announce a proposed issue of the Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing the Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the minimum percentage required by the Stock Exchange. The broker appointed by our Company to effect a repurchase of the Shares is required to disclose to the Stock Exchange any information with respect to a Share repurchase as the Stock Exchange may require.

(e) Status of repurchased shares

All repurchased shares (whether on GEM or otherwise) will be automatically cancelled and the certificates for those shares must be cancelled and destroyed.

Under the Cayman Islands law, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(f) Suspension of Repurchase

Share repurchases are prohibited after inside information has come to the knowledge of a company until such time as the inside information has been made publicly available. In addition, the Stock Exchange reserves the right to prohibit repurchases of shares on GEM if a company has breached the GEM Listing Rules.

(g) Reporting Requirements

Repurchases of shares on GEM or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a company's annual report and accounts are required to disclose details regarding repurchases of shares made during the financial year under review, including the number of shares repurchased each month (whether on GEM or otherwise) and the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate price paid for such purchases.

(h) Core connected persons

A listed company is prohibited from knowingly repurchasing shares on GEM from a “core connected person”, that is, a director, chief executive or substantial shareholder of such company or any of its subsidiaries or any of their close associates and a core connected person shall not knowingly sell his shares to the company on GEM.

(i) Reasons for Repurchases

Repurchase will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or earnings per Share.

(j) General

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Memorandum, the Articles of Association and any other applicable laws of the Cayman Islands.

There might be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or on its gearing positions which in the opinion of our Directors are from time to time appropriate for our Company.

If, as a result of any repurchase of the Shares, a Shareholder’s proportionate interest in our Company’s voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code) could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates, has any present intention to sell any Shares to our Company.

No core connected person of our Company has notified our Company that he has a present intention to sell his Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business of our Group) have been entered into by members of our Group within the two years preceding the date of this prospectus which are or may be material:

- (a) the asset transfer agreement dated 28 August 2014, entered into between Xinxing On Time and Xinxing Great Success, pursuant to which Xinxing On Time agreed to transfer all its assets excluding the Xinxing Land and the Xinxing Buildings to Xinxing Great Success for a consideration of approximately RMB2,298,000;
- (b) the subscription agreement dated 30 October 2014 entered into among On Real, Solution Smart, Mr. Tam and Mr. Hsu, pursuant to which Solution Smart agreed to subscribe for 518,614 shares of On Real for the amount of US\$1,000,000;
- (c) the subscription agreement dated 30 October 2014 entered into among On Real, Pacific Able, Mr. Tam and Mr. Hsu, pursuant to which Pacific Able agreed to subscribe for 259,167 shares of On Real for the amount of US\$500,000;
- (d) the Deed of Non-competition;
- (e) the deed of undertakings dated 16 September 2015 entered into between the Controlling Shareholders and our Company, pursuant to which each of the Controlling Shareholders provides certain general warranties and undertaking in respect of the then position of our Group for the benefit of our Company;
- (f) the Deed of Indemnity; and
- (g) the Underwriting Agreement.

2. Our intellectual property rights




(a) Patents

As at the Latest Practicable Date, our Group had been granted the following patent:

<u>Patent</u>	<u>Patentee(s)</u>	<u>Jurisdiction</u>	<u>Patent no.</u>	<u>Patent type</u>	<u>Application date</u>	<u>Expiry date</u>
一種 檯燈	On Real	PRC	ZL201320247115.1	Utility model	9 May 2013	8 May 2023

(b) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks:

<u>Trademark</u>	<u>Place of registration</u>	<u>Trademark number</u>	<u>Registrant</u>	<u>Class</u>	<u>Date of registration</u>	<u>Expiry date</u>
	PRC	6374140	On Real	9	14 June 2011	13 June 2021
	PRC	3628689	On Real (Shenzhen)	9	7 February 2005	6 February 2015 (Note 1)
	Hong Kong	303149253	On Real	9	26 September 2014	25 September 2024

Note:

1. On Real (Shenzhen) has filed the trademark renewal application materials of the 3628689 trademark on 30 January 2015. As advised by our PRC Legal Advisers, during the trademark renewal period, the exclusive right to use the 3628689 trademark of On Real (Shenzhen) shall be protected by PRC law.

