ECHO INTERNATIONAL HOLDINGS GROUP LIMITED

毅高（國際）控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8218

LISTING BY WAY OF PLACING

Sole Sponsor

TANRICH CAPITAL LIMITED
敦沛融資有限公司

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

Echo International Holdings Group Limited
毅高（國際）控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

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

Number of Placing Shares	**: 60,000,000 Placing Shares**
Placing Price	**: HK$0.60 per Placing Share (payable in full on application, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)**
Nominal value	**: HK$0.01 each**
Stock code	**: 8218**

Sole Sponsor and Sole Bookrunner

TANRICH
TANRICH CAPITAL LIMITED
敦沛融資有限公司

Joint Lead Managers

TANRICH
TANRICH CAPITAL LIMITED
敦沛融資有限公司

CONVOY 康宏
your finance navigator

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

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

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

Prospective investors of the Placing Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing to the Company given by Tanrich Capital (acting on behalf of the Underwriters) upon the occurrence of any of the events set out under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, but without limitation to, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, pandemic, act of terrorism, strike or lock-out.

30 September 2013

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to 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.

	2013 Note 1 and 3
Announcement of level of indication of interests in the Placing to be published on the GEM website at *www.hkexnews.hk* and the Company's website at *www.echogroup.com.hk* on or before	10 October 2013
Allotment of Placing Shares to placees (or their designated person(s)) on or before	10 October 2013
Deposit of Share certificates into CCASS on or before *(note 2)*	10 October 2013
Dealings in Shares on GEM to commence at 9:00 a.m. on	11 October 2013

Notes:

1. In this prospectus, unless otherwise stated, all times and dates refer to Hong Kong local times and dates.

2. Share certificates for the Placing Shares allotted and issued to the placees are expected to be deposited directly into CCASS on or before 10 October 2013 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). No temporary documents or evidence of title will be issued.

3. If there is any change to the above expected timetable, the Company will make a separate announcement at the GEM website at *www.hkexnews.hk* and the Company's website at *www.echogroup.com.hk*.

4. All share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms at or before 8:00 a.m. Hong Kong time on the Listing Date.

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

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the 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 or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a Placing of the Placing Shares or the distribution of this prospectus other than Hong Kong.

You should rely on the information contained in this prospectus to make your investment decision. The Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters have not authorized any person to provide you with information that is different from what is contained in this prospectus. Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorized by the Company, the Sole Sponsor, the Lead Manager, the Underwriters, any of their respective directors, officers, employees, agents, affiliates or representatives or any other person involved in the Placing.

The contents on the Company' website at www.echogroup.com.hk, which is the website of the Group, do not form part of this prospectus.

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This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Placing Shares.

There may be greater risks associated with investment in companies listed on GEM than companies listed on the Main Board. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

OVERVIEW

Business

The Company is a Hong Kong EMS company, headquartered in Hong Kong, with its manufacturing operation located in the PRC. During the Track Record Period, the Group's production and product development activities are carried out in the PRC whereas the sales activities are carried out in Hong Kong. EMS stands for electronics manufacturing services of which an EMS provider's product offering is focused on PCBA and complete unit assembly and tests, product design support services, and possibly after market support and delivery services. The Group's principal business is providing integrated manufacturing services which include design verification, sourcing and procurement, manufacturing, assembling, testing and inspection, packaging and after-sales services to its branded customers. The Group has its own product engineering team which has been providing design verification and enhanced software support to the Group's customers.

The Group's products mainly include hair remover, starter, control board, charger board and other miscellaneous electronic products which are PCB assemblies used in beauty related products, fishing related products, security related products and other electronic related products. In addition, the Group also provides one-stop complete electronic products manufacturing and assembly services and such complete products include security alarm, buzzer, fire alarm, massage toner, fishing indicator and communicator. Moreover, the Group derives income from providing subcontracting services on PCB assemblies and manufacture of complete products on a consignment basis. Under this arrangement, the Group only provides manufacturing services while raw materials and components used in production are supplied by the customers.

The Group's manufacturing operations had been conducted at the Processing Factory located in Shenzhen, the PRC pursuant to the Processing Agreement entered into between the Echo Co, the Processing Factory and the Processing Party on 29 November 1991. On 5 May 2011, Echo Electronics, wholly-owned subsidiary of the Company, made an application to seek the transformation and upgrade of the Processing Factory into a wholly foreign-owned enterprise ("**WFOE**"), namely Yi Gao Tech, without relocating or suspending production (the "**Transformation**"). The Group completed the transfer of the production equipments, raw materials and factory workers from the Processing Factory to Yi Gao Tech, which has undertaken and has been conducting all the production activities of the Group since September 2011 and the Processing Factory was deregistered in February 2012. For the twelve months preceding and after Yi Gao Tech has undertaken the manufacturing operations of the Group, the net profit margin of the Group was approximately 22.98% and 12.83% (excluding the effects of other income in relation to the reversal of provision of the Social Insurances) respectively. Please refer to the section headed "Transformation of the Processing Factory into a WFOE" in this prospectus for more details on the financial impact of the Transformation.

The following table sets out the breakdown of the Group's turnover by the two main categories, namely, PCB assemblies and complete products during the Track Record Period:

	For the year ended 31 March					
	2011		2012		2013	
		Approximate		*Approximate*		*Approximate*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PCB assemblies						
Hair remover	21,607	26.19	8,129	13.33	11,622	16.21
Starter	4,482	5.43	966	1.58	836	1.17
Control board	5,791	7.02	6,142	10.07	11,781	16.43
Charger board	1,705	2.07	1,185	1.94	2,019	2.82
Others *(Note 1)*	4,476	5.43	4,595	7.55	4,582	6.40
Sub-total	38,061	46.14	21,017	34.47	30,840	43.03
Complete products						
Security alarm	8,970	10.87	4,302	7.05	2,992	4.17
Fishing indicator	10,404	12.61	8,797	14.42	8,880	12.38
Massage toner	6,819	8.27	7,295	11.96	14,653	20.43
Buzzer	5,789	7.02	6,603	10.83	5,215	7.27
Fire alarm	3,292	3.99	3,088	5.06	4,743	6.61
Communicator	3,245	3.93	5,759	9.44	3,135	4.37
Sub-total	38,519	46.69	35,844	58.76	39,618	55.23
Total sales of electronic products	76,580	92.83	56,861	93.23	70,458	98.26
Subcontracting income *(Note 2)*	5,918	7.17	4,129	6.77	1,249	1.74
Total revenue	82,498	100.00	60,990	100.00	71,707	100.00

Note:

1. Other electronic products assembled by the Group during the Track Record Period mainly include power adaptors, LED assemblies, alarms, receivers, keypads and headphones.

2. Electronic products produced by the Group under subcontracting services mainly include power supply, nail polisher, panel meter, control board, remote control, electronic lock, motor controller module and other miscellaneous components.

With more than 24 years of experience in the EMS industry, the Group has received a number of certifications and recognitions in relation to electronic production from various organizations. Some of such certifications and recognitions include the ISO 9001: 2008 Quality Management System Certificate, the EMC Certificate from Intertek Testing Services (Singapore) Pte Ltd, the Global Manufacturer Certificate. The EMC Certificate was issued to a type of alarms manufactured by the Group that was considered to comply with the requirements under the EMC standards.

Customers

For the years ended 31 March 2011, 2012 and 2013, the Group's largest customer accounted for approximately 34.46%, 25.29% and 26.86% of the Group's total revenue respectively and the sales to the Group's top five largest customers amounted to approximately HK$54.94 million, HK$35.00 million and HK$43.39 million representing approximately 66.60%, 57.38% and 60.51% of the total revenue of the Group respectively.

The Group has established long-term relationships with its customers, particularly with those located in the European Countries, the United States, Taiwan and Hong Kong where all of the five largest customers are based over there during the Track Record Period. The principal markets of the Group are the United States and the European Countries. During the Track Record Period and subsequent to 31 March 2013, in view of the customer credit-worthiness and the long-term business relationships, the Group temporarily extended the credit terms to some of its customers, including the five largest customers, for extra 1–3 months at their request.

Suppliers

In order to maintain the Group's inventory of production materials at a minimum level, the Group typically procures raw materials and components upon receipt purchase orders from its customers. The Group has not entered into any long-term contracts with its suppliers. During the Track Record Period, the Group was able to mitigate the risk of the increase in costs of production materials by passing to its customers through an increase in the price of its products. Please refer to the section headed "Production Materials" in this prospectus for more details on the Group's ability to pass the increase in costs of production materials to its customers during the Track Record Period.

For the years ended 31 March 2011, 2012 and 2013, the Group's largest supplier of production materials accounted for approximately 5.75%, 7.11% and 8.83% of the Group's total purchases and the Group's five largest suppliers accounted for approximately 22.60%, 25.73% and 34.71% of the Group's total purchases respectively. The Group has established business relationship with its five largest suppliers from 2 to 13 years.

Production Materials

The production materials purchased by the Group mainly comprised ICs, PCBs, semiconductors, connectors, switches, transmitters, receivers, plastic and metal parts, packaging materials and consumables. The cost of production materials is the major component for production costs of the Group. For the years ended 31 March 2011, 2012 and 2013, the cost of production materials (excluding the processing fees and other production-related expenses incurred by the Processing Factory) used were approximately HK$42.05 million, HK$26.69 million and HK$32.12 million which accounted for approximately 69.63%, 65.76% and 71.83% of the Group's total cost of sales respectively.

SIGNIFICANT DECLINE IN NET PROFIT

The Directors consider the Group's financial performance for the year ending 31 March 2014 will be significantly affected by the increase in the administrative and other expenses incurred in relation to the Listing and after the Listing.

The administrative and other expenses will increase after the Listing due to (i) the charge of one-off listing expenses of approximately HK$3.24 million; and (ii) that the fair value of the Pre-IPO Share Options granted will be charged to the Group's statement of comprehensive income over the vesting periods of the options, which is estimated that approximately HK$0.89 million will be charged to income statement for the year ending 31 March 2014. The estimated expenses in relation to the Listing and the grant of the Pre-IPO Share Options are non-recurring in nature. In addition, there will be (i) an expected increase in salaries and professional costs for the period from September 2013 to 31 March 2014 which may amount to approximately HK$0.67 million arising from the appointment of the new executive Directors namely Mr. Lo Yan Yee, Mr. Cheng Kwing Sang, Raymond and Mr. Lo Ding To and the new independent non-executive Directors prior to the Listing and the engagement of the legal adviser and the compliance adviser after the Listing; (ii) the annual audit fee which may amount to approximately HK$0.40 million; (iii) the printing expenses which may amount to approximately HK$0.10 million; (iv) the annual listing fee which amount to HK$0.10 million; and (v) the increase in the advertising expenses which may amount to approximately HK$0.50 million according to the Group's future plans. The Directors would like to emphasise that such amount of listing expenses and the increase in administrative and other expenses are current estimates for reference only, and the final amount is subject to adjustment based on audit and changes in variables and assumptions.

Based on abovementioned increased in administrative and other expenses, the Directors are of the opinion that there is no fundamental deterioration in the commercial and operational viability in the Company's business despite the increase in the Directors' fee, professional fees and non-recurring expenses of the listing fees and expenses that would be incurred from the issue of Pre-IPO Share Options after the Listing. Accordingly, the shareholders and prospective investors should be informed that the financial results of the Group for the year ending 31 March 2014 will materially be affected by the increase in administrative and other expenses that may amount to approximately HK$5.90 million, which is estimated to represent approximately 48.84% and 64.17% of the Group's net profits for the year ended 31 March 2011 and 2012, respectively.

Given the expected increase in administrative and other expenses after the Listing, the Group's net profit for the year ending 31 March 2014 will significantly decline as compared with the prior financial years.

COMPETITIVE STRENGTHS

The Directors believe that the Group's success and future success are based on the following competitive strengths: (i) established relationships with key customers; (ii) high quality products at competitive price; (iii) emphasis on and adherence to international standards; (iv) research and development capability; (v) steady relationships with suppliers; and (vi) experienced management team.

IMPACT OF THE TRANSFORMATION ON THE GROUP'S OPERATIONS AND FINANCIAL RESULTS

The PRC Government carries out a series of new policies in 2008 which include《關於深圳市來料加工企業原地不停產轉型外商投資企業操作意見》(Guidance opinions on the transformation of processing enterprises without suspension of production and to become foreign invested enterprises*) allowing the transformation and upgrade of contract processing factories to foreign investment enterprises to carry on manufacturing business in the mode of import processing under the transformation and upgrade program. In addition, it is unlikely that the PRC Government will renew the contract processing licenses to the existing contract processing factories once their licenses are expired. On 5 May 2011, Echo Electronics submitted the application for the transformation of the Processing Factory to become a WFOE, namely Yi Gao Tech, in view of the "Upgrade and Transformation" — a policy by the PRC Government to continue to encourage and retain foreign investment interests. The Directors are of the view that the Transformation will diversify the Group's mode of operation in the PRC as the products manufactured by Yi Gao Tech could be sold in the PRC market which will provide opportunities to the Group to create a new line of income stream.

Besides the change in business form of the Group arising from the Transformation, there are also financial impacts to the cost structure, gross profit and taxation of the Group. Prior to the Transformation, the cost of sales directly borne by the Group comprises cost of materials and the direct labour and overhead costs were reimbursed through payments of processing fees. After the Transformation, the overhead costs and the labour costs are directly incurred by Yi Gao Tech and no processing fee is being charged since the Processing Agreement has deregistered by then.

The profits of Echo Electronics arising from sale of goods that are manufactured by Yi Gao Tech cannot be apportioned on a 50: 50 basis and there will be no tax exemption on 50% assessable profit of the Group under Hong Kong profits tax. In addition, since Yi Gao Tech manufactures and sells its finished goods to Echo Electronics, the profit generated from such sale is subject to the PRC Enterprise Income Tax at the prevailing rate of 25%. Yi Gao Tech is subject to a valued added tax of 17% but is eligible for valued added tax export refund of 13%. Under the export refund mechanism, export sales are exempted from valued added tax whereas the input valued added tax paid on domestic purchases of raw materials and consumption of utilities for production of exported goods can be refunded according to the valued tax refund rate applicable to the exported goods. Save for the changes of taxation treatments for WFOE and Echo Electronics, the Directors consider that there is no loss of preferential policies and treatments for the Group with respect to the Transformation.

For more details relating to the Transformation and its operational effect and financial effect to the Group, please see the paragraphs headed "Transformation of the Processing Factory into a WFOE" and "Taxation" set out in the section headed "Business".

SUMMARY FINANCIAL INFORMATION

The following is a summary of the Group's consolidated results for the years ended 31 March 2011, 2012 and 2013, which is derived from the Accountants' Report sets out in the Appendix I to this prospectus. The summary financial data should be read in conjunction with the consolidated financial information in the Accountants' Report set out in Appendix I to this prospectus.

Summary of consolidated statements of comprehensive income

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	82,498	60,990	71,707
Gross profit	22,107	20,408	26,995
Profit before taxation *(Note)*	12,365	14,527	12,687
Profit for the year	11,225	12,284	9,350

Note: Other revenue and gains added to the profit before taxation for the year ended 31 March 2012 included a non-recurring gain that amounted to approximately HK$6.43 million as a result of a reversal of provision of social insurance, details of which are set out in note 7 to the Accountants' report in Appendix I to this prospectus.

Summary of consolidated statements of financial position data

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	820	971	1,125
Current assets	35,266	36,864	38,693
Current liabilities	19,608	15,928	16,996
Non-current liabilities	—	—	388
Equity attributable to the shareholder	16,478	21,907	22,434

Summary of consolidated statements of cash flow data

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Net cash generated from operating activities	5,538	4,687	7,406
Net cash used in investing activities	(649)	(747)	(127)
Net cash used in financing activities	(5,411)	(7,227)	(8,030)

Key financial ratios analysis

	For the year ended 31 March		
	2011	**2012**	**2013**
Gross profit margin	26.80%	33.46%	37.65%
Net profit margin	13.61%	20.14%	13.04%
Average inventory turnover days	65.05	135.74	137.03
Average trade receivable turnover days	41.70	56.27	60.42
Average trade payable turnover days	27.36	48.03	39.63

	As at 31 March		
	2011	**2012**	**2013**
Current ratio	1.80	2.31	2.28
Return on equity	68.12%	56.07%	41.68%
Gearing ratio	44.25%	32.35%	38.88%

The total revenue of the Group decreased by 26.07% from HK$82.50 million for the year ended 31 March 2011 to HK$60.99 million for the year ended 31 March 2012. The decrease was primarily due to the reduction in customer demand as a result of the European debt crisis and the global economic downturn. For the year ended 31 March 2013, the total revenue of the Group increased by 17.57% to HK$71.71 million, such increase primarily due to the improved sentiment in retail markets of European Countries and the contributions from new customers acquired during the year.

The Group's gross profit decreased by 7.69% from HK$22.11 million for the year ended 31 March 2011 to HK$20.41 million for the year ended 31 March 2012, primarily as a result of the decrease in total revenue. For the year ended 31 March 2013, the Group's gross profit increased by 32.28% to HK$27.00 million, primarily as a result of the increase in total revenue and effect of the Transformation leading to the fact that part of the direct labour cost and the overhead cost previously included in cost of sales were recognised as administration and other expenses.

The Group's net profit increased by 9.43% from HK$11.23 million for the year ended 31 March 2011 to HK$12.28 million for the year ended 31 March 2012. The increase was primarily due to the increase in other revenue and gains, partially offset by the drop in gross profit and the increase in administrative and other expenses. For the year ended 31 March 2013, the Group's net profit decreased by 23.88% from HK$12.28 million for the year ended 31 March 2012 to HK$9.35 million for the year ended 31 March 2013. The decrease was primarily due to the increase in other revenue and gains for the year ended 31 March 2012. Please refer to the section headed "Financial information" in this prospectus for more details on the analysis on the Group's financial information during the Track Record Period.

Non-recurring gain derived from the reversal of provision of Social Insurances

The Group reversed the provision of Social Insurances related to the financial years prior to 1 April 2012, resulting in a non-recurring gain of approximately HK$6.43 million for the year ended 31 March 2012. The provision of Social Insurances has been reviewed by the Directors at the end of each reporting period and adjusted to reflect the best estimates. According to Hong Kong Accounting Standard 37 ("**HKAS 37**"), the Directors consider it is no longer probable that an outflow of resources embodying economics benefits would be required to settle the obligation taken into the account of the PRC Legal Adviser's view that the possibility of the Processing Factory being penalised for the unpaid contribution to the Social Insurances related to the period before 1 July 2011 is basically not existent, therefore the provision had been reversed during the year ended 31 March 2012. In the Reporting Accountants' view, the reversal of the provision of Social Insurances complies with the requirement of HKAS 37.

Expenses in relation to the Listing

The estimated expenses (excluding underwriting commission of approximately HK$1.08 million that will be charged to the equity after the Listing) in relation to the Listing total approximately HK$9.80 million, of which approximately HK$2.67 million is directly attributable to the issue of the Placing Shares and is expected to be accounted for as a deduction from the equity for the year ending 31 March 2014, while approximately HK$0.89 million was charged and approximately HK$3.24 million are expected to be charged to the consolidated statement of comprehensive income for the year ended 31 March 2013 and for the year ending 31 March 2014 respectively. With a view to enhancing the cash flow and strengthening the working capital of the Group after the Listing, Madam Cheng entered into the Deed of Mutual Set-off, pursuant to which, Madam Cheng has conditionally agreed to bear the expenses incurred by the Company in connection with the Listing to the extent of HK$5.77 million by setting off against the debt of the Company owing to Madam Cheng upon Listing. Such amount will be credited to equity upon the Listing for the year ending 31 March 2014.

Expenses in relation to the Pre-IPO Share Option Scheme

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. The share options to subscribe for 20,000,000 Shares were granted under the Pre-IPO Share Option Scheme on 27 September 2013, while no options have been granted under the Share Option Scheme as at the date of this prospectus. The fair value of the share options granted under the Pre-IPO Share Options Scheme calculated by an external valuer is approximately HK$2.67 million, which will be charged to the consolidated statements of comprehensive income of the Group over the vesting period by reference to the fair value at the date on which the share option are granted. Accordingly, it is expected that approximately HK$0.89 million will be charged to the consolidated statements of comprehensive income of the Group for the year ending 31 March 2014.