(c) Domain name

As at the Latest Practicable Date, our Group had registered the following domain names:

<u>Domain name</u>	<u>Registrant</u>	<u>Date of registration</u>	<u>Expiry date</u>
on-real.com.cn	On Real (Shenzhen)	21 June 2010	21 June 2017
grsu.com.cn	Xinxing Great Success	27 July 2012	27 July 2017
on-real.com	On Real	20 May 2003	20 May 2017

C. DISCLOSURE OF INTERESTS

1. Directors

(a) Interest and/or short positions of our Directors and chief executive of our Company in the Shares, underlying Shares or debenture of our Company and associated corporations

Immediately following completion of the Placing and the Capitalisation Issue (assuming 120,000,000 Placing Shares are successfully placed and taking no account of any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), the interests and/or short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO), which, once the Shares are listed, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the required standards of dealings by directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules, are as follows:

<u>Name of Shareholder</u>	<u>Long/short position</u>	<u>Capacity/Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding</u>
Mr. Tam	Long position	Beneficial owner	179,460,000	37.39%
Mr. Hsu	Long position	Beneficial owner	79,740,000	16.61%

(b) Particulars of service contracts

Each of the executive Directors and the non-executive Director has entered into a service contract with our Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Payment of the monthly salary to an executive Director or non-executive Director above shall be made either by our Company or by another member of our Group and if by more than one company in such proportions as the Board may from time to time think fit provided that the Director

shall not vote or be counted in the quorum of such Board meeting. The current basic annual remuneration of the executive Directors and the non-executive Director are as follows:

<u>Name</u>	<u>Annual remuneration (approximately)</u>
Mr. Tam	HK\$1,980,000
Mr. Hsu	HK\$1,200,000
Tao Hong Ming	HK\$1,560,000
Chau Wai Hung, Andy	HK\$120,000

Each of the independent non-executive Directors has entered into a letter of appointment with our Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of the independent non-executive Directors is appointed for an initial term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The annual remuneration payable to the independent non-executive Directors under each of the letters of appointment are as follows:

<u>Name</u>	<u>Annual remuneration</u>
Cheng Yuk Kin	HK\$120,000
Fan Chun Wah, Andrew	HK\$120,000
Reina Lim Yan Xin	HK\$120,000

Save as disclosed above, none of our Directors has entered or has proposed to enter into any service contract with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(c) *Remuneration of Directors*

Our Company's policies concerning remuneration of executive Directors are:

(1) the amount of remuneration payable to our executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to our Group by the relevant Director; and (2) our executive Directors may be granted, at the discretion of the Board, share options of our Company, as part of the remuneration package.

- (i) The aggregate remuneration paid by our Group to our Directors in respect of each of the two years ended 31 March 2015 were approximately HK\$2.8 million and HK\$3.0 million respectively.
- (ii) Save as disclosed in the Accountant's Report, no Directors received any remuneration or benefits in kind from our Group for each of the two years ended 31 March 2015.
- (iii) None of our Company's Directors or any past directors of any member of our Group has been paid any sum of money for each of the two years ended 31 March 2015 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) Under the arrangement currently in force, conditional upon the Listing, the estimated aggregate remuneration (excluding discretionary bonus, if any) payable by our Group to our Directors for the financial year ending 31 March 2016 is expected to be approximately HK\$4.3 million.

2. Substantial Shareholders

So far as we are aware, each of the following persons, other than a Director or chief executive of our Company who will, immediately following completion of the Placing and Capitalisation Issue (taking no account of any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares of our Company which will 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 of Shareholder	Long/short position	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding
Ms. Tang Yin Ping (Note 1)	Long position	Interest of spouse	179,460,000	37.39%
Ms. Chan Nga Fun (Note 2)	Long position	Interest of spouse	79,740,000	16.61%
Solution Smart (Note 3)	Long position	Beneficial owner	67,212,000	14.00%
SW Venture Asia (Note 4)	Long position	Interest in controlled corporation	67,212,000	14.00%
Mr. Yeung (Note 5)	Long position	Interest in controlled corporation	67,212,000	14.00%
Pacific Able (Note 6)	Long position	Beneficial owner	33,588,000	7.00%
Mr. Law (Note 7)	Long position	Interest in controlled corporation	33,588,000	7.00%

Notes:

- Ms. Tang is the spouse of Mr. Tam. Therefore, Ms. Tang is deemed to be interested in the Shares in which Mr. Tam is interested for the purpose of the SFO.
- Ms. Chan is the spouse of Mr. Hsu. Therefore, Ms. Chan is deemed to be interested in the Shares in which Mr. Hsu is interested for the purpose of the SFO.
- Solution Smart, a company incorporated in the BVI on 13 February 2014 and an investment holding company, is wholly and beneficially owned by SW Venture Asia.
- SW Venture Asia is the beneficial owner of all the issued shares of Solution Smart and is therefore deemed to be interested in the Shares held by Solution Smart.
- Mr. Yeung is the beneficial owner of all the issued shares of SW Venture Asia and is therefore deemed to be interested in the Shares held by Solution Smart.
- Pacific Able, a company incorporated in the BVI on 2 September 2008 and an investment holding company, is wholly and beneficially owned by Mr. Law.
- Mr. Law is the beneficial owner of all the issued shares of Pacific Able and is therefore deemed to be interested in the Shares held by Pacific Able.

Save as disclosed in this prospectus and so far as our Directors are aware, immediately following completion of the Placing and the Capitalisation Issue, there will not be any other persons (not being a Director or chief executive of our Company) who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and any other member of our Group.

3. Agency fees or commissions received

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, 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 any member of our Group.

4. Related party transactions

Save as disclosed in this prospectus and in the Accountant's Report, during the two years immediately preceding the date of this prospectus, our Company had not engaged in any other material transactions or related party transactions.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme approved by the resolution of the Shareholders passed on 16 September 2015. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

(a) Purpose

The purpose of the Share Option Scheme is for our Group to attract, retain and motivate talented Participants (as defined in paragraph (c) below), to strive for future developments and expansion of our Group. The Share Option Scheme shall be an incentive to encourage the Participants to perform their best in achieving the goals of our Group and allow the Participants to enjoy the results of our Company attained through their efforts and contributions.

(b) Conditions

The Share Option Scheme is conditional upon:

- (i) the passing of the necessary resolution(s) by Shareholders to approve and adopt the Share Option Scheme;
- (ii) the Listing Division granting approval (whether subject to conditions or not) of the Share Option Scheme and any right to subscribe for Shares pursuant to the Share Option Scheme (the "**Share Option(s)**") which may be granted thereunder, and the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the Share Options;

- (iii) the obligations of the Underwriters under the Underwriting Agreement referred to in “Underwriting” becoming unconditional (including, if relevant, as a result of the waiver of any such conditions) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise; and
- (iv) the commencement of dealings in the Shares on GEM.

(c) Scope of Participants and eligibility of Participants

The Board may, at its discretion, invite (collectively, the “**Participants**”):

- (i) any executive or non-executive Director including any independent non-executive Director or any employee (whether full-time or part-time) of any member of our Group;
- (ii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any employee or business associate of the Group;
- (iii) any adviser or consultant (in the areas of legal, technical, financial or corporate management) to our Group;
- (iv) any provider of goods and/or services to our Group; or
- (v) any other person who the Board considers, in its sole discretion, has contributed to our Group to take up the Share Options.

In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(d) Acceptance of offer

Offer of a Share Option shall be deemed to have been accepted by the grantee when the duplicate of the relevant offer letter comprising acceptance of the Share Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company within 28 days from the date of the offer.

(e) Subscription price

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Participant and shall be no less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date on which a Share Option is granted; (ii) the average closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date on which a Share Option is granted; and (iii) the nominal value of a Share.

(f) Maximum number of Shares available for subscription

- (i) Subject to (iv) below, the total number of Shares which may be issued upon exercise of all Share Options to be granted under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed 10% of the total number of the Shares in issue immediately upon completion of the Placing and the Capitalisation Issue, unless our Company obtains an approval from our Shareholders pursuant to (ii) below.
- (ii) Subject to (iv) below, our Company may seek approval of our Shareholders in general meeting for refreshing the 10% limit set out in (i) above such that the total number of Shares which may be issued upon exercise of all Share Options to be granted under the Share Option Scheme and any other share option schemes of our Company under the limit as refreshed shall not exceed 10% of the total number of the Shares in issue as at the date of approval to refresh such limit.
- (iii) Subject to (iv) below, our Company may seek separate approval from our Shareholders in general meeting for granting Share Options beyond the 10% limit provided the Share Options granted in excess of such limit are granted only to Participants specifically identified by our Company before such approval is sought. In such case, our Company shall send a circular to our Shareholders containing the information required under the GEM Listing Rules.
- (iv) Notwithstanding any other provisions of the Share Option Scheme, the maximum number of Shares in respect of which Share Options may be granted under the Share Option Scheme together with any options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% (or such higher percentage as may be allowed under the GEM Listing Rules) of the total number of Shares in issue from time to time. No Share Option may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such limit being exceeded.

(g) Conditions, restrictions or limitations on offers of Share Options

Unless otherwise determined by the Board and specified in the offer letter at the time of the offer of the Share Option, there are neither any performance targets that need to be achieved by the grantee before a Share Option can be exercised nor any minimum period for which a Share Option must be held before the Share Option can be exercised. Subject to the provisions of the Share Option Scheme and the GEM Listing Rules, the Board may when making the offer of Share Options impose any conditions, restrictions or limitations in relation to the Share Option as it may at its absolute discretion think fit.

(h) Maximum entitlement of Shares of each Participant

- (i) Subject to paragraph (ii) below, the total number of Shares issued and to be issued upon exercise of the Share Options granted to each Participant (including both exercised, cancelled and outstanding Share Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.
- (ii) Notwithstanding (i) above, any further grant of Share Options to a Participant in excess of the 1% limit shall be subject to approval by our Shareholders in general meeting with such Participant and his or her close associates (or his or her associates if the Participant is a connected person) abstaining from voting. The number and the terms of the Share Options to be granted to such Participant shall be fixed before our Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(i) Grant of Share Options to connected persons

- (i) Any grant of Share Options to a Participant who is a director, chief executive or substantial Shareholder of our Company or any of their respective associates must be approved by the independent non-executive Directors of our Company (excluding independent non-executive Director who is the Participant).
- (ii) Where the Board proposes to grant any Share Option to a Participant who is a substantial Shareholder or an independent non-executive Director, or any of their respective associates and such Share Option which if exercised in full, would result in such Participant becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares already issued and issuable to him or her pursuant to all Share Options granted and to be granted (including Share Options exercised, cancelled and outstanding) to him or her in the 12-month period up to and including the date of such grant:
 - (1) representing in aggregate more than 0.1% of the relevant class of securities of our Company in issue on the date of such grant; and
 - (2) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of such grant and if the date of such grant is not a trading day, the trading day immediately preceding the date of such grant, in excess of HK\$5 million,

such proposed grant of Share Options must be approved by our Shareholders in general meeting. In such a case, our Company shall send a circular to our Shareholders containing all those terms as required under the GEM Listing Rules. The Participant concerned, his or her associates and all core connected persons of our Company must abstain from voting at such general meeting (except where any core connected person intends to vote against the relevant resolution provided that such intention to do so has been stated in the circular). Any vote taken at the meeting to approve the grant of such Share Options must be taken on a poll.

(j) Exercise of Share Options

A Share Option may be exercised in accordance with the terms of the Share Option Scheme and such other terms and conditions upon which a Share Option was granted, at any time during the option period after the Share Option has been granted by the Board but in any event, not longer than 10 years from the date of grant. A Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the option period.

(k) Transferability of the Share Options

A Share Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favour of any third party over or in relation to any Share Option.

(l) If a grantee ceased to be a Participant by reason other than death or misconduct

If the grantee ceases to be a Participant for any reason other than on the grantee's death or the termination of the grantee's employment or directorship on one or more of the grounds specified in paragraph (n) below, the grantee may exercise the Share Option up to his or her entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of nine months (or such longer period as the Board may determine) following the date of such cessation, which date shall be the last actual working day with the relevant company in our Group whether salary is paid in lieu of notice or not, or the last date of appointment as director of the relevant company in our Group, as the case may be, failing which it will lapse.

(m) On the death of a grantee

If the grantee dies before exercising the Share Option in full and none of the events which would be a ground for termination of the grantee's employment or directorship under paragraph (n) below arises, the personal representative(s) of the grantee shall be entitled to exercise the Share Option up to the entitlement of such grantee at the date of death (to the extent which has become exercisable and not already exercised) within a period of 12 months or such longer period as the Board may determine from the date of death, failing which it will lapse.