BUSINESS OBJECTIVE

The Group intends to continue developing and reinforcing its recurring business in providing EMS to international customers while targeting further expansion in its established market, particularly through exploring the EMS for consumer electronic products in the PRC market since the Directors consider the PRC market has a promising potential. While the European Countries and the United States will still be the principal markets of the Group in the near future, the Group plans to explore business opportunities in the PRC in order to enhance its market presence and penetration.

USE OF PROCEEDS

Based on the Placing Price of HK$0.60 per Share, the Group will receive gross proceeds of HK$36 million. All expenses and underwriting expenses in connection with the Listing are approximately HK$10.88 million. Consequently, the Group should receive net proceeds, after deducting related expenses, of approximately HK$25.12 million from the Placing. The Directors intend to apply such net proceeds as follows:

	For the six months ending						
	From the Latest Practicable Date to 31 March 2014	30 September 2014	31 March 2015	30 September 2015	31 March 2016	Total	Approximate % of the total net proceeds
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	
Expand and upgrade the production facilities	3.50	3.00	0.35	2.00	—	8.85	35.23
Set up production facilities for plastic parts	—	3.70	4.02	1.24	1.24	10.20	40.61
Strengthen the Group's position in its established markets and expand its customer base	0.50	1.40	0.30	1.40	0.30	3.90	15.52
	4.00	8.10	4.67	4.64	1.54	22.95	91.36

Regarding the expansion and upgrading of the production facilities, the Group will allocate approximately HK$4.45 million towards the expansion and upgrading of the existing factory buildings and approximately HK$4.00 million towards the purchase of SMT machines. For the setup of production facilities for plastic parts, the Group will allocate approximately HK$5.02 million towards the construction of the plastic production facilities and approximately HK$5.18 towards the purchase of plastic injection machines and motor vehicle. In order to strengthen the Group's position in its established markets and expand its customer base, the Group will allocate approximately HK$0.20 million, HK$1.50 million and HK$2.20 million towards the expansion of sales department for plastic products, place advertisements in trading magazines and website and participate in trade fairs and exhibitions respectively.

Please refer to the section headed "Business Objective and Future Plans" for more details on the Group's use of proceeds.

CAPITAL MANAGEMENT POLICY

In order to ensure sufficient liquidity to support the Group's financial obligations and execute its operating and business plans, the Group has adopted a capital management policy. The Group's finance department and the senior management review and analyse the Group's trade payables, trade receivables and cash on a monthly basis and its capital expenditure on a quarterly basis. Please refer to the sub-section headed "Capital Management Policy" in the section headed "Financial Information" in this prospectus for more details on the Group's capital management policy.

DIVIDEND

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Dividends	—	7,000	9,000

No dividend was declared and paid during the year ended 31 March 2011. For the year ended 31 March 2012, the Group declared dividends to its then shareholder Madam Cheng in an amount of HK$7.00 million. Such dividend was fully settled by offsetting with the Director's current account. For the year ended 31 March 2013, the Group declared an annual dividend in the sum of HK$9 million to its then shareholder Madam Cheng. The prospective investors of the Placing Shares will not be entitled to the aforementioned dividends. The declaration of annual dividend of HK$9 million is part of the reorganisation and details of which are set out in the sub-section headed "Directors' Account" in the section headed "Financial Information" in this prospectus. The Directors, having considered that declaration of the such dividend would not adversely affect our Group's operating cash flow and there will be net proceeds from the Placing to finance the Group's capital expenditure and business expansion, are of the view that such dividend declared is fair and reasonable and in accordance with the Group's capital management policy and dividend policy.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by the Group, future prospects and other factors that the Group may consider relevant. Shareholders will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subjected to the Group's discretion.

PLACING STATISTICS

	Based on the Placing Price of HK$0.60
Market capitalization of the Shares (1)	HK$120 million
Unaudited pro forma adjusted consolidated net tangible assets per Share (2)	HK$0.28

Notes:

(1) The calculation of market capitalization is based on 200,000,000 Shares expected to be in issue immediately upon completion of the Placing and the Capitalisation Issue.

(2) The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after the adjustments referred to under the paragraph headed "Unaudited pro forma adjusted consolidated net tangible assets" in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of 200,000,000 Shares in issue at the Placing of HK$0.60 per Share immediately following completion of the Placing and the Capitalisation Issue.

RECENT DEVELOPMENT RELATING TO THE GROUP SUBSEQUENT TO THE TRACK RECORD PERIOD

Subsequent to 31 March 2013 and up to the Latest Practicable Date, the Group has continued to focus on the development of different products, look for opportunities to expand its business in established markets and explore business opportunities in the PRC.

Based on the unaudited management accounts, the Group recorded revenue of approximately HK$16.36 million for the four months ended 31 July 2013, which was lower than the revenue of approximately HK$19.61 million and HK$27.90 million for the four months ended 31 July 2011 and 2012 respectively. The Group's recorded a higher revenue for the four months ended 31 July 2012 because there were bulk purchase orders from the Group's customers amounted to approximately HK$5.43 million, which intended to be delivered and recorded in the year ended 31 March 2012, were delivered in April 2012 as requested by the respective customers. Accordingly, the sales in April 2012 increased substantially.

For the four months ended 31 July 2011, 2012 and 2013, the gross profit amounted to approximately HK$6.31 million, HK$10.44 million and HK$5.93 million respectively. During the same period, the Group's gross profit margin was approximately 32.19%, 37.42% and 36.25% respectively. The Group's administrative and other expenses remained stable at approximately HK$2.55 million, HK$4.21 million and approximately HK$4.55 million for the four months ended 31 July 2011, 2012 and 2013 respectively.

For the year ended 31 March 2012 and 2013, the Group recorded a listing expenses amounted to approximately HK$1.54 million and HK$0.99 million respectively. The Directors estimated that the Group will recognize an amount of approximately HK$3.24 million for the listing expenses in the statements of comprehensive income for the years ended 31 March 2014 (on the basis that 100% of the underwriting commission is offset against equity and approximately 70% of the other listing expenses are recognized in the statements of comprehensive income and the remaining 30% are offset against equity), which is expected to have a significant impact to the Group's net profit for the year ending 31 March 2014. Please refer to the sub-section headed "Expenses in relation to the Listing" set out in the section headed "Financial Information" for further details.

The Group has not experienced any bad debt issues, any material delays in the delivery of goods to its customers, any significant decrease or cancellations of purchase orders from its customers or material default by its customers in the settlement of any outstanding trade balance subsequent to the Track Record Period and up to the Latest Practicable Date. As the Latest Practicable Date, approximately 98.74% of the receivables outstanding as at 31 March 2013 were collected. Subsequent to 31 March 2013, the Group has continued to grant extension of credit terms to some of its for 1 to 3 months in view of the credit-worthiness of the customers and long term customer relationships. Based on the subsequent settlements, repayment history and no significant change in the credit quality of these customers, the Directors consider that the trade receivables with the extension of credit terms in the amount of approximately HK$4.60 million as at the Latest Practicable Date are fully recoverable and therefore no impairment allowance is necessary in respect of these trade receivables. Given the average trade receivable turnover days of 41.70 days, 56.27 days and 60.42 days during the Track Record Period were within the credit periods of 0 to 90 days granted by the Group to its customers and the Group had not experienced any material difficulties in collecting payments from its customers during the Track Record Period, the Directors are of the view that the extension of credit terms to some of its customers has no material impact on the

Group's working capital management. Please refer to the sub-section headed "Trade receivable analysis" set out in the section headed "Financial Information" for more details on the extension of credits to the Group's customers.

The Group's unaudited financial statements for the four months ended 31 July 2013 are unaudited but have been reviewed by the Group's reporting accountants, HLB Hodgson Impey Cheng, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review on Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Saved as disclosed above, the Directors confirm that there are no other matters which need to be brought to the attention of the Shareholders in connection with the recent development of the Group subsequent to the Track Record Period.

MATERIAL ADVERSE CHANGE

The Directors confirm that there was material adverse change in the financial or trading position or prospects of the Group since 31 March 2013, being the last date of the latest audited financial results as set out in "Accountants' Report of the Group" in Appendix I to this prospectus and up to the date of this prospectus. For details, please refer to the paragraph headed "Significant decline in net profit" in this section.

Except for the abovementioned, the Directors confirm that there is no material adverse change in both the pricing strategies and the mark-up percentage under the Group's cost-plus pricing model, which takes into account estimated raw material costs, estimated labour costs, estimated factory overhead and a mark-up, subsequent to the Track Record Period and up to the Latest Practicable Date.

RISK FACTORS

The Directors believe that there are certain risks involved in the Group's operations, many of which are beyond the Company's control. They can be broadly categorised into risks relating to the Group's business, the industry, the PRC and the Placing, among which, the relatively material risks encompass the risks that (i) the Group's total sales is relied on its customers in the European Countries and the United States; (ii) the rising labour cost in the PRC; and (iii) the Group's performance is dependent on market conditions and trends in the global economy which may change adversely. You should carefully consider the risk factors set out in this prospectus before you make a decision to invest in the Shares. Please refer to the section headed "Risk Factors" in this prospectus for further details.

HIGHLIGHTS OF THE RISK FACTORS

Below only sets forth some of the particular risks relating to the Group's business whilst more details are set out in the section headed "Risk Factors" in this prospectus.

The global economic recovery that started at the end of 2009 was not as solid as initially anticipated. Although the Group's business growth momentum did carry over to 2010, market demand started to soften in 2011. The U.S. economic growth has been slowed down since the 2nd quarter of 2011. The credit crisis in Europe deteriorated markedly in late 2011. For the year ended 31 March 2012, the Group recorded a decline of approximately 26.07% in turnover as compared with the previous financial year, mainly due to the combined effect of (i) Customer A was in the process of developing a new model for hair removers and production had not yet commenced by the end of the financial year of 2012 thereby reducing its purchase orders with the Group in an amount of approximately HK$13 million; (ii) Customer B was in the process of relocating its PRC factory thereby postponing and reducing its purchase orders with the Group in an amount of approximately HK$3.22 million; and (iii) the decrease in the demand of the Group's customers in the United States in an amount of approximately HK$9.27 million due to the lingering effect of the financial crisis of 2007–2008 which precipitated the economic downturn and unemployment that persisted throughout the year ended 31 March 2012. Customer A has resumed its normal purchases with the Group by the production of new model of hair remover in May 2012 during the nine months ended 31 December 2012 and Customer B completed the relocation of its PRC factory in March 2013. The sales to Customer A amounted to approximately HK$19.26 million for the year ended 31 March 2013, which were increased compared to the sales to this customer of approximately HK$15.42 million for the whole year ended 31 March 2012. Besides, it is expected that Customer B will resume its normal purchases with the Group for the year ending 31 March 2014. If this economic downturn continues in the countries to which the Group sells its products, the Group's customers, which are the brand owners of consumer electronic products, may be adversely impacted with declines in profits and production output. In such circumstances, the Group's profit margin and turnover may decrease resulting in its financial results being adversely affected.

During the Track Record Period, the minimum wage of Shenzhen full-time employees has been increased three times (i) to RMB1,100 per month since 1 July 2010; (ii) to RMB1,320 per month since 1 April 2011; and (iii) to RMB1,500 per month since 1 February 2012 according to the Notice of Adjustment of Shenzhen Minimum Wage Standard promulgated by Human Resources and Social Security Bureau. For the year ended 31 March 2012, the Group has maintained a gross profit margin of approximately 33.46% as compared to the gross profit margin of approximately 26.80% for the previous fiscal year. Due to the Group's stringent cost control measures which include (i) closely monitor the effectiveness of the PRC production workers to avoid overtime pay; (ii) the PRC production workers are required to undergo regular training programmes to upgrade their skills to improve quality control and efficiency; and (iii) senior management having regular meeting with the senior personnel of each production lines in order to understand the manpower is allocated efficiently, the Directors are of the view that the rising production costs in the PRC have no significant impact to the Group during the Track Record Period. For the years ended 31 March 2011, 2012 and 2013, the overtime payment to the PRC employees amounted to approximately RMB1.54 million, RMB1.40 million and RMB0.72 million respectively, which was in a decreasing trend arising from the results of the cost control measures implemented. During the Track Record Period, the Group provided regular trainings in the topics on effective costs savings plans, the standards on electronic manufacturing, the techniques on industrial engineering and the basics on the electronic components to the PRC employees.

However, the wage of the PRC employees is in the rising trend which would increase the Group's production costs in the PRC going forward. The Group may not be able to pass on the increased cost to its customers by increasing the selling prices of the products in light of competitive pressure in the markets where it operates. In such circumstances, the Group's profit margin may decrease and its financial results may be adversely affected.

Despite the current sluggish market condition, the Company continues to make efforts in acquiring new customers. For the years ended 31 March 2011, 2012 and 2013 and the four months ended 31 July 2013, the Company acquired 1, 6, 10 and 3 new customers with a turnover of approximately HK$0.09 million, HK$2.86 million, HK$11.95 million and HK$0.84 million respectively. These customers accounted for approximately 0.11%, 4.69%, 16.67% and 5.10% of the total turnover for the years ended 31 March 2011, 2012 and 2013 and the four months ended 31

July 2013 respectively. In addition, the Company's strategy is to reduce its reliance on the major customers. The Group's sales to its top five customers for the years ended 31 March 2012 and 2013 decreased to approximately 57.38% and 60.51% respectively of its total turnover as compared to approximately 66.60% of its total turnover for the year ended 31 March 2011. The Directors are intent on minimising the adverse effect if there is a cancellation or reduction of orders from its major customers. In order to minimize the adverse effect if there is a cancellation or reduction of orders from the Group's customers, the Group plans to maintain relationship with its existing customers and diversify its client base by expanding its sales department network. The Group intends to set up its sales team for plastic parts in order to capture sales of plastic parts for existing customers and new customers, which will create a new income stream to the Group and have a diversification of the Group's customer portfolio. The Group plans to reinforce its ties and promotion efforts with its existing customers by enhancing communications to identify their needs in order to create a competitive advantage for securing purchase orders and soliciting referrals of new customers from them. The Group also intends to attract new customers by actively participating in industry trade fairs and exhibitions in both the PRC, Hong Kong and overseas. The Directors believe that such enhanced marketing efforts would help to reduce the Group's reliance on its major customers.

In order to mitigate the rising production costs in the PRC, the Group continues to tighten its control on manufacturing expenses, material expenses and head counts. In addition, the Group intends (i) to introduce more automation and computerization by adding new SMT machines; and (ii) to set up plastic division to lower material costs on plastic parts upon the Listing.

Despite the Group's significant risk factors discussed above and the deteriorating financial performance of the Group for the year ended 31 March 2012, the Sole Sponsor considers that the Group's business is sustainable and suitable for the Listing on the following basis, (i) the Directors, Mr. Lo Yan Yee and Madam Cheng, have extensive experience in the EMS industry; (ii) the Group has proven business track record of over 24 years; and (iii) the Group has long established business relationship with its customers.

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

"Articles" or "Articles of Association"	the articles of association of the Company, which were adopted on 27 September 2013, a summary of which is contained in Appendix IV to this prospectus
"Asian Countries"	for the purpose of this prospectus, include the PRC, India, Israel, Malaysia, Singapore and Taiwan
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Board"	the board of directors of the Company
"Business Day"	a day that is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the issue of 130,000,000 Shares to be made upon capitalisation of part of the share premium account of the Company referred to in the sub-paragraph headed "Written resolution of the Sole Shareholder passed on 27 September 2013" under the paragraph headed "Further information about the Company" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person or persons admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	Echo International Holdings Group Limited (formerly known as Gold Treasure Hung Holdings Limited), an exempted company incorporated in the Cayman Islands with limited liability on 21 December 2010
"Compliance Adviser"	Tanrich Capital
"Compliance Adviser Agreement"	a compliance adviser agreement dated 27 September 2013 entered into between the Company and Tanrich Capital pursuant to the requirement of Rule 6A.19 of the GEM Listing Rules, further details of which are set out in the paragraph headed "Compliance Adviser" under the section headed "Directors, senior management and staff" in this prospectus
"Controlling Shareholder"	has the meaning ascribed to it under the GEM Listing Rules and, in context of the Company, the controlling shareholder is Madam Cheng
"Covenantor"	Madam Cheng, being the covenantor pursuant to the Deed of Non-competition
"Deed of Mutual Set-off"	a conditional deed of mutual set-off dated 27 September 2013 entered into between Madam Cheng and the Company whereby Madam Cheng has agreed to bear the expenses incurred by the Company in connection with the Listing to the extent of HK$5.77 million by setting off against the debt of the Company owing to Madam Cheng
"Deed of Non-competition"	a deed of non-competition undertaking dated 27 September 2013 entered into by Madam Cheng in favour of the Company (for itself and on behalf of its subsidiaries), particulars of which are summarised in the paragraph headed "Deed of Non-competition" in the section headed "Controlling, Substantial and Significant Shareholders"
"Director(s)"	the director(s) of the Company
"Echo Co"	Echo Electronics Co, a partnership formed in Hong Kong on 27 November 1989, which ceased its business and was dissolved on 30 September 2010

"Echo Electronics"	Echo Electronics Company Limited, a limited liability company incorporated in Hong Kong under the Companies Ordinance on 24 December 2003 and an indirect wholly-owned subsidiary of the Company
"EU"	the European Union
"Euro(s)"	the lawful currency of those member states of the EU that have adopted such currency
"European Countries"	for the purpose of this prospectus, include Belgium, Bulgaria, Denmark, Finland, France, Germany, Italy, Netherlands, Poland, Portugal, Spain, Sweden, Switzerland and United Kingdom
"EU Legal Adviser"	Messrs Watson, Farley & Williams LLP
"GDP"	gross domestic product
"GEM"	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
"Gold Treasure BVI"	Gold Treasure Hung Group Limited, a limited liability company incorporated in the British Virgin Islands on 6 December 2010 and a wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries, or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the Company's subsidiaries at that time
"HKFRSs"	The Hong Kong Financial Reporting Standards, which include the Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"HK$" or "Hong Kong dollars" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited
"Independent Third Party" or "Independent Third Parties"	a person(s) or company(ies) who or which is/are independent of or not connected with any members of the Group, any Directors, chief executive or substantial shareholders of the Company (as defined under the GEM Listing Rules), its subsidiaries or any of their respective associates
"Japanese yen"	Japanese yen, the lawful currency of Japan
"Joint Lead Managers"	the joint lead managers of the Placing Shares, whose names are set out in the paragraph headed "Underwriters" under the section headed "Underwriting" in this prospectus
"Latest Practicable Date"	23 September 2013, being the latest practicable date for ascertaining certain information in this prospectus prior to its publication
"Listing"	the listing and the commencement of dealings 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 11 October 2013
"Listing Division"	the Listing Division of the Stock Exchange
"Madam Cheng"	Cheng Yeuk Hung (鄭若雄), an executive Director, the Controlling Shareholder, a founder of the Group, the spouse of Mr. Lo Yan Yee, the elder sister of Ms. Cheng and the younger sister of Mr. Cheng Kwing Sang, Raymond
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange prior to the establishment of GEM, which excludes options market and which continues to be operated by the Stock Exchange in parallel with GEM and which, for avoidance of doubt, excludes GEM
"Memorandum of Association"	the memorandum of association of the Company, as amended from time to time
"Ms. Cheng"	Cheng Yeuk Yu (鄭若愚), the younger sister of Madam Cheng and Mr. Cheng Kwing Sang, Raymond
"Placing"	the conditional placing of the Placing Shares by the Underwriters on behalf of the Company at the Placing Price as further described in the section headed "Structure and conditions of the Placing" in this prospectus

"Placing Price"	HK$0.60 per Placing Share, excluding any brokerage fee, SFC transaction levy and Stock Exchange trading fee
"Placing Shares"	the 60,000,000 Placing Shares being initially offered at the Placing Price pursuant to the Placing
"PRC", "China" or "Mainland China"	the People's Republic of China which shall, for the purpose of this prospectus only, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Adviser"	ETR Law Firm (廣東廣信君達律師事務所), the legal advisers to the Company as to PRC law
"PRC Government"	the central government of the PRC including all government departments (including provincial, municipal and other regional or local government entities) and organs thereof or, as the context requires, any of them
"PRC Laws"	all laws, rules, regulations, notices, orders and decrees in force in the PRC as at the date of this prospectus
"Pre-IPO Share Option Scheme"	the existing share option scheme approved and adopted by the Company on 27 September 2013, the principal terms of which are summarised in the section headed "Pre-IPO Share Option Scheme" in Appendix V to this prospectus
"Processing Agreement"	the processing agreement entered into between the Processing Party, the Processing Factory and Echo Electronics on 29 November 1991, as amended by supplemental agreements entered into between the Processing Party, the Processing Factory, Echo Electronics and/or the Undertaking Party from time to time
"Processing Factory"	深圳市寶安區觀瀾毅高制品廠 (Shenzhen City Baoan District Guanlan Yi Gao Manufacturing Factory*), formerly known as 寶安區觀瀾大布巷毅高制品廠 (Baoan District Guanlan Da Bu Xiang Yi Gao Manufacturing Factory*) before 30 December 2006, was a non-legal person enterprise established in the PRC and a factory operated under the Processing Agreement to undertake the manufacture operation of the Group prior to the Transformation
"Processing Party"	深圳市寶安外經發展有限公司 (Shenzhen City Baoan Foreign Economic Development Ltd*), a party which is engaged in conducting processing arrangements and providing agency service regarding import and export matters

"Progress"	Progress International Holdings Limited, a company incorporated in Hong Kong with limited liability and beneficially owned by Madam Cheng and Mr. Lo Yan Yee as to 70% and 30% respectively
"Regulation S"	Regulation S under the US Securities Act
"Reorganisation"	the reorganisation of the Group in preparation for the Listing, as described in the sub-section headed "Reorganisation" under the section headed "Further information about the Company" in Appendix V to this prospectus
"Repurchase Mandate"	the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, further details of which are contained in the section headed "Further information about the Company" in Appendix V to this prospectus
"RMB" and "Renminbi"	the lawful currency of the PRC
"SAFE"	State Administration of Foreign Exchange of the PRC
"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) with a par value of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally approved and adopted by the Company on 27 September 2013, the principal terms of which are summarized in the section headed "Share Option Scheme" in Appendix V to this prospectus
"Share Option Schemes"	the Pre-IPO Share Option Scheme and the Share Option Scheme
"Shareholder(s)"	the holder(s) of the Shares
"Shenzhen City Bao Guan Cheng"	深圳市寶觀城股份合作公司 (Shenzhen City Bao Guan Cheng Cooperative Stock Company*), formerly known as 深圳市寶安區觀瀾鎮觀瀾經濟發展公司 (Shenzhen City Baoan District Guanlan Town Guanlan Economic Development Company*) from 22 March 1993 to 29 December 2004 and 寶安縣觀瀾鎮觀瀾經濟發展公司 (Baoan County Guanlan Economic Development Company*) before 22 March 1993, being the Undertaking Party to the Processing Agreement for the period from 29 November 1991 to 8 August 2005

"Shenzhen City Da Bu Xiang"	深圳市大布巷股份合作公司 (Shenzhen City Da Bu Xiang Cooperative Stock Company*), being the Undertaking Party to the Processing Agreement for the period from 9 August 2005 to 29 December 2006
"Shenzhen City Da He Min"	深圳市大和民股份合作公司 (Shenzhen City Da He Min Cooperative Stock Company*), being the Undertaking Party to the Processing Agreement for the period from 30 December 2006 up to 16 November 2011
"Sole Bookrunner" or "Sole Sponsor"	Tanrich Capital
"sq.ft."	square feet
"sq.m."	square metres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiaries"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Takeovers Code"	the Code on Takeovers and Mergers, as amended from time to time
"Tanrich Capital"	Tanrich Capital Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as set out in schedule 5 to SFO and the Sole Sponsor, the Sole Bookrunner or the Lead Manager for the Listing
"Track Record Period"	the three financial years of the Company ended 31 March 2011, 2012 and 2013
"Treasury"	Treasury International Electronics Limited, a company incorporated in Hong Kong with limited liability on 29 April 2008 and deregistered on 28 March 2013, which was beneficially owned by Madam Cheng and Mr. Lo Yan Yee as to 70% and 30% immediately before its cessation of business on 31 March 2012 respectively
"T/T"	Telegraphic transfer, a payment method
"U.K." or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"Undertaking Party"	a party under the Processing Agreement or the respective supplements and amendments and is engaged to provide the necessary premises, existing water and electricity utilities and labour for production

"Underwriters"	the underwriters of the Placing, whose names are set out in the paragraph headed "Underwriters" under the section headed "Underwriting" in this prospectus
"Underwriting Agreement"	the conditional underwriting agreement dated 30 September 2013 and entered into between the Company, the executive Directors, the Controlling Shareholder, the Sole Sponsor, the Joint Lead Managers and the respective Underwriters in relation to, inter alia, the underwriting of the Placing Shares, further details of which are set out in the paragraph headed "Underwriting Arrangements" under the section headed "Underwriting" in this prospectus
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "US dollar(s)"	United States dollars, the lawful currency of the United States
"US Legal Adviser"	Messrs. Simons & Wiskin
"US Securities Act"	the US Securities Act of 1933, as amended from time to time
"WTO"	World Trade Organisation, an international organization based in Geneva that monitors and enforces rules governing global trade
"Yi Gao Tech"	毅高達電子(深圳)有限公司 (Yi Gao Tech Electronics (Shenzhen) Co., Ltd*) a wholly foreign-owned enterprise established in the PRC on 26 May 2011 and an indirect wholly-owned subsidiary of the Company
"%"	per cent

Unless otherwise stated, certain amounts denominated in Hong Kong dollars have been translated into US dollars at an exchange rate of HK$7.8 to US$1.00 for illustration purposes only and the conversion of Renminbi into Hong Kong dollars in this prospectus is based on the approximate exchange rate of HK$1.00 to RMB0.79285. In particular, the exchange rate between Hong Kong dollars and Renminbi was set by the People's Bank of China for foreign exchange transactions prevailing as of the Latest Practicable Date. Such conversions shall not be construed as representations that amounts in Hong Kong dollars will be or may have been converted into US dollars/Renminbi at such rates or any other exchange rates.

The English version of the Chinese names which are included in this prospectus and marked with "" are for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words unless stated otherwise. If there is any inconsistency between the Chinese names of the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail.*

"EMC"	electromagnetic compatibility
"EMS"	acronym for electronics manufacturing services. EMS companies' product offering is focused on PCBA and complete unit assembly and tests, product design support services, and possibly after market support and delivery services
"Hipot"	high potential. Hipot is a term given to a class of electrical safety testing instruments used to verify electrical insulation in finished appliances, cables or other wired assemblies, printed circuit boards, electric motors, and transformers
"IEC"	International Electrotechnical Commission
"IC"	integrated circuit
"IGBT"	insulated gate bipolar transistor
"LED"	light-emitting diode, a semiconductor light source
"OEM"	original equipment manufacturer, a manufacturer which manufactures products or components that are purchased by a company and retailed under the purchasing company's brand name
"PCB"	printed circuit board
"PCBA"	printed circuit board assembly
"RF"	radio frequency
"RoHS"	Restriction of Hazardous Substances Directive 2002/95/EC which is the Directive adopted by the EU on the restriction of the use of certain hazardous substances in electrical and electronic equipment
"SMT"	surface mounting technology
"UV"	Ultraviolet

"**Forward-looking information included in this prospectus may not be accurate**".

This prospectus contains certain forward-looking statements and information relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to its management. When used in this prospectus, the words "anticipate", "believe", "consider", "could", "expect", "going forward", "intend", "may", "should", "plan", "seek", "will", "would", and similar expressions, as they relate to the Group or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Group's management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the other risk factors described in this prospectus. The risks and uncertainties which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- business prospects of the Group;
- future debt levels and capital needs of the Group;
- strategy, plans, objectives and goals of the Group;
- general economic conditions;
- changes in regulatory and operating conditions of the markets in which the Group operates;
- the Group's ability to reduce costs;
- capital market developments;
- the actions and developments of the Group's competitors;
- certain statements in the section headed "Financial information" of this prospectus with respect to trends in prices, volumes, operations, overall market trends, risk management and exchange rates; and
- other statements in this prospectus that are not historical fact.

Investors should note that one or more of these risks or uncertainties may materialise, or one or more of the underlying assumptions may prove incorrect.

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Group before making any investment decision in relation to the Placing Shares.

The occurrence of any of the following risks could have a material adverse effect on the business, results of operation, financial condition and future prospects of the Group and cause the market price of the Placing Shares to fall significantly.

This prospectus contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions, which involve risks and uncertainties. The Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this prospectus.

RISKS RELATING TO THE GROUP

Significant decline in the Group's financial results for the year ending 31 March 2014 which is mainly attributable to expected increase in administrative and other expenses incurred in relation to the Listing and after the Listing

The administrative and other expenses will increase after the Listing due to (i) the charge of one-off listing expenses of approximately HK$3.24 million; and (ii) that the fair value of the Pre-IPO Share Options granted will be charged to the Group's income statement over the vesting periods of the options, which is estimated that approximately HK$0.89 million will be charged to consolidated statements of comprehensive income for the year ending 31 March 2014. The estimated expenses in relation to the Listing and the grant of the Pre-IPO Share Options are non-recurring in nature. In addition, there will be (i) an increase in salaries and professional costs for the period from September 2013 to 31 March 2014 which may amount to approximately HK$0.67 million arising from the appointment of the new Directors prior to the Listing and the engagement of the legal adviser and the compliance adviser after the Listing; (ii) the annual audit fee which may amount to approximately HK$0.40 million; (iii) the printing expenses which may amount to approximately HK$0.10 million; (iv) the annual listing fee which amount to HK$0.10 million; and (v) the increase in the advertising expenses which may amount to approximately HK$0.50 million according to the Group's future plans. The Directors would like to emphasise that such amount of listing expenses and the increase in administrative and other expenses are current estimates for reference only, and the final amount is subject to adjustment based on audit and changes in variables and assumptions. As such, the Directors expect that the Group may experience a significant decline in the Group's net profit for the year ending 31 March 2014 which is attributable to the significant non-recurring item of listing expenses incurred in relation to the Listing and the increase in administrative and other expenses after the Listing in aggregate of approximately HK$5.90 million.

Sustainability of the Group's profitability

For the three years ended 31 March 2011, 2012 and 2013, the Group recorded a net profit of approximately HK$11.23 million, HK$12.28 million and HK$9.35 million respectively. For the year ended 31 March 2012, there is a reversal of provision of the Social Insurances of approximately HK$6.43 million included as a non-recurring gain in the net profit. Excluding the non-recurring gain derived from the reversal of provision of the Social Insurances, the Company would have a consolidated net profit of approximately HK$5.85 million for the year ended 31 March 2012.

The sustainability of the Group's profitability depends on a number of factors, including, among other things, the selling prices of products, production material costs and wages. The selling price and production material cost for each order vary according to a combination of factors including, but not limited to, the relative bargaining power of the suppliers and customers, the pricing basis, demand and supply in the market and the market price. Many of these factors are beyond control of the customers, the suppliers and the Group. Therefore, the selling price and production material cost may differ even for the same product produced within the same time period and there is no assurance that the Group will be able to achieve or maintain similar profitability in the future. Please see the section headed "Financial information" of this prospectus for a detailed discussion and analysis of the financial condition and results of operation of the Group during the Track Record Period.

Reliance on the European Countries and the United States market

The Group's total sales to the customers in the European Countries and United States in aggregate represented approximately 77.30%, 72.74% and 71.34%of the total sales of the Group for the three years ended 31 March 2011, 2012 and 2013, respectively. As the Group derives a majority of its revenue from exports to the United States and the European Countries, any unexpected economic, political and social events in the European Countries and the United States may have a significant impact on retail consumption which could affect the financial performance of the Group. Moreover, if the Group is not able to diversify its market or if there is any event that leads to consistently low demand for electronic products in the European Countries and the United States, the performance of the Group could be significantly and adversely affected.

Increase in the cost of labour in the PRC

The operations of the Group are labour-intensive. The Group relies on a stable and low cost labour supply in the PRC. During the Track Record Period, the Group has not experienced any shortage of labour in the PRC. For the three years ended 31 March 2011, 2012 and 2013, the cost of direct labour accounted for approximately 19.86%, 21.67% and 16.29% respectively of the Group's total cost of sales. The labour cost in the PRC has been increasing in recent years and may continue to increase in future. If the Group is unable to identify and employ other appropriate means to reduce its labour costs, or pass such increase in the cost of labour to its customers, the results of the Group's operations, profitability and financial conditions may be adversely affected.

For risks relating to changes in labour laws in the PRC, please refer to the paragraph headed "The implementation of the PRC Labour Contract Law" under the sub-section headed "Risks relating to the PRC" in this section.

Reliance on major customers

During the Track Record Period, the Group had over 100 customers carrying on businesses relating to electronic products in different countries such as U.K., United States and Hong Kong. The Group's five largest customers, all being Independent Third Parties, are consumer electronic products manufacturers in the European Countries and the United States with their own brands. For the three years ended 31 March 2011, 2012 and 2013, sales to the Group's five largest customers accounted for approximately 66.60%, 57.38% and 60.51% of the Group's turnover respectively.

The Group has been co-operating with its five largest customers over the Track Record Period for a period of 1 to 15 years. However, the Group has never entered into any long term contract and/or agreement with any of its customers. As a result, customers can terminate their respective business relationship with the Group at any time if they desire to do so.

There is no guarantee that our customers will continue to conduct business with the Group. In the event that any of the Group's customers materially reduces their purchase volume or amount of products with the Group or ceases to conduct business with the Group and the Group fails to obtain a comparable level of replacement orders from other customers to replace the lost sales, the Group's business, results of operations and financial condition may be materially and adversely affected.

Reliance on key executives and personnel

The success of the Group depends, to a significant extent, on the expertise and experience of Mr. Lo Yan Yee and Madam Cheng, the founders of the Group and Mr. Cheng Kwing Sang, Raymond, who are the Group's key management personnel. Being an executive Director of the Company, Mr. Lo Yan Yee has over 35 years of experience in the EMS industry and is primarily responsible for the overall strategic planning and business development of the Group. Madam Cheng, an executive Director, has over 34 years of experience in the EMS industry and is primarily responsible for the resource allocations management and management of the Group's Hong Kong operation. Mr. Cheng Kwing Sang, Raymond, an executive Director, has over 20 years of experience in the EMS industry and is primarily responsible for sales and marketing. The Group's key management personnel are well-acquainted with market information and technical knowledge on manufacturing as well as sales and marketing of the electronics products. Their experiences and leadership are critical to the Group's operations and financial performance.

There is no assurance that the Group can retain its key management personnel for their future services, nor can the Group be assured that qualified personnel can be engaged to replace any possible loss of such key management personnel in a timely manner. If the

Group cannot retain or otherwise find a suitable replacement for its key management personnel in a timely manner in the future, the Group's future operations may be materially and adversely affected.

Reliance on major suppliers

During the Track Record Period, the Group had approximately 275, 252 and 230 suppliers respectively for the supply of materials necessary for the production process. For the years ended 31 March 2011, 2012 and 2013, the procurements from the Group's five largest suppliers accounted for an aggregate of approximately 22.60%, 25.73% and 34.71% of its total cost of procurement respectively.

As at the Latest Practicable Date, the Group did not enter into any long-term procurement agreement with any of its suppliers. The Group placed purchase orders with specific specifications and requirements for the supply of raw materials with its suppliers upon receipt of purchase orders from its customers. The pricing, quality and delivery schedule of each purchase order are subject to negotiation between the Group and the respective supplier on a case by case basis. As a result, there is no assurance that the Group will always be able to agree on all the commercial terms with its suppliers with respect to each purchase order, or the Group's existing suppliers will continue to accept the Group's purchase orders on the terms as stipulated by the Group. In the event that any of the Group's major suppliers materially reduces or ceases to supply the raw materials and components to the Group, and the Group fails to source the required raw materials from other raw material suppliers to supply the same or similar types and quantities of products in a cost effective and timely manner, the reputations, the business operations and financial performance of the Group may be adversely affected.

Price fluctuations of major raw materials

The costs of raw materials used by the Group represent the major components of cost of sales of the Group which accounted for approximately 69.63%, 65.76% and 71.83% of the cost of sales of the Group for the three years ended 31 March 2011, 2012 and 2013. The prices of the raw materials may be subject to fluctuations a result of various factors which are beyond the Group's control, such as global economic and financial conditions. In addition, since the Group has not entered into any long term supply contract with any of its suppliers, prices are negotiated on a case-by-case basis and determined according to the then prevailing market conditions.

The Group did not engage in any hedging activities against any possible fluctuations in the price of raw materials during the Track Record Period nor has formulated any strategy to reduce the exposure at present. If there is any upward adjustments to the prices of these raw materials and the Group is unable to pass the increased costs onto its customers or the Group is unable to secure adequate supply of such raw materials at market prices to meet its ongoing production requirements, the Group's profitability and operations may be materially and adversely affected.

Decline in profit margin of new customers

The Group usually charges higher gross profit margins for new customers and/or the engagements to produce new products by the existing customers as there might be a product development fee embedded in the sales price. The mark-up margin is negotiated with the customers in respect of any charge as to production development fee on a case-by-case basis, but the Group will normally charge such customers a normal margin if a single purchase order of the same products exceeds 10,000 units on their subsequent purchase orders. The normal margin usually has a 12%–15% discount to the mark-up margin since the latter includes the production development fee. There is no assurance that the Group can maintain a similar level of gross profit margin in light of the fluctuations in the sales mix of the Group and the fact that the engagements to produce new products from new customers and/or existing customers may not be recurring in nature. In the event that the orders received from new customers and/or existing customers to produce new products significantly drop, the financial performance of the Group may be adversely affected. Further details have been set forth in the paragraphs headed "Gross profit and gross profit margin" under the section headed "Financial Information" in this prospectus.

Exposure to product liability claims

During the Track Record Period, the Group had not sold its products directly to the overseas retail customers and the Group only manufactured and delivered products to its overseas customers on Free-on-board (at Hong Kong ports) terms in accordance with the overseas customers' specifications. However, the Group being the manufacturer of the products imported into the overseas countries may be held liable for the damage caused by its defective products.

There is no assurance that there will not be any product liability claims against our Group for the loss or damage caused by defective products. If any of the Group's customers make any claim against the Group which is in excess of the Group's insurance coverage or otherwise falls outside the coverage, the Group's business and financial condition may be adversely affected.

Exposure to claims for failure to comply with the product specifications or governmental safety requirements

The Group has manufactured its products based on the designs, specifications and prototypes agreed by its customers. Should the Group fail to manufacture its products in accordance with the said designs, specifications and prototypes, it may be held liable for the losses suffered by its customers arising from the same. Moreover, some of the Group's customers require its products to meet different product safety regulations and other requirements imposed by the relevant governments in countries into which the end-products of the Group's customers are sold. Please refer to sub-sections headed "The EU Regulations" and "Regulations of the Unities States" under the section headed "Regulatory Overview" in this prospectus for more details of the relevant product safety regulations in the EU and the United States.

There is no assurance that there will not be any claims for the Group's failure to comply with the product designs, specifications or prototypes, or defective products. The failure of the products that the Group manufactures to comply with applicable safety requirements may result in the Group being liable for damages caused by its defective products to the end-users of the Group's customers. Even if the Group's customers are responsible for the defects, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose the Group to additional liability claims. If any of the Group's customers make such claims against the Group, its business and financial position may be adversely affected.

Inadequate insurance coverage

The occurrence of certain incidents, including fraud or other misconduct committed by the employees of the Group or third parties, fire, severe weather conditions, earthquake, war, flooding and power outage, and the consequences resulting therefrom may not be covered adequately, if at all, by the insurance policies of the Group. If the Group incurs substantial liabilities which are not covered by its insurance policies, or if the business operations are interrupted for more than a short period of time, the Group may incur expenses and losses that would materially and adversely affect its operating results.

Failure to protect the intellectual property rights of the Group's customers

The Group have devised and supervised the implementation of stringent measures by the Processing Factory and/or Yi Gao Tech to ensure proper usage of the intellectual property rights and confidential information of the Group's customers. The Group maintains confidentiality agreements with its employees to protect the intellectual property rights of the Group's customers. If there is any breach of the confidentiality agreement, the trade secrets of the Group's customers may become known to its competitors.