(n) Termination of employment of a grantee by reason of misconduct

A Share Option shall lapse automatically (to the extent not already exercised) on the date on which the grantee ceased to be a Participant by reason of the termination of his or her employment or directorship on the grounds that he or she has been guilty of misconduct, or appears either to be unable to pay or have no reasonable prospect to pay debts, or has become insolvent, or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty.

(o) Voluntary winding-up of our Company

In the event a 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 all grantees. Each grantee (or his or her legal personal representative(s)) may by notice in writing to our Company (such notice to be received by our Company not later than four business days prior to the proposed Shareholders' meeting) exercise the Share Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice, and our Company shall as soon as possible and, in any event, no later than the day 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. Subject to the above, a Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the period referred to above.

(p) General offer by way of take-over

If a general offer by way of take-over is made to all the Shareholders (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) with the terms of the offer having been approved by our Shareholders of not less than nine-tenths in value of the Shares comprised in the offer within four months from the date of the offer and the offeror thereafter gives a notice to acquire the remaining Shares, the grantee (or where appropriate, his or her legal personal representatives) shall be entitled to exercise the Share Options in full (to the extent not already exercised) even though the option period has not come into effect during the occurrence of the general offer within 21 days after the date of such notice by the offeror. Subject to the above, a Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the period referred to above.

(q) Rights on a compromise or arrangement

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to the grantee on the same date as it despatches the notice which is sent to each Shareholder or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his or her personal representative(s)) may until the expiry of the period commencing with such date and ending with the earlier of the date two months thereafter and the date on which such compromise or arrangement is sanctioned by the court provided that the relevant Share Options are not subject to a term or condition precedent to them exercisable which has not been fulfilled, exercise any of his or her Share Options whether in full or in part, but the exercise of an Share Option as aforesaid shall be conditional upon such compromise or arrangement becoming effective. Upon such compromise or arrangement becoming effective, all Share Options shall lapse except insofar as previously exercised under the Share Option Scheme.

(r) Rank *pari passu*

The Shares to be allotted and issued upon the exercise of a Share Option will be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* with the fully paid Shares in issue as from the date of allotment and in particular will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the date of allotment.

(s) Alteration in capital structure

In the event of any alteration in the capital structure of our Company whilst any Share Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, sub-division, or reduction of the share capital of our Company or otherwise howsoever in accordance with legal requirements and requirements of the Stock Exchange, excluding any alteration in the capital structure of our Company as a result of an issue of Shares pursuant to, or in connection with, any share option scheme, share appreciation rights scheme or any arrangement for remunerating or incentivising any employee, consultant or adviser to our Company or any employee, consultant or adviser to our Group or in the event of any distribution of our Company's legal assets to our Shareholders on a pro rata basis (whether in cash or in specie) other than dividends paid out of the net profits attributable to our Shareholders for each financial year of our Company, such corresponding alterations (if any) shall be made to:

- (i) the number of Shares subject to the Share Option so far as unexercised; or
- (ii) the subscription price,

or any combination thereof, as the auditors or the independent financial adviser of our Company shall certify in writing, either generally or as regards any particular grantee, to have, in their opinion, fairly and reasonably satisfied the requirement that any such adjustment shall be in compliance with the relevant provisions of the GEM Listing Rules or such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time.

(t) Duration of the Share Option Scheme

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted, after which period no further Share Options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and Share Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(u) Cancellation of Share Options granted

The Board may at any time at its absolute discretion cancel any Share Options previously granted to, but not exercised by the grantee. Where our Company cancels Share Options and offers Share Options to the same grantee, the offer of the grant of such new Share Options may only be made with available Share Options to the extent not yet granted (excluding the cancelled Share Options) within the limit approved by our Shareholders as mentioned in paragraph (f) above. A Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date on which the Share Option is cancelled by the Board as provided above.

(v) Termination of the Share Option Scheme

Our Company may by 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 Share Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect.