In the event that the Group misuses or leaks mould or intellectual property rights of its customers to external parties, the Group may be held liable to indemnify its customers for losses they suffered as a result of such misuse or leakage and the Directors and/or senior management of the Group might be subject to the criminal prosecution. There is no assurance that there will not be any claim for the Group's misuse or leakage of its customers' mould or intellectual property rights to external parties. If any of our customers make such claim against the Group, our business and financial position may be adversely affected.

The Group cannot guarantee that the steps it has taken or will take to protect its customers' intellectual property rights will provide adequate protection for customers' intellectual property rights or that other parties will not independently develop or otherwise acquire equivalent or superior technology or that it can maintain such technology as trade secrets. The Group's failure to protect its customers' intellectual property rights could have an adverse effect on its business, results of operations and financial position.

Effect of the taxation arising from the Transformation

Upon completion of the Transformation, the Group's manufacturing operation would be undertaken by a WFOE, namely Yi Gao Tech, and the Processing Factory was subsequently deregistered. As a result, the profits of Echo Electronics arising from the sale of goods that are manufactured by Yi Gao Tech cannot be apportioned on a 50:50 basis and there is no tax exemption on 50% assessable profit of the Group under Hong Kong profits tax. In addition, Yi Gao Tech is subject to the PRC enterprise income tax rate of 25% for WFOEs. Yi Gao Tech is subject to a valued added tax of 17% but is eligible for valued added tax export refund of 13%. Since Yi Gao Tech manufactures and sells its finished goods to Echo Electronics, the profit generated from such sale will be subject to the PRC enterprise income tax at the prevailing rate of 25%.

The Company has engaged GDT CPA Limited as its tax adviser to quantify the overall financial effect arising from the abovementioned tax issues for the years ended 31 March 2010 and 2011. As mentioned in the report of GDT CPA Limited, the unaudited pro forma taxation of the Group are approximately HK$2.61 million and approximately HK$2.78 million for the years ended 31 March 2010 and 2011 respectively as if the Transformation was completed, representing an increase of approximately 97.73% and approximately 143.99% to the Group's taxation of approximately HK$1.32 million and approximately HK$1.14 million respectively. The unaudited pro forma net profit for the years ended 31 March 2010 and 2011 would be approximately HK$9.34 million and approximately HK$9.50 million representing a decrease of approximately 12.50% and approximately 15.33% as compared to the actual results for the same corresponding period. As a result of the loss of tax exemption on 50% assessable profits under Hong Kong profits tax and the charge of the PRC enterprise income tax at 25% since September 2011, the effective tax rate of the Group increased from approximately 9.22% for the year ended 31 March 2011 to approximately 15.44% and 26.30% for the years ended 31 March 2012 and 2013 respectively. Please refer to the sub-section headed "Taxation" in the section headed "Business" in this prospectus for further details of the Group's taxation.

Following completion of the Transformation, the Group no longer enjoys the tax exemption on 50% assessable profit of the Group under Hong Kong profits tax and Yi Gao Tech is subject to the PRC enterprise income tax rate of 25% and a valued added tax of 17% with a valued added tax refund of 13%. As such, the effective tax rate of the Group will increase and the Group's profitability, results of operations and financial position may be adversely affected.

Foreign exchange exposure

The Group's reporting currency is Hong Kong dollars but its sales is denominated in a mixture of currencies, primarily US dollars and Hong Kong dollars. For the year ended 31 March 2011, the sales were denominated in US dollars, Hong Kong dollars, Japanese yen and Euros in the proportion of approximately 90.27%, 9.63%, 0.04% and 0.06%, respectively, while for the year ended 31 March 2012, the sales were denominated in US dollars and Hong Kong dollars in the proportion of approximately 84.21% and 15.79%, respectively. For the year ended 31 March 2013, the sales were denominated in US dollars, Renminbi and Hong Kong dollars accounted for approximately 96.00%, 0.52% and 3.48%. In addition, the Group's costs and expenses are mainly denominated in US dollars, Hong Kong dollars and Renminbi. For the years ended 31 March 2011, US dollars, Hong Kong dollars and Renminbi accounted for approximately 49.63%, 30.01% and 18.42% of the Group's costs and expenses respectively. For the years ended 31 March 2012, US dollars, Hong Kong dollars, Renminbi and Japanese Yen accounted for approximately 19.52%, 62.76%, 17.65% and 0.07% of the Group's costs and expenses respectively. For the year ended 31 March 2013, US dollars, Hong Kong dollars, Renminbi, pound sterling and Japanese Yen accounted for approximately 14.10%, 41.87% and 40.87%, 3.02% and 0.14% of the Group's costs and expenses respectively. Changes in the relevant exchange in these currencies may affect the Group's gross and net profit margin and could result in foreign exchange and operating losses. These foreign currencies are converted into Hong Kong dollars as a reporting currency for the purpose of preparing the Group's financial statements.

The value of Renminbi is subject to changes of the PRC government's policies and, to a large extent, depends on the PRC's domestic and international economic and political developments, as well as supply and demand in the PRC market. The exchange rates and the value of RMB may appreciate or depreciate against US dollars, Euros or other currencies. Any appreciation of RMB against US dollars, Euros or other currencies would increase the costs in Euros, US dollars or other currencies of the Group's products which are produced in the PRC. This may reduce the level of exports and the Group's profit margins, and adversely affect its business and profitability. Remittance of foreign currencies abroad and conversion of RMB for capital account items, including direct investment and loans, is subject to government approval in the PRC. Shortage in foreign currencies may restrict the ability of the PRC subsidiary to remit sufficient foreign currencies to pay dividends or other payments to Echo Electronics. In addition, any changes to the foreign exchange regulations of the PRC may adversely affect the Group's businesses.

Credit risk on trade and other receivables

In respect of trade and other receivables, the Group's exposure to credit risk is influenced mainly by the characteristics of each individual customer. For the years ended 31 March 2011, 2012 and 2013, the concentration of credit risk was approximately 75.94%, 61.55% and 64.77% of the total trade and other receivables due from the Group's top five customers respectively. During the Track Record Period and subsequent to 31 March 2013, in view of the customer credit-worthiness and the long-term business relationships, the Group temporarily extended the credit terms to some of its customers, including the five largest customers, for extra 1–3 months at their request.

There is no guarantee that the total amount of trade receivables, either outstanding receivables or past due receivables, will be able to be collected by the Group. In the event that all or any of the Group's customers delay or refuse to fulfill their obligations in paying the receivables owed to the Group, the Group's business, results of operations and financial condition may be materially and adversely affected.

There is no assurance that the Group will be able to successfully implement its business strategies

Details of the Group's objective, strategies and future plans are set out in the section headed "Business objective and future plans" in this prospectus. The successful implementation of the Group's business plans depends on a number of factors including, among others, the availability of funds, competition, and market demand. There is no assurance that the Group will be able to implement its business plans as scheduled nor that any such plans will be as successful as contemplated by the management. Any failure or delay in achieving any or all of the Group's business plans may have a material and adverse effect on the Group's profitability and prospects.

Exposure to anti-dumping duties

Under the anti-dumping laws, the products of the Group exported to the EU and the U.S. will be subject to anti-dumping duties if the products exported by the Group to the EU and the U.S. at prices lower than the normal value of the product on their domestic market and cause injury to the EU and the U.S. industry.

There is no assurance that the products of the Group will not be subject to any anti-dumping duties in future. If anti-dumping duties are assessed against the exported products of the Group, the Group's financial position may be adversely affected.

RISKS RELATING TO THE INDUSTRY

Impact of the global economic crisis

The global economic crisis occurred in late 2008 has adversely affected the world's economies and also resulted in a global credit tightening. With a deteriorating worldwide economy, demand for, among other things, consumer products may fall, which in turn may affect the demand for the Group's electronic products. For the year ended 31 March 2010, the Group's turnover of approximately HK$61.64 million represented a decrease of approximately 23.78% from HK$80.87 million for the year ended 31 March 2009, primarily as a result of the global economic crisis which commenced in late 2008. The Group's total number of sales order amounted to 813 for the year ended 31 March 2010, which represented a decrease of approximately 12.20% from the total number of sales orders of 926 for the year ended 31 March 2009. For the year ended 31 March 2011, the Group's turnover of approximately HK$82.50 million and total number of sales orders of 894 signified a return to a similar revenue level for the year ended 31 March 2009 due to an increase in customer demand brought about by the global economic recovery.

The recent global market and economic conditions, including the ongoing credit crisis in Europe and the market volatility in major stock markets, have resulted in an adverse effect on exports. For the year ended 31 March 2012, the Group's turnover of approximately HK$60.99 million represented a decrease of 26.07% compared with the previous year and the Group's sales order has been decreased to 744 due mainly to the decrease of 29.98% and 31.62% in sales from the customers in European Countries and the United States respectively. If this economic downturn continues, the Group's business operations and financial performance could be adversely affected. For the year ended 31 March 2013, the Group has approximately 50 customers based in the European Countries and the United States and the sales made to them amounted to approximately 52.50% and 18.84% respectively out of the total revenue of the Group for the same period. In the event of a prolonged economic downturn or significant income level decrease of consumers in the countries where the Group sells its products to, the Group's financial results may be adversely affected. Any adverse change in the political, economic or social conditions, or taxation or tariff regime of markets of the Group's products may also adversely affect the Group's business, operations and financial performance.

Competition

The Group operates in a highly competitive market. The Directors consider that the Group faces potential competition from various EMS providers with production bases in the PRC and overseas. Should the Group fail to compete with other EMS providers or maintain its competitive advantages or keep pace with technological changes, the Group's operations could be adversely affected. Any increase in competition can adversely affect the Group's market share, which may lead to price reductions and an increase in the Group's spending on business promotion activities. Any of these events could have a material adverse effect on the Group's financial condition, results of operations and prospects.

Changing conditions in the EMS industry and environmental liabilities

The industry in which the Group operates is relatively cyclical. Purchases of electronic products tend to decline during recession periods. There can be no assurance that the Group will be able to remain profitable in the future.

Changes in government regulations such as government charges, environmental regulations in both the PRC and Hong Kong or tax may adversely affect participants in this industry. Increased inspection procedures and tighter import controls could increase the Group's operating costs and cause disruption to the Group's business. Increasing trade barriers to Hong Kong exports could also harm the Group's business.

RISKS RELATING TO THE PRC

Effect of changes in the economic, political and social conditions in the PRC

During the Track Record Period, the Group's production was carried out at the Processing Factory located in the PRC pursuant to the Processing Agreement. Accordingly, the results of operations, financial position and prospects of the Group are subject to a significant degree of economic, political and legal development in the PRC.

In recent years, the PRC government has implemented economic reform measures emphasising decentralisation, utilisation of market forces in the development of the PRC's economy and a high level of management autonomy. Before its adoption of reform and open door policies beginning in the late 1970s, the PRC's economy was primarily a planned economy. Since that time, the PRC government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Economic reform policies implemented since the late 1970s have emphasised autonomous enterprises and the utilisation of market mechanisms. Factors that may cause the PRC government to modify, delay or even discontinue the implementation of certain reform measures include political changes and political instability and such economic factors as changes in rates of national and regional economic growth, unemployment and inflation. Changes in political, economic and social conditions, laws, regulations and policies in the PRC may have an adverse effect on the overall development of the EMS industry in the PRC.

The implementation of the PRC Labour Contract Law

The EMS industry is labour intensive. The Group cannot assure you that the cost of labour in the PRC will not increase in the future. Labour costs in the PRC are primarily a function of demand and supply of labour, general economic conditions and the standard of living in the PRC. If labour costs in the PRC increase, the Group's operating costs will increase and the Group may not be able to pass these increments to its customers due to competitive pricing pressures and hence the Group's results of operations may be adversely affected.

《中華人民共和國勞動合同法》(Labour Contract Law of the PRC*) (the "**PRC Labour Contract Law**") became effective and was implemented on 1 January 2008. This law and its implementation rules reinforce protection for employees who, under the existing PRC Labour Law, have certain rights under the terms of their employment such as the rights to (i) sign written employment contracts; (ii) receive overtime wages; and (iii) terminate and alter their employment contracts. In addition, the PRC Labour Contract Law and its implementation rules have amended certain aspects of the existing PRC Labour Law which, as a result, may increase labour cost in the PRC. The implementation of the PRC Labour Contract Law and its implementation rules may increase the operating expenses of the Group, in particular the human resources costs and administrative expenses. In the event that the Group decides to modify its employment or labour policy or practice significantly, or reduce the number of its staff, the PRC Labour Contract Law may limit the Group's ability to implement the modifications or changes in the manner that the Group believes to be most cost-efficient or otherwise desirable, which could have an adverse effect on its business operation, financial condition and results of operations.

Changes and uncertainties in the PRC legal system may affect our business

The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, property title, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal requirements are relatively new and evolving, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainties than those in jurisdictions under common law systems. These uncertainties may limit the legal protections available to the Group and investors. There is no prediction on the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase the cost and regulatory exposure of the Group in complying with them.

Compliance with environmental and safety regulations in the PRC

The Group is required to comply with the environmental and safety laws and regulations in the PRC as well as international environmental and safety regulations and standards applicable to its customers and products. There is no assurance that the Group can at all times be in complete compliance with such laws, regulations, approvals and permits. If the Group violates or fails to comply with the requirements, it could be fined or otherwise sanctioned by the regulators. In some instances, such a fine or sanction could be material. In addition, these requirements may become more stringent over time and there can be no assurance that the Group will not incur additional material environmental costs or liabilities in the future.

RISKS RELATING TO THE PLACING

Industry and market information and statistics contained in this prospectus

Accuracy of certain statistics, the industry data and other information contained in this prospectus relating to the global and Hong Kong EMS industry and the regional market of electronic products in EU and the United States are gathered directly and indirectly from various official publications and websites that the Directors believe to be reliable. However, there can be no assurance as to the quality or reliability of such source of materials. The Company, the Controlling Shareholder, the Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriter or any of their respective affiliates, directors or advisers involved in the Placing have not independently verified such statistics and information or the methodology in the gathering, compilation or presentation of such statistics. Accordingly, the Company, the Controlling Shareholder, the Directors and all other parties involved in the Placing make no representation as to the accuracy of such statistics and information contained in such official publications and websites. The Company cannot ensure the accuracy of such statistics and information and such statistics and information may not be consistent with other information publicly available or available from other sources. Prospective investors should not place undue reliance on any of such statistics and information contained in this prospectus.

No prior public market for the Shares

There has been no prior public market for the Shares, liquidity may be low and market price may be volatile. Sale of substantial amounts of Shares in the public market after the Placing could adversely affect the prevailing market price of the Shares. The Placing Price was the result of negotiations between the Company and the Sole Sponsor, for itself and on behalf of the Sole Bookrunner, the Joint Lead Managers and the Underwriters, and the Placing Price may differ significantly from the market price for the Shares following the

Placing. The Company has applied for the listing of, and permission to deal in, the Shares on GEM. However, a listing on GEM does not guarantee that an active trading market for the Shares will be developed following the Placing or in the future.

Liquidity and market price of the Shares

The market price and trading volume of the Shares may be highly volatile. Factors such as variations in the Group's revenues, earnings or cash flows, and/or announcements of new investments, strategic alliances could cause the market price of the Shares to change substantially. Any such developments may result in large and sudden changes in the volume and market price at which the Shares will be trading. There is no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange related to the EMS industry have experienced substantial price volatility in the past, and it is possible that the Shares will be subject to changes in market price that may not be directly related to the Group's financial or business performance.

Dilution effect and impact of exercise of options granted under the Share Option Schemes

The Group may need to raise additional funds in the future to finance expansion or new developments relating to its operations or new acquisitions. If additional funds are raised through the issue of new equity or equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the Shareholders in the Company may be reduced and Shareholders may experience dilution in their percentage shareholdings in the Company. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

Furthermore, the Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. As at the date of this prospectus, options to subscribe for 20,000,000 Shares have been granted under the Pre-IPO Share Option Scheme and no options have been granted under the Share Option Scheme. The fair value of the share options granted under the Pre-IPO Share Options Scheme calculated by an external valuer is approximately HK$2.67 million, which will be charged to the consolidated statements of comprehensive income of the Group over the vesting period by reference to the fair value at the date on which the share option are granted. Accordingly, it is expected that approximately HK$0.89 million will be charged to the consolidated statements of comprehensive income of the Group for the year ending 31 March 2014. Following the granting of any options under the Share Option Scheme in the future and the issue of new Shares upon exercise of the options granted or may be granted under the Pre-IPO Share Option Scheme and 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 and may also result in a dilution or reduction of the earnings per Share or net asset value per Share.

Under the HKFRSs, the costs of Shares granted to the grantees through the Pre-IPO Share Option Scheme and the Share Option Scheme will be charged to the profit and loss accounts as share based payment, and the issue of new Shares to the grantees should be charged at fair value at the date which such options are granted. As such, any grant of options under the Pre-IPO Share Option Scheme and the Share Option Scheme may increase the expenses of Group which may affect the Group's profitability.

Indication of historical dividend payment and current dividend policy

No dividend was declared and paid during the year ended 31 March 2011. For the year ended 31 March 2012, the Group declared dividends to its shareholder, Madam Cheng, in an amount of HK$7 million. For the year ended 31 March 2013, the Group declared an annual dividend in the sum of HK$9 million to its then shareholder Madam Cheng.

The declaration of future dividends will be at the recommendation of the Directors at their discretion and will depend on, among others, the Group's earnings, financial condition, cash requirements and availability, and other factors as the Directors may deem relevant. Accordingly, historical dividend payments should not be regarded as an indication of future dividend policy, nor as a basis to forecast the amount of dividends payable in the future.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information to the public with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this prospectus or this prospectus misleading.

Printed copies of the prospectus required by the GEM Listing Rules and the Companies Ordinance are available, for information purposes only, during normal office hours from 9:00 a.m. to 6:00 p.m. at the office of (1) Tanrich Capital at 16th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong; and (2) Convoy Investment Services Limited at Ground Floor & 1st Floor, Li Po Chun Chambers, 189 Des Voeux Road, Central, Hong Kong starting from 4:30 p.m. on Monday, 30 September 2013 to Friday, 11 October 2013 (both dates inclusive).

INFORMATION ON THE PLACING

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms, subject to the conditions set out herein. No person is authorised to give any information in connection with the Placing or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers (for itself and on behalf of the Underwriters), any of their respective directors, agents, employees or advisers or any other party involved in the Placing.

UNDERWRITING

This prospectus is published solely in connection with the Placing.

The listing of the Shares on GEM is sponsored by the Sole Sponsor and lead managed by Tanrich Capital. Pursuant to the Underwriting Agreement, the Placing is fully underwritten by the Underwriters on a conditional basis. For information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF THE PLACING SHARES

Each person acquiring the Placing Shares will be required to confirm, or be deemed by his acquisition of Placing Shares to confirm, that he is aware of the restrictions on offers and sale of the Placing Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit any offering of the Placing Shares or the distribution of this prospectus. The distribution of this prospectus and the offering or sale of the Placing Shares in certain jurisdictions are restricted by law, in particular but without limitation to, the following jurisdictions. Accordingly, and without limitation to the following, 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 an offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

No invitation may be made directly or indirectly by or on behalf of the Company to the public in the Cayman Islands to subscribe for or acquire any of the Placing Shares.

Hong Kong

This prospectus has been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may be issued, circulated or distributed in Hong Kong, and the Placing Shares under the Placing may be offered for subscription or sale to members of the public in Hong Kong. In addition, advertisements may be made offering or calling attention to an offer or intended offer of the Placing Shares to the public in Hong Kong.

Singapore

This prospectus has not been and will not be lodged and registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other offering document or material in connection with the offer of the Placing Shares may not be issued, circulated or distributed in Singapore nor may any of the Placing Shares be offered for subscription or purchase or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Placing Shares be made, directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Placing Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

Taiwan

The Placing Shares have not been and will not be registered with the Securities and Futures Bureau of Taiwan and are not being offered for subscription or sold and may not be offered for subscription or sold, directly or indirectly, to the public in Taiwan.

United States

The Placing Shares have not been and will not be registered under the US Securities Act, or under the securities laws of any state of the U.S. and may not be offered, sold, pledged or transferred within the U.S.. The Placing Shares are being offered and sold outside the U.S. to non-U.S. persons in reliance on Regulation S under the U.S. Securities Act.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Division for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Placing, the Capitalisation Issue and the exercise of the options that may be granted under the Share Option Schemes, on GEM. Save as disclosed herein, no part of the share or loan capital of the Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, the Company is not seeking nor proposing to seek listing of or permission to deal in the shares or loan capital of the Company on any other stock exchange.

A total of 60,000,000 Placing Shares representing approximately 30% of the enlarged issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Schemes) will be made available under the Placing.

Under section 44B(1) of the Companies 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 the Company by or on behalf of the GEM Listing Division, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public.

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

THE 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 the 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, under contingent situation, 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. Applicants should seek the advice of licensed securities dealers or other professional advisers for details of those settlement arrangements as such arrangements will affect your rights and interests.

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

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

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscription for, holding, purchase, disposal of or dealing in, the Shares (or exercising their rights attaching thereto) under the laws of the place of the operations, domicile, residence, citizenship or incorporation. The Company emphasises that none of the Company, the Directors, the Sole Sponsor, the Sole Bookrunner and the Joint Lead Managers (for itself and on behalf of the Underwriters), their respective directors, agents or advisers or any other persons involved in the Placing accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding, purchase, disposal of or dealing in, the Shares or exercising their rights attaching thereto.

HONG KONG BRANCH REGISTER AND STAMP DUTY

The Company's principal register of members is maintained by its principal registrar in the Cayman Islands, Butterfield Fulcrum Group (Cayman) Limited and the Company's branch registrar of members will be maintained by its branch share registrar in Hong Kong, Tricor Investor Services Limited.

All Placing Shares issued by the Company pursuant to applications made in the Placing will be registered on the Company's branch register of members maintained in Hong Kong in order to enable them to be traded on GEM. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on GEM. Dealings in the Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

Unless the Company determines otherwise, dividends payable in Hong Kong dollars in respect of the Shares will be paid to the Shareholders as recorded on the register of members of the Company on the relevant record date, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

STRUCTURE OF THE PLACING

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

ROUNDING

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM is expected to commence at 9:00 a.m. on Friday, 11 October 2013. Shares will be traded in board lot of 4,000 Shares each.

Name	Address	Nationality
Executive Directors		
Mr. Lo Yan Yee (勞炘儀) *(Chairman of the Board)*	Flat D, 48/F, Block 2 Ocean Pointe, 8 Sham Tsz Street Sham Tseng, N.T., Hong Kong	Chinese
Madam Cheng (鄭若雄)	Flat D, 48/F, Block 2 Ocean Pointe, 8 Sham Tsz Street Sham Tseng, N.T., Hong Kong	Chinese
Mr. Cheng Kwing Sang, Raymond (鄭烱生)	Flat A, 1/F, Tower 1 8 Lung Tang Road Royal Sea Crest, Tsing Lung Tau N.T., Hong Kong	Canadian
Mr. Lo Ding To (勞碇淘)	Flat D, 48/F, Block 2 Ocean Pointe, 8 Sham Tsz Street Sham Tseng, N.T., Hong Kong	Chinese
Independent non-executive Directors		
Mr. Lam Wai Yuen (林偉源)	Flat B, 14/F, Block 13 Yuet Wu Villa, Tuen Mun N.T., Hong Kong	Chinese
Mr. Ang Chuk Pai (洪竹派)	Room H, Floor 19, Tower 2 Ma On Shan Center, Ma On Shan N.T., Hong Kong	Chinese
Mr. Chan Chung Yin, Victor (陳仲然)	Flat F, 19/F, Tower 1 1 Yuk Tai Street, Sausalito Ma On Shan, N.T. Hong Kong	Chinese

Sole Sponsor and Sole Bookrunner	**Tanrich Capital Limited** 16th Floor Central Plaza 18 Harbour Road, Wanchai Hong Kong
Joint Lead Managers	**Tanrich Capital Limited** 16th Floor Central Plaza 18 Harbour Road, Wanchai Hong Kong **Convoy Investment Services Limited** Ground Floor & 1st Floor Li Po Chan Chambers 189 Des Voeux Road, Central Hong Kong
Legal advisers to the Company	*As to Hong Kong law* **Patrick Mak & Tse** 16/F Nan Fung Tower 173 Des Voeux Road Central Hong Kong *As to Cayman Islands law* **Conyers Dill & Pearman (Cayman) Limited** Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands *As to PRC law* **ETR Law Firm (廣東廣信君達律師事務所)** 7/F Bank of Guangzhou Square 30 Zhu Jiang Dong Road Guangzhou, Guangdong Province PRC *As to US law* **Simons & Wiskin** 102 South Broadway South Amboy New Jersey 08879 US

	As to EU law **Watson, Farley & Williams LLP** 15 Appold street London EC2A 2HB UK
Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law* **P.C. Woo & Co.** 12th Floor, Prince's Building 10 Chater Road, Central Hong Kong
Auditors and reporting accountants	**HLB Hodgson Impey Cheng** Certified Public Accountants 31/F, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Property valuer	**DTZ Debenham Tie Leung Limited** 16/F, 1063 King's Road Quarry Bay, Hong Kong
Tax adviser	**GDT CPA Limited** 1102, Allied Kajima Building 138 Gloucester Road Wanchai, Hong Kong

Registered office	**Offshore Incorporations (Cayman) Limited** Floor 4, Willow House, Cricket Square P.O. Box 2804 Grand Cayman KY1-1112 Cayman Islands
Head office and principal place of business in Hong Kong	Room 2205, 22/F Cable TV Tower 9 Hoi Shing Road Tsuen Wan Hong Kong
Company website	*http://www.echogroup.com.hk* *(Note: contents contained in this website do not form part of this prospectus)*
Compliance officer	Mr. Lo Ding To
Company secretary	Ms. Li Fung Shan *HKICPA*
Members of the Audit Committee	Mr. Lam Wai Yuen *(Chairman)* Mr. Ang Chuk Pai Mr. Chan Chung Yin, Victor
Members of the Remuneration Committee	Mr. Ang Chuk Pai *(Chairman)* Madam Cheng Mr. Chan Chung Yin, Victor
Members of the Nomination Committee	Mr. Ang Chuk Pai *(Chairman)* Mr. Lo Ding To Mr. Chan Chung Yin, Victor
Authorised representatives	Mr. Lo Ding To Ms. Li Fung Shan
Compliance adviser	**Tanrich Capital Limited** 16th Floor Central Plaza 18 Harbour Road, Wanchai Hong Kong

Principal bankers	**DBS Bank (Hong Kong) Limited** G/F, The Center 99 Queen's Road Central Central Hong Kong
	Chiyu Banking Corporation Limited Shop No. 5A G/F, Belvedere Square Tsuen Wan, N.T. Hong Kong
Principal share registrar and transfer office	**Butterfield Fulcrum Group (Cayman) Limited** P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong branch share registrar and transfer office	**Tricor Investor Services Limited** 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong

This section contains certain information which has been directly or indirectly derived, in part, from various governmental, official or publicly available documents or reports prepared by iSuppli, the Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting, compiling and reproducing such information. The Directors 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 relevant information has not been independently verified by the Group, the Sole Sponsor or any of their respective affiliates or advisers, and therefore may not be accurate, complete or updated. The Group makes no representation as to its accuracy, completeness or fairness of such information and accordingly the information contained herein should not be unduly relied upon. The information and statistics may not be consistent with other information or statistics compiled within or outside the EU or the United States.

INTRODUCTION

iSuppli is an independent market research company based in USA and found in 1999, which offers electronics and technology research and advisory services, as well as analysis reports and databases. The Group commissioned iSuppli to conduct market analysis of, and provide the electronics components industry view on PCB, IC, package, semiconductor devices and transmitters or receivers for inclusion in this prospectus at an aggregate fixed fee of US$18,000. iSuppli is the global leader in technology value chain research and advisory services and delivers information about the entire electronics value chain.

The methodology used by iSuppli for the preparation of the report involved a systematic and balanced approach in which both supply and demand are considered. Primary market research include interviews with contract manufacturers and electronic component supplier, as well as its customers and distributors, surveys, and third-party sources, utilizing its long-term industry expertise to develop unbiased intelligence and assessments. Historical patterning, econometric analyses, manufacturing cost modeling, price-volume analyses had been used to analyze the data and trends.

EMS INDUSTRY

1. Overview

A provider of EMS focuses not only on manufacturing, unit assembly, and testing for the brand owners of electronic products. EMS providers also offer value-added services, including product design support services, after market support, warranty repair, supply chain management, global distribution, logistics, and quality control management. EMS providers manufacture products and related components for branded manufacturers in various industries, including consumer electronics, telecommunications, automotive, multimedia products, computer accessories, beauty care equipment, etc. EMS providers are known by their sufficient production capacity and efficient delivery of products to meet customers' order requirements.

The development of the EMS industry is driven by keen competition whereby branded manufacturers in various industries tend to focus on their core competencies and to outsource non-core business processes to outside manufacturing services provider. The trend is to shift manufacturing from high-cost regions, such as U.S. and EU countries to low-cost regions, such as the PRC and other South East Asia countries. There are a number of reasons for a brand owner of electronic products to seek EMS providers for the manufacture of their products and perhaps other additional or functions. Whilst many will be directly related to a reduction in cost, there are usually a more complex mix of reasons.

EMS providers can provide:

- a second manufacturing resource to that of the brand owner of electronic products which can absorb some or all of the fluctuations in the demand cycle;
- reduction of working capital for the brand owner of electronic products;
- immediate availability of trained and experience staff;
- shortened time for availability or the acquiring of new technologies;
- optimization of yield and rework costs;
- ability to offer after sales and warranty services;
- ability to work with design, pre-production and other services which may be in short supply in-house;
- an experienced supply chain management; and
- the reduction in business risk with capital tied up in plants and equipments.

All the above services from the EMS providers can result in the brand owner of electronic products being able to concentrate its time for its products manufacturing at a reasonable cost, and leaves the brand owner of electronic products to concentrate on areas of higher value such as design, research and development, and marketing of its brand. Outsourcing to EMS providers also enables the brand owners of electronic products to gain access to the latest equipment, process knowledge and manufacturing technology without having to make substantial investments in plants and equipments.

2. Hong Kong EMS Industry

Pursuant to the Hong Kong Industry Profiles on electronics published by the HKTDC on 4 March 2013, Hong Kong's electronics industry is the largest merchandise export earner, accounting for 58% of Hong Kong's total export in 2012. According to the latest available statistics, Hong Kong was the world's largest exporter of telephone sets and the second largest exporter of calculators, sound recording apparatus, computer parts/accessories and video recording/reproducing apparatus including DVD recorders/players.

Hong Kong's electronics exports rose by 7% in 2012. Exports of electronic parts and components to the Chinese mainland increased steadily on the back of continued expansion of mainland's outward processing production. Although exports to the EU were sluggish amid the on-going development of the European debt crises, exports to the U.S. managed to expand in the year.

Finished goods constitute about one quarter of Hong Kong's electronics exports, of which the majority are consumer electronics for domestic use. The largest category is audio-visual (AV) equipment, consisting of radios and optical discs players, hi-fi equipment, TV sets, digital versatile disc (DVD) players/recorders, MP3/MP4 players, etc.

Parts and components constitute about three quarters of Hong Kong's electronics exports, of which the majority are re-exported to the Chinese mainland for outward processing production. Meanwhile, Hong Kong produces and exports a variety of parts and accessories for telecommunications items, AV equipment, office machines and computers, as well as components like resistors, capacitors, inductors, crystals, resonators, speakers, printed circuit boards (PCBs) and transformers.

Most of the Hong Kong manufacturers have relocated their production facilities to the Chinese mainland, where various production processes like PCB assembly, plastics injection moulding and sheet metal working are carried out. Their Hong Kong offices focus mainly on product design and development, industrial engineering, management, logistic support and marketing, etc. In the wake of the relocation, most of such companies have been re-classified as non-manufacturing establishments, despite the fact that they have manufacturing activities across the boundary.

Exports of Electronic Products from Hong Kong

	2010		**2011**		**2012**	
Products	**Value**	**Annual Growth Rate**	**Value**	**Annual Growth Rate**	**Value**	**Annual Growth Rate**
	(HK$ million)		*(HK$ million)*		*(HK$ million)*	
Domestic Exports	17,156	14%	9,532	-44%	7,393	-22%
Re-Exports	1,673,793	28%	1,841,149	10%	1,973,389	7%
Total Exports	1,690,949	28%	1,850,681	9%	1,980,782	7%

Source: Hong Kong Trade Statistics, Census & Statistics Department, Hong Kong Trade Development Council

Total Export of Electronic Products in Hong Kong by Country

In 2011, the Hong Kong's total exports of electronic products rose by 9%, after surging 28% in 2010.

So far, China has been the largest export markets for Hong Kong's export of electronic products and the EU(27) is ranked second, constituting approximately 64% and 8% of the total export of electronic products respectively in 2011. The following table shows the geographical breakdown of the total export of electronic products from 2010 to 2012:

Total exports of electronics by major markets

	2010		2011		2012	
	Share	**Growth**	**Share**	**Growth**	**Share**	**Growth**
	(Approximate %)	*(Approximate %)*	*(Approximate %)*	*(Approximate %)*	*(Approximate %)*	*(Approximate %)*
Chinese Mainland	63	29	64	10	65	9
EU(27)	8	24	8	3	7	-2
Germany	2	27	2	7	2	-4
Netherlands	2	26	1	-9	1	5
US	7	25	6	-4	7	9
ASEAN	6	26	6	15	6	4
Singapore	2	22	2	6	2	**(note 1)*
Japan	4	20	3	3	3	8

Source: Hong Kong Trade Statistics, Census & Statistics Department, Hong Kong Trade Development Council

Note 1: Insignificant

Total exports of electronics by categories

	2010		2011		2012	
	Share	**Growth**	**Share**	**Growth**	**Share**	**Growth**
	(Approximate %)	*(Approximate %)*	*(Approximate %)*	*(Approximate %)*	*(Approximate %)*	*(Approximate %)*
Finished Products	25	26	26	14	27	9
Parts & Components	75	29	74	8	73	6

Total export by electronic products

	2010		2011		2012	
	Share (Approximate %)	Growth (Approximate %)	Share (Approximate %)	Growth (Approximate %)	Share (Approximate %)	Growth (Approximate %)
AV Equipment & Parts	14	12	13	-2	12	4
IT Equipment & Parts	20	33	20	14	22	13
Telecom. Equipment & Parts	17	33	19	21	21	16
Semiconductors, Electronic Valves & Tubes	29	24	29	7	27	1

Source: Hong Kong Trade Development Council

Note 1: Since offshore trade has not been recorded by ordinary trade figures, these numbers do not necessarily reflect the export business managed by Hong Kong companies.

Hong Kong's electronics exports rose by 7% in 2012, after a 9% growth in 2011. Exports of major product categories including IT equipment, telecommunications equipment, semiconductor items and AV equipment all grew by varying degrees.

Exports to the Chinese mainland, which accounted for nearly two-thirds of the total electronics exports, grew by 9% in 2011. Exports of electronic parts and components, the major items of Hong Kong's electronics exports to the China mainland, rose steadily on the back of continued expansion of mainland's outward processing production.

Meanwhile, electronics exports to the EU were sluggish amid the on-going development of the European debt crises. But exports to the US managed to expand steadily in view of a relatively better consumer market. Elsewhere in Asia, exports to ASEAN, which constituted mainly of parts and components, grew by 4%, while exports to Japan also rose by 8% in 2012.

Sales Channels

Hong Kong manufacturers of finished electronic items mostly produce on OEM and the original design manufacturer ("**ODM**") basis for reputable brand names in overseas markets. Some of these major buyers have set up buying offices in Hong Kong for direct sourcing. Hong Kong companies also sell to specialised importers and traders in North America and Europe, who distribute the merchandise under their own channels or re-sell to their clients for further distribution.

As for parts and components, many manufacturers produce on custom-made basis for famous US, European and Japanese companies, such as parts and accessories of computers, recorders, and radio receivers, as well as components/modules like PCBs and LCDs. Meanwhile, standard components are usually exported directly to distributors and manufacturers in overseas markets, although some Hong Kong companies also have their own sales offices and/or representative offices abroad.

Hong Kong is an important trading hub for electronic parts and components in Asia-Pacific. Apart from Chinese products, many items from Japan, Taiwan, the US and South Korea are re-exported via Hong Kong to the Chinese mainland, and vice versa. A number of multinational manufacturers of parts and components have set up their offices in Hong Kong, engaging in sales, distribution and sourcing activities in the Asia-Pacific region.

Industry Trends

Increasing competition from the China mainland and other Asian suppliers has long been a threat to Hong Kong companies. In response, many manufacturers have shifted the more labour-intensive processes across the border. They have also changed their product mix to strengthen their competitiveness, moving towards higher value-added and more sophisticated products.

While parts and components for consumer electronics are selling well in Asia, major players have re-positioned to supply parts and components for commercial and industrial equipment like computers, telecommunications and navigation systems. For example, many PCB manufacturers have shifted to the production of fine pitch multi-layer boards for sophisticated products, while some LCD companies have developed high-resolution LCD modules for high-value products. These manufacturers tend to adopt a strategy of higher degree of vertical integration to increase value-added. PCB layout, schematic drawing, tool-making, production and/or quality assurance are all done under one roof.

The fast changing consumer pattern has resulted in low inventory levels in major export markets, requiring quick response for inventory replenishment. Product life cycles have also shortened amid advancement in technology, leading to the need for more frequent changes in product features and specification in order to lure consumers. In this respect, Hong Kong companies are well known for their adaptability and responsiveness to the rapidly evolving consumer tastes and technological changes.

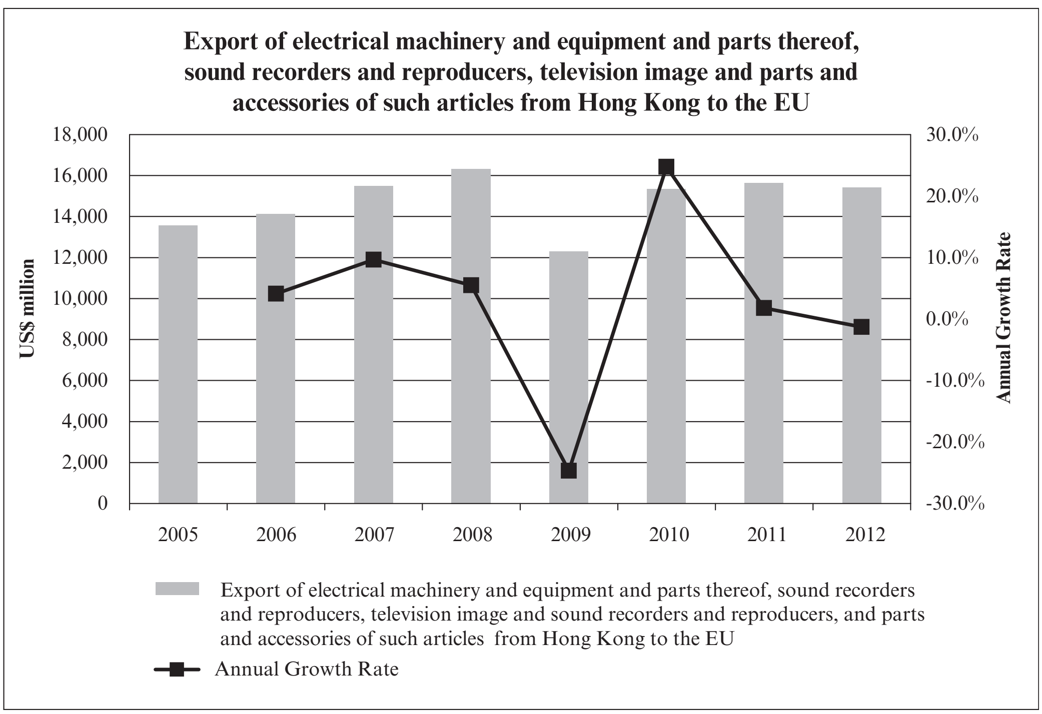
3. Markets

As the Group's total revenue for the year ended 31 March 2013 accounted for approximately 52.50% from the European Countries and 18.84% from the United States, the followings are the analysis of the markets for EU countries and North American countries.