(w) Alteration of provisions of the Share Option Scheme

The provisions of the Share Option Scheme may be altered in any respect by resolution of the Board except that provisions relating to the class of persons eligible for the grant of Share Options, the option period and all such other matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of the Participants without the prior approval of our Shareholders in general meeting. 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 the Share Options granted must be approved by the Stock Exchange and our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The amended terms of the Share Option Scheme or the Share Options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules. Any change to the authority of the Board or scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

(x) Restrictions on the time of grant of Share Options

No offer shall be made after inside information has come to the knowledge of our Company until such inside information has been published pursuant to the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Board for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for our Company to publish announcement for its results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, no Share Option may be granted.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. On the assumption that 480,000,000 Shares are in issue on the date of commencement of dealings in the Shares on the Stock Exchange, the application to the Listing Division for the listing of, and permission to deal in the Shares on the Stock Exchange includes the 48,000,000 Shares which may be issued upon the exercise of the Share Options which may be granted under the Share Option Scheme.

Application has been made to the Listing Division for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Estate duty, tax and other indemnities

Each of Mr. Tam and Mr. Hsu (together, the “**Indemnifiers**”) has entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its subsidiaries) (being the material contract item (f) referred to in “— B. Further information about our business — 1. Summary of material contracts”) to provide joint and several indemnities in connection with, among other things,

- (a) any taxation falling on any member of our Group (i) resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the date on which the Placing becomes unconditional (the “**Effective Date**”); or (ii) resulting from or by reference to any transaction, act, omission or event entered into or occurring (or deemed to be entered into or occurring on or before the Effective Date; or (iii) in respect of or in consequence of any act or omission of any member of our Group regarding the inter-companies transactions on or before the Effective Date; or (iv) by reason of any transfer of any property to any member of our Group or to any other person, entity or company made or deemed to have been made on or before the Effective Date; and
- (b) any duty which is or hereafter becomes payable by any member of our Group by virtue of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) under the provisions of section 43 of the Estate Duty Ordinance by reason of the death of any person and by reason of the assets of our Group or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to our Group or any member of our Group at any time prior to 11 February 2006 (i.e. being the date on which the Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect).

However, the Indemnifiers shall not be liable under the Deed of Indemnity for taxation:

- (a) to the extent that provision or allowance has been made for such taxation in the audited combined accounts of our Group for each of the two years ended 31 March 2015 (the “**Relevant Accounts**”);
- (b) to the extent that such taxation or liability for such taxation falling on any member of our Group in respect of their accounting periods or any accounting period commencing on or after 1 April 2015 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, our Group or any of its members (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Effective Date;
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date or pursuant to any statement of intention made in this prospectus; or
 - (iii) consisting of any member of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation;
- (c) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other relevant authority coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect;
- (d) to the extent of any provisions or reserve made for taxation in the Relevant Accounts which is finally established to be an over-provision or an excessive reserve in which case the Indemnifier’s liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this item (d) to reduce the Indemnifier’s liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or
- (e) to any incomes, profits or gains earned, accrued or received by any member of our Group or any event occurred after the Effective 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 under the laws of the Cayman Islands, the BVI or the PRC, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

Under the Deed of Indemnity, each of the Indemnifiers has also undertaken and covenanted with each member of our Group that he shall, jointly and severally, hold our Group and each member of our Group harmless and keep our Group and each member of our Group fully indemnified on demand against:

- (a) any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by any member of our Group arising from any violation or non-compliance with the laws, rules or regulations applicable to our Group prior to the Listing Date, including all such non-compliance incidents as disclosed in “Business — Non-compliance”; and
- (b) any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by our Group in relation to relocation due to title encumbrance of the Songgang Production Facility and Shenzhen office as disclosed in this prospectus.

2. Litigation

As at the Latest Practicable Date, neither we nor any other member of our Group is engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against any member of our Group.

3. Sponsor

The Sponsor has made an application on our behalf to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares falling to be issued pursuant to the Capitalisation Issue or pursuant to the exercise of any options that may be granted under the Share Option Scheme). The Sponsor has confirmed to the Stock Exchange that it is independent of our Company in accordance with Rule 6A.07 of the GEM Listing Rules. The Sponsor’s fees are approximately HK\$5.5 million and are payable by our Company.