Exports of electrical machinery and equipment and parts to the EU

Based on the statistics published by United Nations, the export value of electrical machinery and equipments and parts from Hong Kong to the EU increased from approximately US$13,561 million in 2005 to approximately US$15,420 million in 2012, representing a CAGR of approximately 1.9%. The export values from 2005 to 2012 were actually increased at the annual growth rates ranging from approximately -24.7% to 24.8% gradually. However, the export value in 2012 was decreased slightly by approximately 1.3% while comparing to 2011, this was mainly due to the on-going development of the European debt crises in 2012.

The following chart sets forth the export values of electrical machinery and equipments and parts from Hong Kong to the EU and their respective annual growth rates from 2005 to 2012.

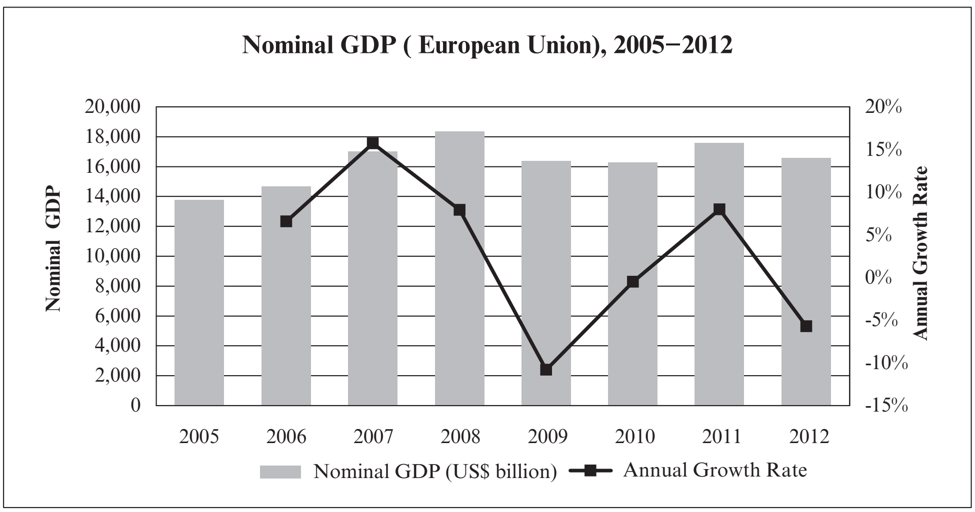


Source: *United Nations*

Overview of the EU Economy

According to the International Monetary Fund, the EU economy grew from approximately US$13,788 billion in 2005 to approximately US$16,584 billion in 2012, representing a CAGR of approximately 2.7%. The sharp drop in the annual growth rate of the nominal GDP of EU in 2009 was mainly due to the global economic crisis broke out in 2008. The global economic crisis caused damage to the economics in the EU countries. The GDPs of the EU in 2009 and 2010 was backed down to almost 2007's level. However, the nominal GDP of the EU was approximately US$16,584 billion in 2012 which was decreased 5.7% from 2011 to 2012.

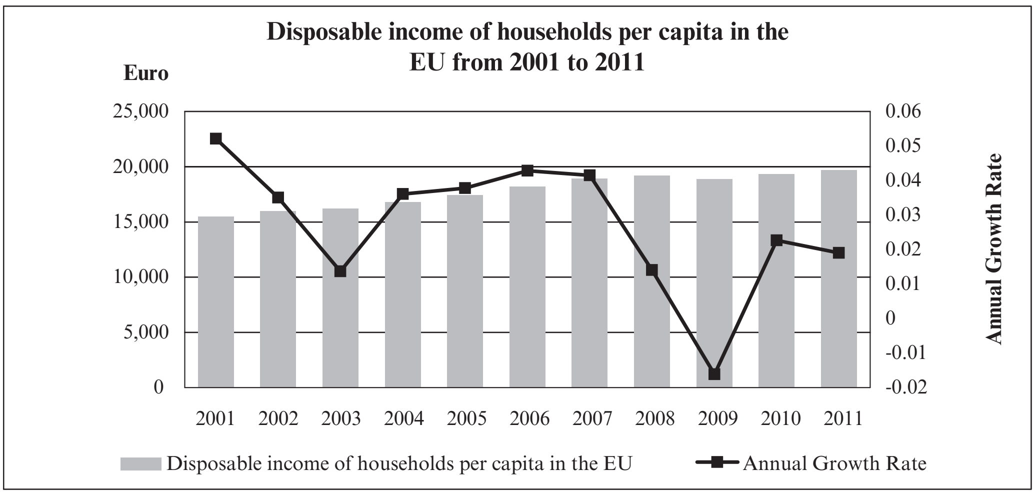
The following chart sets forth the historical and estimated GDPs and annual real GDP growth rates from 2005 to 2012 for the EU.



Source: International Monetary Fund

Annual Disposable Income per Capita of the EU

Based on statistics published by Eurostat, the real adjusted gross disposable income of households per capita of the EU has been increasing gradually from 2001 to 2011. The disposable income of households per capita in 2009 was affected by the global financial crisis inevitably, so the annual growth rate in 2009 recorded a decrease of approximately 1.6%. The real adjusted gross disposable income of households per capita of EU increased from approximately Euro15,453 in 2001 to approximately Euro19,682 in 2011, representing a CAGR of approximately 2.4%. The following chart shows the real adjusted gross disposable income of households per capita of EU from 2001 to 2011.

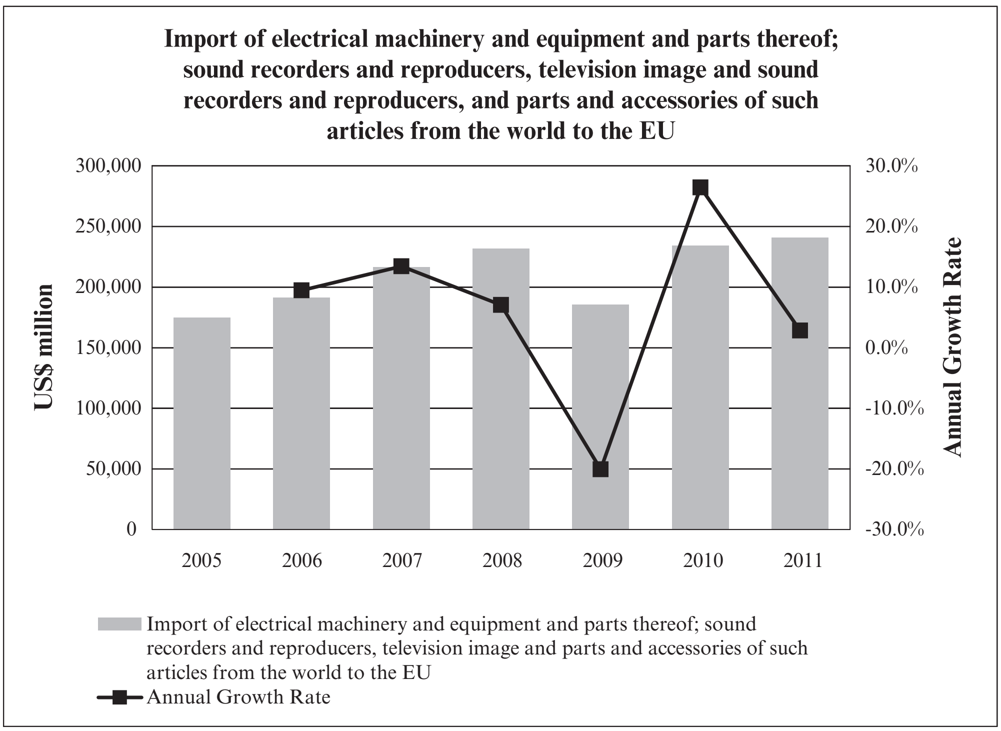


Source: *Eurostat*

Demand for the import of electrical machinery and equipment and parts to the EU

Based on the statistics published by the United Nations, the import of electrical machinery and equipment and parts from the world to the EU were in line with the economy cycle in the EU during the period from 2005 to 2011. The import of electrical machinery and equipment and parts from the world to the EU was increased from approximately US$174,546 million in 2005 to approximately US$240,890 million in 2011, representing a CAGR of approximately 5.5%.

The following chart shows the import of electrical machinery and equipment and parts from the world to the EU from 2005 to 2011.

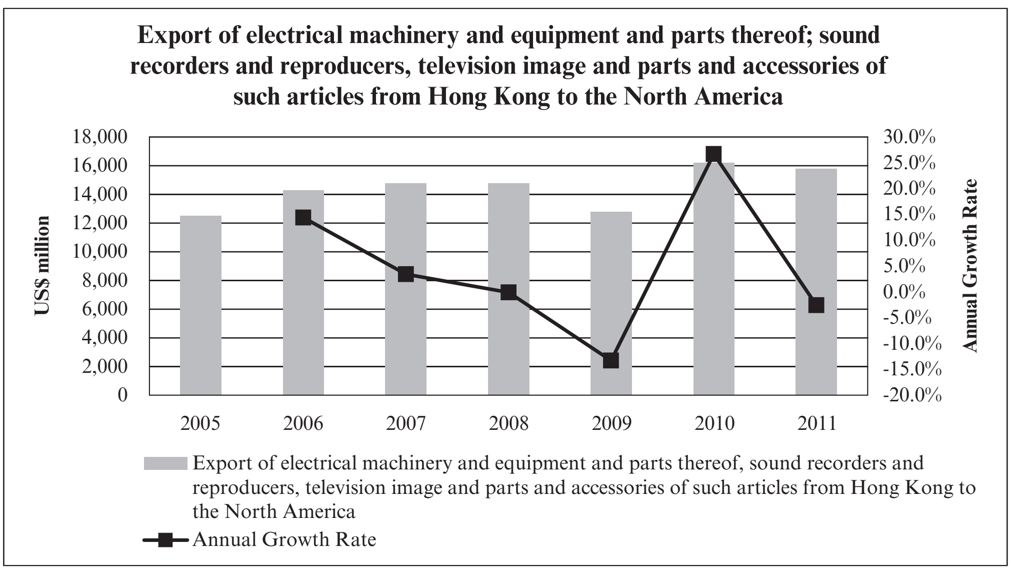


Source: United Nations

Exports of electrical machinery and equipment and parts to the North America

Based on the statistics published by United Nations, the export value of electrical machinery and equipments and parts from Hong Kong to the North America, which comprises Canada, Mexico and the United States, increased from approximately US$12,476 million in 2005 to approximately US$16,491 million in 2012, representing a CAGR of approximately 4.1%. The export values from 2005 to 2007 were increased at the annual growth rates ranging from approximately 3% to 14%. The export values surged by 27% in 2010, after the decreases in 2008 and 2009 and recorded an increase of approximately 4.5% in 2012 from a decrease of 2.6% in 2011.

The following chart sets forth the export values of electrical machinery and equipments and parts from Hong Kong to the North America and their respective annual growth rates from 2005 to 2012.

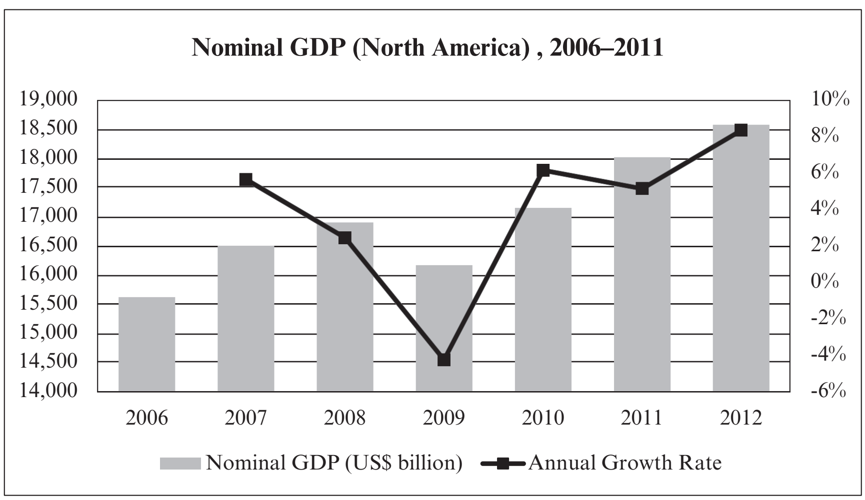


Source: *United Nations*

Overview of the economy of North America

According to the International Monetary Fund, the economy of North America, comprising Canada, Mexico and the United States, grew from approximately US$15,608 billion in 2006 to approximately US$17,138 billion in 2010, representing a CAGR of approximately 2.4%. The sharp drop in the annual growth rate of the nominal GDP of North America in 2009 was mainly due to the global economic crisis broke out in 2008. The global economic crisis caused damage to the economics in the North America countries. The GDPs of North America in 2009 was backed down to lower than 2007's level. Based on the estimates from the International Monetary Fund, the nominal GDP of the North America is expected to reach approximately US$18,564 billion in 2012, representing an annual GDP growth rate of approximately 8.3% from 2011.

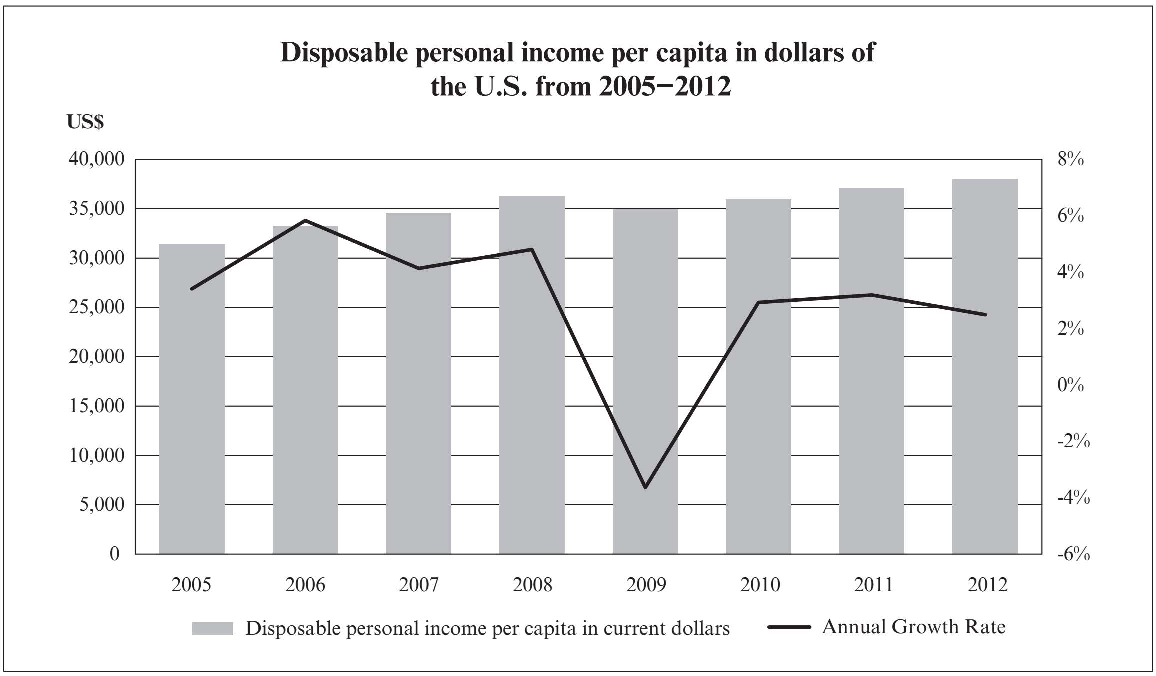
The following chart sets forth the historical and estimated GDP and annual real GDP growth rates from 2006 to 2012 for the North America.



Source: International Monetary Fund

Disposable personal income per Capita in Current Dollars of the U.S.

Based on statistics published by the U.S. Census Bureau, the annual disposable personal income per capita in current dollars of the U.S. increased from approximately US$31,367 in 2005 to approximately US$38,000 in 2012, representing a CAGR of approximately 2.8%. The disposable personal income per capita in current dollars of the U.S. from 2005 to 2012 were increased at the annual growth rates ranging from approximately -3.6% to 5.8%. The following chart shows the disposable personal income per capita in the U.S. from 2005 to 2012.

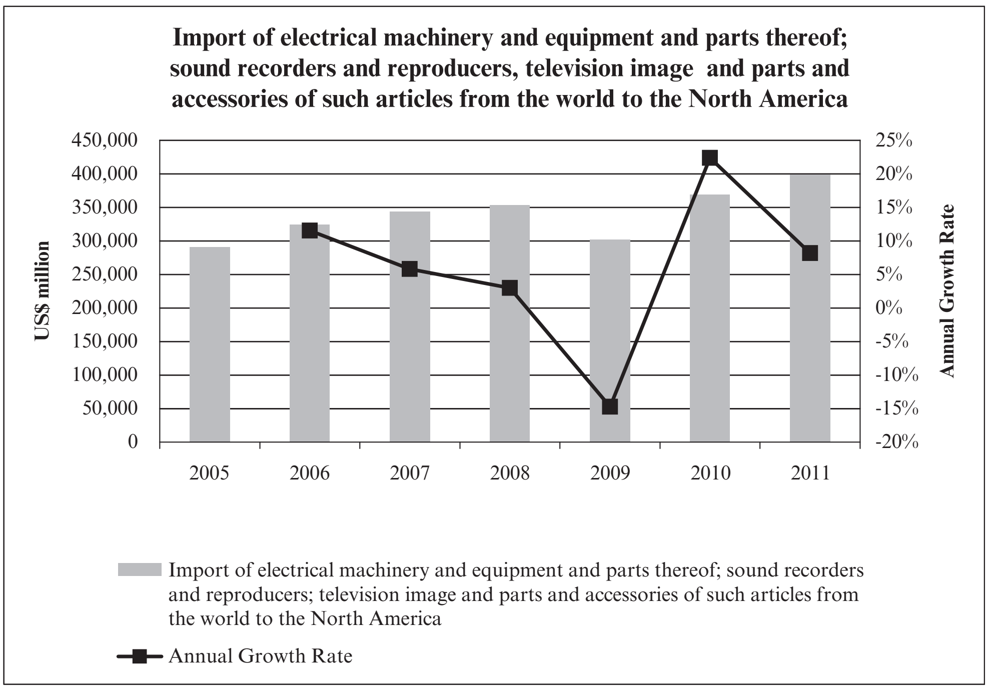


Source: U.S. Department of Commerce, Bureau of Economic Analysis

Demand for the import of electrical machinery and equipment and parts to the North America

Based on the statistics published by the United Nations, the import of electrical machinery and equipment and parts from the world to the North America was increased from approximately US$290,992 million in 2005 to approximately US$398,903 million in 2011, representing a CAGR of approximately 5.4%. The import of electrical machinery and equipment and parts in 2009 suffered a decrease due to the global financial crisis. However, such decrease in the North America was not as severe as the decrease in the EU relatively.

The following chart shows the imports of electrical machinery and equipment and parts from the world to the North America from 2005 to 2011.



Source: *United Nations*

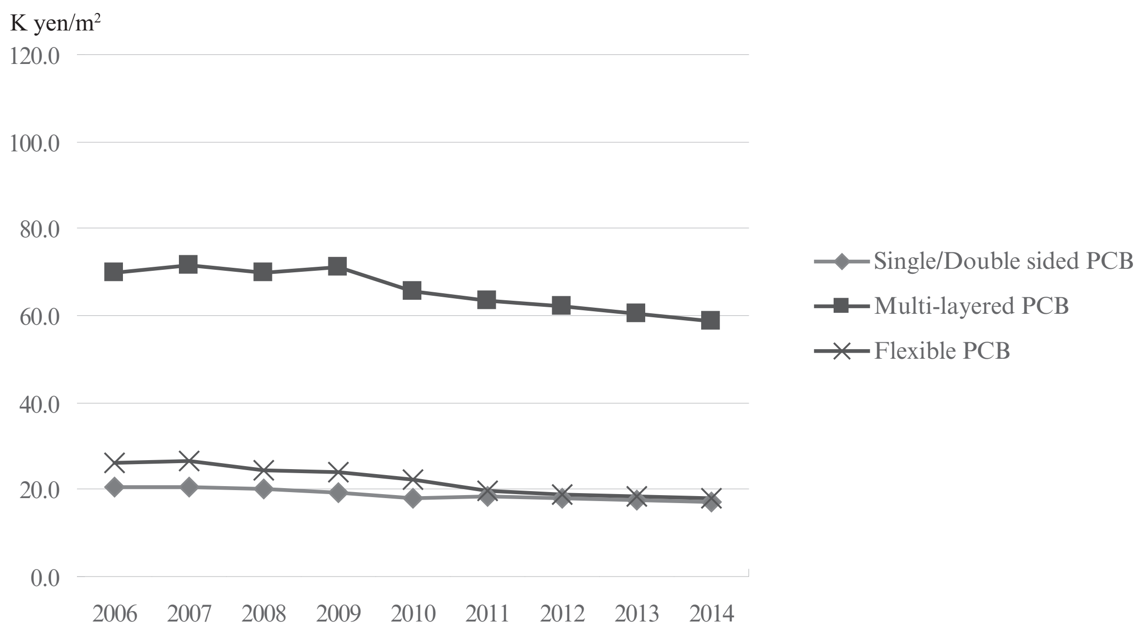
PRICING TRENDS OF MAJOR MATERIALS USED IN PRODUCTION BY THE GROUP

PCBs, semiconductors and ICs are the three principal raw materials for the production of the Group during the Track Record Period. The overview of the price trends of these materials is set out below.

PCBs

According to iSuppli, the price of PCBs, mainly determined by market demand and costs of raw materials, has remained relatively stable during the Track Record Period and even has started a slightly downward trend. The following graph shows the historical prices from 2006 to 2011 and the forecast prices from 2012 to 2014 of four different major kinds of PCBs.

Price trends of PCBs



Source: *iSuppli*

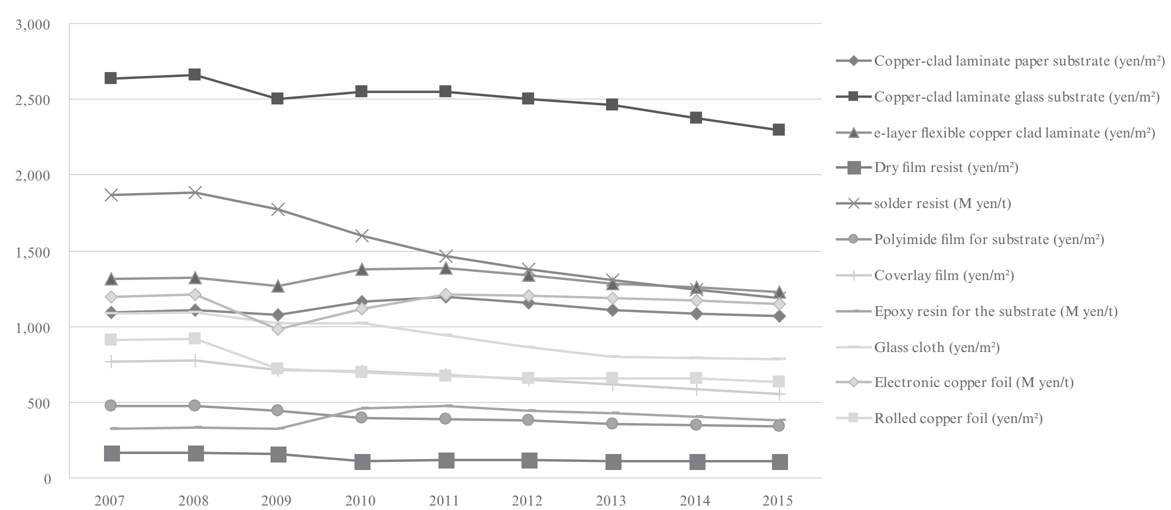
iSuppli noted that the market demand for PCBs keeps increasing as they are one of the important components used for production of mobile phones, computers, household appliances and other electronic devices, which experience a stable growth in demand from the respective markets despite the natural disasters in the previous years and the global economic downturn. These electronic devices undergo expansion in developed countries and penetrate to emerging countries due to the technological innovation and the strong investments in worldwide infrastructure. As a result, this has created a continuing demand for PCBs and iSuppli expects this trend will last in the coming years.

A PCB is used as critical parts of electric and electronic products for connecting electronic parts to each other along a circuit pattern designed on a substrate or supporting the electronic parts, and acts as a passive component widely used in home appliances, communication devices, and industrial devices. PCBs with electrical components are widely used in the electronics industry in a variety of products including computers, servers, televisions and telecommunication devices.

During the Track Record Period, the Group has used the single and double sided PCBs, multi-layered PCBs and flexible PCB for the production of its Group's products. PCB can be classified into a single-sided PCB, a double-sided PCB, and a multi-layered PCB according to the number of sides of the PCB in which the circuit pattern is formed. PCBs are also classified into two sorts according to their substrates, which are rigid PCBs and flexible PCBs. The rigid PCBs is principally applied in a motherboard or a peripheral card of a computer or a device. A flexible PCB is a circuit board which can be easily bent and is typically formed by assembling electronic circuits by mounting electronic devices on flexible plastic substrates. Such flexible PCB is widely used to connect various parts of electronic equipments.

Besides, according to iSuppli, the costs of most of the raw materials used for production of PCBs have experienced little fluctuation during the Track Record Period and are expected to go downwards in the coming years. However, the prices of these raw materials, mainly including metals, resin and glass fabric, often depend on the price of oil and energy and are subject to the fluctuation of energy markets. The graph below illustrates the historical prices of the main raw materials from 2007 to 2011 and their forecast prices from 2012 to 2015 by iSuppli. Since the costs of raw materials drop, the suppliers are inclined to lower the selling price of PCBs or give discounts to boost the sales volume and meet the increasing demand.

Price trends of main raw materials of PCBs

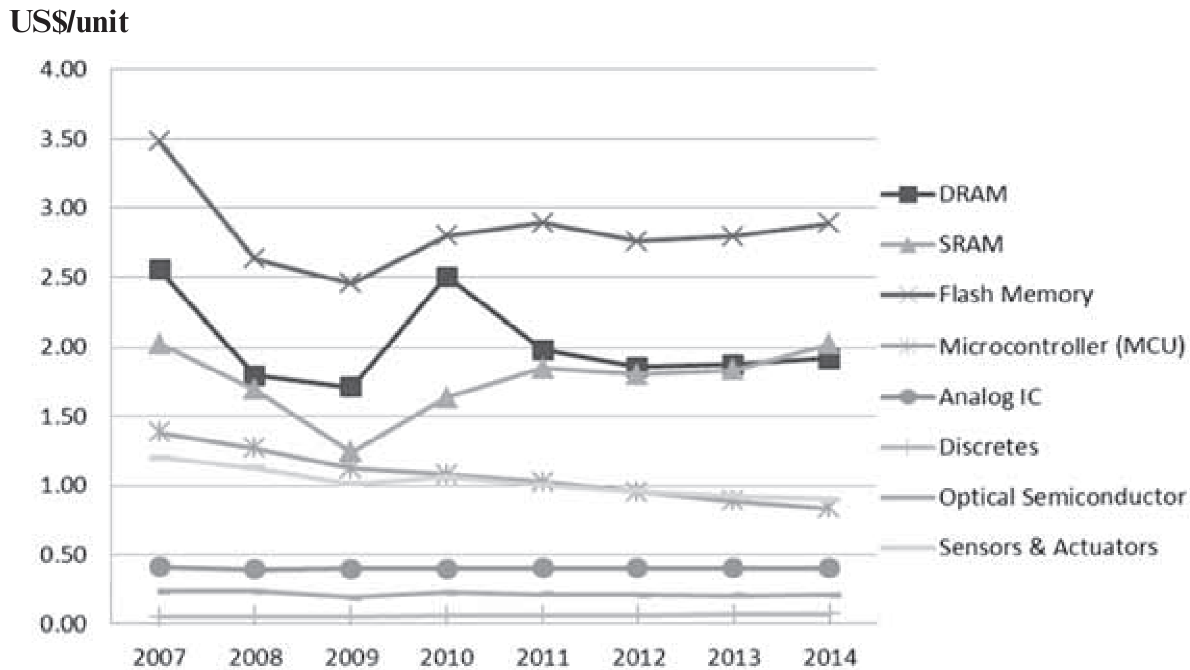


Source: *iSuppli*

Semiconductors

iSuppli reported that the price of semiconductors in overall remained flat and had no material fluctuation during the Track Record Period, and it is estimated to maintain this trend in the coming years. The following graph illustrates the historical prices of some major types of semiconductors from 2007 to 2011 and their forecast prices from 2012 to 2014.

Price trends of semiconductors



Source: iSuppli

Similar to PCBs, the price of semiconductors mainly depends on the market demand of their applications and costs of their production materials. iSuppli noted that the demand for semiconductors and their applications has picked up in the wake of the financial crisis in 2008, and has been boosted by the technology innovation, the improvements in functionality and features of the applications, particularly mobile handsets and tablets, and the ongoing market expansions in the emerging countries. Such drivers on demand were partially offset by the natural disasters, such as the flood in Thailand and the earthquake in Japan that occurred during the Track Record Period, as well as the weaker consumer confidence and spending amid the global economic downturn.

Semiconductors are small silicon devices which are used in controlling the passage of electrical currents in electronic devices. Semiconductor devices can be single discrete devices, such as a single transistor and a resistor, and other more complex devices, such as ICs, which consist of a number of devices manufactured and interconnected on a single semiconductor substrate. Semiconductor devices broadly divided in terms of functions include discrete, optical semiconductors, sensor, analog, memory, microprocessor and microcontroller.

During the Track Record Period, the Group has purchased flash memory, memory ICs, microcontroller, analog ICs, discrete, optical semiconductors and sensors for its production.

- Flash memory is a device which stores non-volatile memory that can be electrically erased and reprogrammed.

- Memory IC is a device which keeps and stores signal and data that can be retrieved electronically, such as DRAM (Dynamic random-access memory) and SRAM (Static random-access memory).

- Microcontroller is a small computer on single integrated circuits containing a processor core, memory and programmable input/output peripherals.

- Analog IC is a device that handles and controls analog signals.

- Discrete is a single electronic component with only one circuit element, either passive or active, such as resistor, capacitor, diode or inductor.

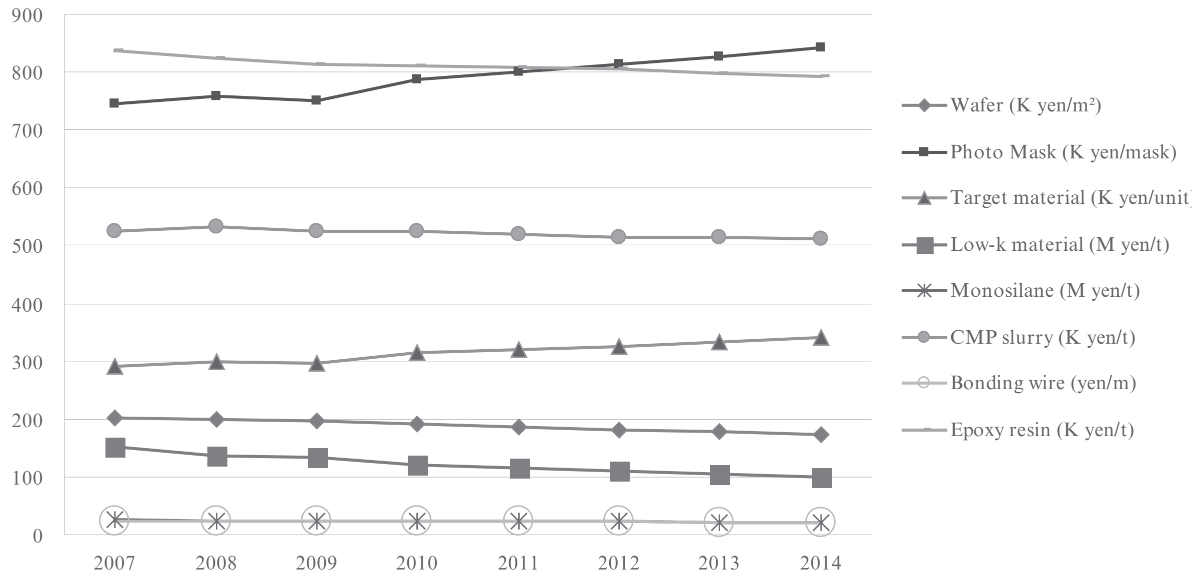
- Optical semiconductor is an electronic device that sources, detects and control light and converts it to or from electrical signals, and can be divided into two major groups as luminescent devices (light-emitting diodes and laser diodes), and light-receiving devices (solar cells and photo-detectors).

- Sensor is a device that measures a physical quantity and converts it into a signal which can read by an observer or by an instrument.

During the Track Record Period, the Group classified sensor, analog IC, memory IC and flash memory as ICs for the Group's raw material purchasing. Discrete and optical semiconductor are classified as semiconductors for the Group's raw material purchasing.

Moreover, iSuppli reported that the costs of major raw materials used for production of semiconductors have stayed relatively stable during the Track Record Period, except some materials like photo mask, target material and monosilane which had their prices increased mildly. The price rise in these materials was a result of limited production capacity, lack of suppliers and technology migration. According to iSuppli, the overall price trend of production materials of semiconductors is not expected to change in 2013 and 2014. Set out below is the graph of the historical prices of the major raw materials from 2007 to 2011 and their forecast prices from 2012 to 2014.

Price trends of main raw materials of semiconductors



Source: iSuppli

LABOUR AND SAFETY MATTERS

The Directors take labour and safety matters as an important social responsibility. The Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, the Group complied with the Labour Contract Law of the PRC and the PRC Production Safety Law in all material respects.

Labour Contract Law

According to《中華人民共和國勞動合同法》(Labour Contract Law of the PRC*) effective on 1 January 2008, labour contracts shall be entered into if labour relationships are to be established between an enterprise and its employees. Enterprises can only require its employees to work in excess of the time limit with overtime pay according to the applicable labour laws and regulations and shall provide wages not lower than the local standards on minimum wages. Enterprises should establish a system for labour safety and sanitation and improved the same from time to time, strictly abide by rules and standards on labour safety and sanitation, educate its employees in labour safety and sanitation in the PRC. Labour safety and sanitation facilities of the Group have met such standards and the Group has provided its employees with labour safety and sanitation conditions meeting the state stipulations and necessary articles of labour protection. During the Track Record Period and up to the Latest Practicable Date, the PRC Legal Adviser are of the opinion that the Processing Factory and Yi Gao Tech have no material non-compliance with《中華人民共和國勞動合同法》(Labour Contract Law of the PRC*).

Social Insurances and Housing Provident Fund

According to《社會保險費徵繳暫行條例》(the Interim Regulation on the Collection and Payment of Social Security Insurance Premiums*) promulgated and implemented on 22 January 1999 by the State Council and other relevant regulations, employing entities shall participate in social insurance schemes and shall make contribution to social insurance for its employees. In case an enterprise failed to make full contributions of pension insurance and unemployment insurance and basic medical insurance for its employees, the relevant PRC authorities may order the enterprise to pay such outstanding within a prescribed time limit and might subject to an additional late payment fine of 0.2% per day computed from the date when the amount becomes overdue will be imposed.

Pursuant to《中華人民共和國社會保險法》(the Social Insurance Law of the PRC*) promulgated by the Standing Committee on 28 October 2010 which became effective on 1 July 2011, the PRC government established social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and birth insurance (the "**Social Insurances**") so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth. Employers are required to contribute, on behalf of their employees, to the Social Insurances. If an employing entity does not pay the full amount of the Social Insurance premiums as scheduled, the relevant PRC authorities may order it to pay the outstanding contribution together with an additional payment at the daily rate of 0.05% of such outstanding contribution within a prescribed time limit. If the payment is not settled by the prescribed time limit, such employing entity will be subject to a penalty starting from one time and up to three times of the total outstanding contribution of the Social Insurances.

Pursuant to《住房公積金管理條例》(the Regulations on Management of Housing Provident Funds*) promulgated by the State Council on 3 April 1999 which became effective on 3 April 1999 and as amended on 24 March 2002, the PRC companies shall go through housing provident funds registration with the local housing fund administration center and open housing fund accounts for its employees in the bank. Failure to abovementioned registration and accounts opening, a company may be subject to order to handling within a prescribed time limit. If the company fails to handle within prescribed time limit, it shall be imposed the penalty ranging from RMB10,000 to RMB50,000. Where a company fails to pay up housing provident funds within a prescribed time limit, the housing fund administration center shall order it to make payment in certain period of time, if the company still fails to do so, the housing provident fund management center may apply to the court for enforcement of the unpaid amount.

Pursuant to《深圳市住房公積金管理暫行辦法》(Provisional Measures for Management of Shenzhen Housing Provident Fund*) ("**Shenzhen Housing Fund Measures**") promulgated on 24 November 2010 and came into force on 20 December 2010 and《深圳市住房公積金繳存管理暫行規定》(Provisional Measures for Payment Management of Shenzhen Housing Provident Fund*) promulgated on 16 December 2010, business units which were established before the Shenzhen Housing Fund Measures became effective shall register with 深圳市住房公積金管理中心 (Shenzhen Housing Fund Management Centre*) within six months from the date of the Shenzhen Housing Measures became effective, which is before 30 June 2011. Failed to finish the registration within the aforesaid limited period, or has not register the housing fund deposit, a prescribed time limit will be ordered by Shenzhen Housing Fund Management Center.

Production Safety Law

According to《中華人民共和國安全生產法》(PRC Production Safety Law*) effective on 1 November 2002, enterprises shall be equipped with the conditions for safe production as provided in the PRC Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. The Group has equipped with conditions for safe production and offered education and training program to the employees thereof regarding production safety. During the Track Record Period and up to the Latest Practicable Date, the PRC Legal Adviser are of the opinion that the production facilities of the Processing Factory and Yi Gao Tech have no material non-compliance with《中華人民共和國安全生產法》(PRC Production Safety Law*).

ENVIRONMENTAL PROTECTION

Environmental protection regulations

Pursuant to Article 7 of 《建設項目環境保護管理條例》 (Regulations on the Administration of Construction Project Environmental Protection*) promulgated by the State Council of the PRC on 29 November 1988, the PRC government conduct unified supervision and management of the environmental protection of construction projects with reference to the extent of environmental impact caused by such construction projects according to the following provisions: (i) for those construction projects that may cause major impact on the environment, a report on environmental impact should be compiled giving comprehensive and detailed evaluation of the pollution generated and environmental impact caused by the construction project; (ii) for those construction projects that may cause slight impact on the environment, a statement on environmental impact should be compiled giving analysis or special-purpose evaluation of the pollution generated and environmental impact caused by the construction project; and (iii) for a construction project that has slight impact on the environment and necessitates no environmental impact evaluation, a registration form should be filled out and submitted.

During the Track Record Period, the PRC Legal Adviser are of the opinion that the Processing Factory complied with all relevant PRC environmental requirements for its increase in production capacity and relocation in the past according to the approvals issued by 深圳市寶安區環境保護局 (Shenzhen Municipal Environmental Protection Bureau of Baoan District*) on 22 September 2003 and 28 December 2006 respectively.

The PRC Legal Adviser are also of the opinion that Yi Gao Tech has obtained all the necessary approvals in respect of the PRC environmental protection which are required for its business operation based on the approval issued by Shenzhen Municipal Environmental Protection Bureau of Baoan District on 6 May 2011.

A letter has been issued by 深圳市人居環境委員會 (Shenzhen Municipal Residential Environment Committee*) on 28 May 2013, which confirmed that, during the period from 26 May 2011 to 31 March 2013 Yi Gao Tech had not violated any laws of the environment protection.

During the years ended 31 March 2011, 2012 and 2013, the annual costs of compliance with applicable environmental rules and regulations of the Company were approximately HK$0.01 million for the three years. The cost of compliance was mainly for the waste treatment charges. The expected annual cost of compliance for the coming financial year will be approximately HK$0.01 million. The increase in the annual cost of compliance is due to the capital expenditure for the environmental protection regarding the treatment of plastic waste.

THE EU REGULATIONS

The EU anti-dumping regulations

The EU anti-dumping rules are set out in Regulation 1225/2009 on protection against dumped imports from countries not members of the European Community and Regulation 597/2009 on protection against subsidised imports from countries not members of the European Community. The said regulations apply when a company exports products to the EU at prices lower than the normal value of the product on the domestic market. The European Commission can impose duties if products are dumped in the EU, the dumping results in a material injury to the EU industry and the EU interests are served by the imposition of dumping measures. As at 26 September 2013, to the best knowledge of the Directors having made reasonable enquiries and based on the search conducted by the EU Legal Adviser in the European Commission's trade defence investigations database, there are no ongoing or closed investigations by the European Commission into products similar to those produced by the Group. The EU Legal Adviser have confirmed in the legal opinion dated 26 September 2013 that, during the Track Record Period and up to 26 September 2013, they are unaware of any non-compliance with the EU anti-dumping regulations by the Group.