4. Preliminary expenses

Our estimated preliminary expenses relating to the incorporation of our Company are approximately US\$2,100 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

6. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<u>Name</u>	<u>Qualification</u>
Quam Capital Limited	A corporation licensed by the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Hills & Co.	Legal advisers as to PRC law
PricewaterhouseCoopers	Certified public accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Alston & Bird LLP	Legal advisers as to US law
Wragge Lawrence Graham & Co LLP	Legal advisers as to English law
Stibbe	Legal advisers as to Netherlands law
Gleiss Lutz Hootz Hirsch PartmbB Rechtsanwälte, Steuerberater	Legal advisers as to German law
CBRE Limited	Independent industry consultants
International Valuation Limited	Independent professional valuer
Mr. Kwong, Alan	Hong Kong barrister-at-law

7. Consents of experts

Each of the experts referred to in paragraph 6 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or valuation certificates and/or legal opinion (as the case may be) and the references to their name in the form and context in which it respectively appears.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding up and Miscellaneous Provisions) Ordinance insofar as applicable.

9. Share registrars

The principal register of members will be maintained by Codan Trust Company (Cayman) Limited in the Cayman Islands and a branch register of members will be maintained by Boardroom Share Registrars (HK) Limited in Hong Kong. Unless 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 for registration with the principal share registrar in the Cayman Islands.

10. Disclaimers

- (a) none of our Directors nor any of the parties whose names are listed in “— 6. Qualification of experts” is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors nor any of the parties whose names are listed in “— 6. Qualification of experts” 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;
- (c) none of the experts named in “— 6. Qualification of experts” has any shareholding in any member in our Group or the right (whether legal enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member in our Group;
- (d) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of our company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Placing or related transaction as mentioned in this prospectus;
- (e) none of our Directors or their respective close associates is interested in any business apart from our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business; and
- (f) none of our Directors or their respective associates or our Shareholders who, to the best knowledge of our Directors, own more than 5% of the issued Shares of our Company had any interest in our five largest customers or five largest suppliers.

11. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
 - (iv) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries.
- (b) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (c) All necessary arrangements have been made to enable the shares to be admitted into CCASS for clearing and settlement.
- (d) There has not been any interruption in the business of our Group which may have or has had a material adverse effect on the financial position of our Group within 12 months immediately preceding the date of this prospectus.
- (e) There are no arrangements under which future dividends are waived or agreed to be waived.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in “E. Other information — 7. Consents of experts” in Appendix IV to this prospectus, and copies of the material contracts referred to in “B. Further information about our business — 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 office of Tung & Co. in association with Jia Yuan Law Office at Office 1601, 16th Floor, LHT Tower, 31 Queen’s Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers Hong Kong, the text of which is set out in Appendix I to this prospectus;
- (c) the letter on unaudited pro forma financial information prepared by PricewaterhouseCoopers Hong Kong, the text of which is set out in Appendix II to this prospectus;
- (d) the material contracts referred to in “B. Further information about our business — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (e) the service contracts with the executive Directors and non-executive Director and the letters of appointment with independent non-executive Directors, referred to in “C. Disclosure of interests — 1. Directors — (b) Particulars of service contracts” in Appendix IV to this prospectus;
- (f) the rules of the Share Option Scheme referred to in “D. Share Option Scheme” in Appendix IV to this prospectus;
- (g) the written consents referred to in “E. Other information — 7. Consents of experts” in Appendix IV to this prospectus;
- (h) the legal opinions prepared by our PRC Legal Advisers in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (i) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix III to this prospectus;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES AND AVAILABLE FOR INSPECTION**

- (j) the legal opinion(s) prepared by Alston & Bird LLP, the legal advisers to our Company as to US law, in respect of certain aspects of our Group in the US;
- (k) the comfort letter(s) prepared by Wragge Lawrence Graham & Co LLP, the legal advisers to our Company as to English law, in respect of certain aspects of our Group in England and Wales;
- (l) the legal opinion(s) prepared by Stibbe, the legal advisers to our Company as to Netherlands law, in respect of certain aspects of our Group in the Netherlands;
- (m) the legal opinion(s) prepared by Gleiss Lutz Hootz Hirsch PartmbB Rechtsanwälte, Steuerberater, the legal advisers to our Company as to German law, in respect of certain aspects of our Group in Germany;
- (n) the legal opinion issued by Mr. Kwong, Alan, barrister-at-law, Hong Kong;
- (o) the Companies Law;
- (p) the industry report prepared by CBRE Limited referred to in “Industry Overview”;
and
- (q) the valuation reports prepared by International Valuation Limited in respect of the continuing connected transactions of our Group.

On Real International Holdings Limited

安悅國際控股有限公司