The EU product safety regulations

Directive 85/374/EEC as amended by 99/34/EC ("**Directive**") sets out principles that, when implemented by EU member States, apply to producers which include the manufacturer of a finished product or a component part, as well as the person that imports a product into the EU. The Group is therefore subject to the Directive. The Directive establishes a general principle that producers should be liable for damage caused by a product if it does not provide the safety which a person is entitled to expect. Therefore, the Group may be held liable for damage caused by its defective products to their end-users in the EU. During the Track Record Period and up to 26 September 2013, to the best knowledge of the Directors having made reasonable enquiries, no legal claim has been made against the Group arising from products defects. The EU Legal Adviser have confirmed in the legal opinion dated 26 September 2013 that, during the Track Record Period and up to 26 September 2013, they are unaware of any non-compliance with the EU product safety regulations by the Group.

REGULATIONS OF THE UNITED STATES

Customs and Tariff

Under the Customs Regulations 19 C.F.R. §141.81, a commercial invoice relating to the importations shall be provided for the United States Customs to classify and appraise the merchandise. It is required by the Customs and Border Protection ("**CBP**") under the Customs Regulations 19 C.F.R. §141.86-141.89 that the commercial invoice must:

- identify the port of entry to which the merchandise is destined;
- identify the time, place and names of the buyer and seller;
- provide a detailed description of the merchandise;
- provide the quantities and weights;
- provide the purchase price of each item in the currency of sale;
- provide the country of origin;
- identify all rebates, drawbacks and bounties, specially itemized, allowed upon the exportation of the merchandise; and
- provide a description of all goods or services furnished for the production of the merchandise not included in the invoice price.

Under 19 U.S.C. §1304, every article of foreign origin entering the United States must be legibly marked with the English name of the country of origin unless an exception from marking is provided for in the law. The country of origin of an article is the country where the product is manufactured, produced or grown. Articles that are not marked with the English name of their country of origin at the time of their importation into the United States shall be subject to additional duties of ten percent *ad valorem* unless properly marked, exported, or destroyed under CBP supervision prior to liquidation of the entry.

As confirmed by the US Legal Adviser, during the Track Record Period and up to the date of this prospectus, the Group has fully complied with the said regulations.

Anti-dumping

Goods imported into the United States may be subject to antidumping duties or countervailing duties. Under the antidumping laws, antidumping duties are assessed against goods which are sold at less than fair value and which cause injury to a United States industry. Under the countervailing duty laws, if a foreign government provides subsidies to a company which exports to the United States and an industry in the United States is injured, countervailing duties are assessed against such goods upon importation.

During the Track Record Period and up to the date of this prospectus, to the best knowledge of the Directors having made reasonable enquiries and based on the legal opinion of the US Legal Adviser, no antidumping duties or countervailing duties have been assessed against products manufactured by the Group.

Product safety

A foreign manufacturer could be sued for personal injuries caused by their defective products under the so-called "long-arm statute" of the state in which the goods were purchased provided that the foreign manufacturer must specifically target sales to that state. Therefore, the Group may be held liable for damage caused by its defective products to their end-users in the United States.

The US Legal Adviser are of the view that during the Track Record Period and up to the date of this prospectus, there are no products liability proceedings against the Group with respect to the products it exports to the United States and no such proceedings which are pending or known to be contemplated.

To ensure the on-going compliance with the EU and U.S. laws and regulations, and avoid any claim for product liability or any anti-dumping duty being assessed against the Group's products, the Group needs to closely monitor and supervise the performance of (i) its production department and quality control department to ensure the quality of the products manufactured by the Group and the products being marked with the English name of the country of origin if so required, and (ii) sales and marketing department to ensure the price of the Group's products is in line with the price of similar products in the EU and the U.S. market and the invoice of the Group includes all necessary details as required under the U.S. regulations. The Group has informed its staff of the said laws and regulations and delegated the compliance tasks to the relevant departments. As Mr. Cheng Kwing Sang, Raymond who is the chief executive officer and marketing director, has maintained regular contacts with the Group's overseas customers and had approximately 20 years of experience in the electronics industry, the Group has delegated Mr. Cheng Kwing Sang the duty of supervising, monitoring and ensuring compliance by each department of the Group. Mr. Cheng Kwing Sang, Raymond is entitled to seek professional advice from foreign legal advisers if he thinks fit and necessary. In the event of any awareness of the non-compliance of the said laws and regulations, any potential claim for product liability or potential liability for anti-dumping duty, the responsible department or Mr. Cheng Kwing Sang, Raymond is required to report to the Board. Then, the Board will try to find a solution to minimize the consequence of such non-compliance or potential claim or liability, and ensure that the Group will not violate such laws and regulations any more or be subject to the same or similar claims in the future. As such, the Directors and the Sole Sponsor are of the view that Mr. Cheng Kwing Sang, Raymond is competent and suitable to supervise, monitor and ensure the compliance with the United States and U.K. laws and regulations and to lower the chance of being claimed for product liability or any anti-dumping duty being assessed against the Group's products.

CORPORATE DEVELOPMENT

The Group commenced its business in 1989 when Mr. Lo Yan Yee and Madam Cheng established Echo Co as a partnership in Hong Kong to engage in the provision of EMS. At the time of formation of Echo Co, Echo Co was owned as to 50% by Mr. Lo Yan Yee and 50% by Madam Cheng.

On 29 November 1991, Echo Co, the Processing Factory and the Processing Party entered into the Processing Agreement for a term of 3 years commencing from 29 November 1991 to 29 November 1994. Pursuant to the terms of the Processing Agreement, the Processing Factory agreed, among other things, to recruit workers for manufacturing, to provide production premises, to provide utilities setup for production, to process the Group's products and to be responsible for the management of the factory operations. The Group agreed, among other things, to provide machineries and equipments to the Processing Factory for the manufacturing of the Group's electronic products, including all necessary production materials, accessories and packaging materials. The Processing Factory was originally located at Guanlan Da Bu Xiang Village, occupying a gross floor area of approximately 800 sq.m. which was provided by Shenzhen City Bao Guan Cheng at a monthly rental fee of HK$7,200 per month.

On 30 November 1991, 寶安縣工商行政管理局 (Administration for Industry and Commerce of Baoan County*) issued an approval to the Processing Factory which stated the approved scope of operation was in the form of contract processing of electronic products, plastic, hardware (including: electronic buzzer, magnetic switches, electrical system box, buzzer-circuit boards combos, switches and alarms).

In 1993, the Group acquired a chips mounter at a consideration of approximately HK$0.66 million to enhance its productivity.

On 14 October 1994, Echo Co, the Processing Factory and the Processing Party entered into the first extension agreement to the Processing Agreement pursuant to which the parties agreed to extend a term of five years expiring on 29 November 1999. The monthly rental fee of the Processing Factory was increased to HK$9,600 per month which was calculated by multiplying the monthly unit rental rate of HK$12 per sq.m. with the total gross floor area of 800 sq.m. of the production premises.

In 1997, the Group commenced to provide beauty related electronic products, such as hair remover and massage toner, to one of its major customers located in the U.K.

In 1999, the Group commenced to provide fishing indicators to one of its major customers located in the U.K. The Group also commenced to provide security alarms to one of its major customers located in the U.S. during the same year.

On 18 January 1999, the Processing Party, the Processing Factory and Echo Co entered into a supplemental agreement to the Processing Agreement pursuant to which the parties agreed to increase the production capacity of the Processing Factory and add two new scopes of productions, which were lighting devices and assembling services, to its existing scope of productions. The proposed increase on the production capacity of the Processing

Factory was approved by 深圳市寶安區經濟發展局 (Shenzhen Municipal Economic Development Bureau of Baoan District*) on the same day. The Processing Factory then submitted an application to 深圳市寶安區工商行政管理局 (Shenzhen Municipal Administration for Industry and Commerce of Baoan District*) to add lighting devices and assembling services to the then scope of productions and this application was subsequently approved on 19 January 1999.

On 16 July 1999, Echo Co, the Processing Factory, the Processing Party and Shenzhen City Bao Guan Cheng entered into the second extension agreement to the Processing Agreement pursuant to which the parties agreed to extend a term of ten years expiring on 30 November 2009. Pursuant to the second extension agreement to the Processing Agreement, the monthly rental fee of the Processing Factory was increased to HK$18,000 since Shenzhen Bao Guan Cheng has provided a different production premises occupying a total gross floor area of 1,500 sq.m. with a monthly unit rental rate of HK$12 per sq.m.

In 1999, the Group acquired a high-speed chips mounter at a consideration of approximately HK$0.55 million and reflow soldering machine from Japan to strengthen its automated production capability. During the same year, the Group established a product engineering team and started to provide product design services to its customers.

In 2001, the Group acquired its second high-speed chips mounter at a consideration of approximately HK$0.76 million from Japan to further enhance its automated production capability.

On 13 August 2003, Echo Co, the Processing Factory and the Processing Party entered into a supplemental agreement to the Processing Agreement pursuant to which the parties agreed to add two new scope of productions, namely the blended and cotton lighting caps, to its then scope of productions. The proposed two new scopes of productions were approved by 深圳市寶安區經濟貿易局 (Shenzhen Municipal Economic and Trade Bureau of Baoan District*) on the same day. The Processing Factory then submitted an application to 深圳市工商行政管理局寶安分局 (Shenzhen Municipal Administration for Industry and Commerce of Baoan District*) to add blended and cotton lighting caps to its then scope of productions and this application was subsequently approved on 10 October 2003.

On 24 December 2003, Mr. Lo Yan Yee, Madam Cheng and Ms. Cheng established Echo Electronics as a limited company in Hong Kong and acquired the business of the Group from Echo Co on 29 June 2005. At the time of incorporation of Echo Electronics, Echo Electronics was owned as to 30% by Mr. Lo Yan Yee, 60% by Madam Cheng and 10% by Ms. Cheng. The entire shareholdings of both Mr. Lo Yan Yee and Ms. Cheng in Echo Electronics were held by them respectively as trustees in favour of Madam Cheng under two declarations of trust both dated 24 December 2003. Messrs. Patrick Mak & Tse, the Company's legal advisers as to Hong Kong law are of the opinion that the two declarations of trust made by Mr. Lo Yan Yee and Ms. Cheng both dated 24 December 2003 are legal and valid.

On 29 June 2005, Echo Co, Echo Electronics, the Processing Factory, the Processing Party and Shenzhen City Bao Guan Cheng entered into an amendment agreement to the Processing Agreement. The proposed amendment was the change of foreign party in the

Processing Agreement from Echo Co to Echo Electronics which would undertake all the responsibilities of Echo Co as stated in the Processing Agreement. This amendment agreement was subsequently approved by 深圳市寶安區經濟貿易局 (Shenzhen Municipal Economic and Trade Bureau of Baoan District*) and 深圳市工商行政管理局寶安分局 (Shenzhen Municipal Administration for Industry and Commerce of Baoan District*) on 4 July 2005 and 30 December 2006 respectively.

The change of the Undertaking Party to the Processing Agreement from Shenzhen City Bao Guan Cheng to Shenzhen City Da Bu Xiang was approved by 深圳市寶安區經濟貿易局 (Shenzhen Municipal Economic and Trade Bureau of Baoan District*) and 深圳市工商行政管理局寶安分局 (Shenzhen Municipal Administration for Industry and Commerce of Baoan District*) on 17 June 2005 and 9 August 2005 respectively. Such change was due to the corporate reorganisation of Shenzhen City Bao Guan Cheng and the change was effective from 9 August 2005.

In 2005, the Group acquired its third high-speed chips mounter at a consideration of approximately HK$1.10 million from Japan and another reflow soldering machine from the United States and once again enhance its degree of production automation.

In order to expand the Group's production activities and to accommodate the increase in number of factory workers, the Group had shifted its production operations from Guanlan Da Bu Xiang Village to Dahe Industrial Zone, Guanlan in December 2006. The Processing Factory has been renamed from 寶安區觀瀾大布巷毅高製品廠 (Baoan District Guanlan Da Bu Xiang Yi Gao Manufacturing Factory*) to 深圳市寶安區觀瀾毅高製品廠 (Shenzhen City Baoan District Guanlan Yi Gao Manufacturing Factory*) as the Processing Factory was no longer located in Guanlan Da Bu Xiang.

On 5 December 2006, Echo Electronics, the Processing Factory, the Processing Party, Shenzhen City Da Bu Xiang and Shenzhen City Da He Min entered into an amendment agreement pursuant to which the parties agreed to amend as follows: (i) the Undertaking Party was changed from Shenzhen City Da Bu Xiang to Shenzhen City Da He Min due to the relocation of the Processing Factory; (ii) the Processing Factory was renamed from 寶安區觀瀾大布巷毅高製品廠 (Baoan District Guanlan Da Bu Xiang Yi Gao Manufacturing Factory*) to 深圳市寶安區觀瀾毅高製品廠 (Shenzhen City Baoan District Guanlan Yi Gao Manufacturing Factory*); and (iii) the Processing Factory was relocated from Guanlan Da Bu Xiang Village to Dahe Industrial Zone, Huanguan South Road, Guanlan Town, Baoan District, Shenzhen, Guangdong Province, the PRC with a total gross floor area of approximately 11,630 sq.m. which comprises a 5-storey factory with a gross floor area of approximately 8,655 sq.m., a 6-storey staff dormitory with a gross floor area of approximately 2,845 sq.m., a gatekeeper room and an electricity distribution room having an aggregate gross floor area of approximately 130 sq.m. Such premises of the Processing Factory was leased from Ms. Feng Shao Fang and Ms. Zhang Feng Ying, both are Independent Third Parties and local PRC residents, pursuant to a lease agreement dated 6 November 2006 at a monthly unit rental rate of RMB12.10 per sq.m.

This amendment agreement was subsequently approved by 深圳市寶安區經濟貿易局 (Shenzhen Municipal Economic and Trade Bureau of Baoan District*) and 深圳市工商行政管理局寶安分局 (Shenzhen Municipal Administration for Industry and Commerce of Baoan District*) on 8 December 2006 and 30 December 2006 respectively.

In 2008, the Group acquired its fourth high-speed chips mounter at a consideration of approximately HK$1.95 million from Japan and its first high precision screen printer to ultimately enhance its degree of production automation.

On 21 October 2008, Echo Electronics, the Processing Factory, the Processing Party and Shenzhen City Da He Min entered into the third extension agreement to the Processing Agreement pursuant to which the parties agreed to extend a term of five years expiring on 30 November 2014. Pursuant to the terms of the third extension agreement to the Processing Agreement, all the parties thereto agreed to maintain the terms principally the same as those set out in the second extension agreement to the Processing Agreement dated 16 July 1999.

As advised by the PRC Legal Adviser, the Processing Factory has obtained all the necessary approvals and registrations for all the previous changes and amendments in the past, which were considered as legal and valid.

In March 2011, the General Office of the People's Government of Shenzhen Municipality promulgated the policy on the promotion of the transformation of contract processing enterprises in Shenzhen into foreign owned enterprises at the original place without disruption to the production activities. Under the said policy, Echo Electronics submitted the application for the establishment of wholly foreign-owned enterprise, namely Yi Gao Tech and the registration form for the transformation of the Processing Factory into Yi Gao Tech at its original place without disruption on 5 May 2011. On 13 May 2011, the application was approved by 深圳市寶安區經濟促進局 (Shenzhen Municipal Economic Bureau of Baoan District*). On 18 May 2011, the People's Government of Shenzhen Municipality issued the Certificate of Approval for Establishment of Enterprises with investment of Taiwan, Hong Kong, Macau and Overseas Chinese in the PRC 中華人民共和國台港澳僑投資企業批准證書 to Yi Gao Tech. On 26 May 2011, 深圳市市場監督管理局 (Market Supervision Administration of Shenzhen Municipality*) issued Yi Gao Tech's Business License for 企業法人營業執照 (Enterprise's Legal Person*). Pursuant to the said business license, Yi Gao Tech has a term of business for 30 years commencing from 26 May 2011 and expiring on 26 May 2041 and its scope of business is confined to the production and sale of electronic, plastic and hardware products, and the import and the export of goods and technology (excluding distribution and goods under international monopoly). Pursuant to the Articles of Association of Yi Gao Tech signed by Echo Electronics on 20 April 2011, the total investment of Yi Gao Tech is HK$5,710,000 and its registered capital is HK$4,000,000 of which HK$3,000,000 is contributed in cash and HK$1,000,000 is contributed in the form of equipments, and the registered capital shall be paid by two installments of which HK$800,000 and HK$3,200,000 shall be paid within 90 days and 2 years after the issue of its business license respectively. Pursuant to the capital verification report issued by a PRC accounting firm on 17 August 2011, HK$1,800,000 has been paid up by Echo Electronics, representing 45% of Yi Gao Tech's registered capital. On 12

December 2011, the remaining registered capital of HK$2,200,000 has been paid and it was verified by a PRC accounting firm pursuant to a capital verification report dated 14 December 2011.

On 20 June 2011, Yi Gao Tech obtained a new Customs registration number and as advised by the PRC Legal Adviser, the Group should apply for the cancellation of the Processing Agreement and the de-registration of the Processing Factory with the relevant PRC authorities as well as to transfer its production equipments and remaining raw materials within 3 months from the receipt of the new Customs registration number and within 6 months from the receipt of the business license of Yi Gao Tech. On 22 June 2011, Yi Gao Tech, Ms. Feng Shao Fang and Ms. Zhang Feng Ying, who are Independent Third Parties, entered into a lease agreement pursuant to which the premises of the Processing Factory was leased to Yi Gao Tech for a term of 2 years from 1 July 2011 to 30 June 2013 at a monthly unit rental rate of RMB13.31 per sq.m. On 30 June 2011, the Processing Factory, Yi Gao Tech, Ms. Feng Shao Fang and Ms. Zhang Feng Ying entered into a supplemental agreement to the lease agreement dated 22 June 2011 pursuant to which the parties agreed the lessee would be changed from the Processing Factory to Yi Gao Tech with effect from 1 July 2011.

Referring to《深圳市來料加工企業原地不停產轉型登記表》(Registration form for the transformation of processing factory in Shenzhen*) submitted to 深圳市寶安區經濟促進局 (Shenzhen Municipal Economic Bureau of Baoan District*) on 13 May 2011, which have been executed by the relevant parties to the Processing Agreement, it indicated that the Processing Factory, the Processing Party and the Undertaking Party agreed to the Transformation. The production equipments of the Processing Factory were transferred to Yi Gao Tech pursuant to《進出口貨物免稅證明》(Tax exemption certificate on imports & exports*) issued by 深圳海關 (Shenzhen Customs*) on 23 June 2011. As advised by the PRC Legal Adviser, the remaining raw materials of the Processing Factory has been transferred to Yi Gao Tech pursuant to《進口貨物報關單》(Import declarations*) submitted by Yi Gao Tech to 南頭海關 (Nantou Customs*) on 1 September 2011. On 5 September 2011, the Group applied for the cancellation of the old Customs contracts with 南頭海關 (Nantou Customs*) and the application was subsequently approved on 13 September 2011. The transfer process of production equipments and remaining raw materials from the Processing Factory to Yi Gao Tech would only involve a change of legal title but not in physical location.

On 28 October 2011, Echo Electronics entered into a termination agreement with the Processing Party, Shenzhen Da He Min and the Processing Factory pursuant to which the parties agreed the termination of the Processing Agreement. Such termination was submitted and approved by 深圳市寶安區經濟促進局 (Shenzhen Municipal Economic Bureau of Baoan District*) on 16 November 2011. As advised by the PRC Legal Adviser and pursuant to the termination agreement, Echo Electronics has settled all the outstanding liabilities, taxation, labour costs and fees in relation to the Processing Factory and it was agreed that there would be no penalty, compensation or amounts otherwise payable by Echo Electronics to the various parties for the termination of the Processing Agreement. The Group was not subject to further liabilities, taxation, labour costs or fees arising out of the Processing Factory. As confirmed by the Directors, they were not aware of any claims in relation to the termination of the Processing Agreement. After the completion of the transfer of the production equipments, remaining raw materials and factory workers from the Processing Factory to Yi Gao Tech, Yi Gao Tech has undertaken all the manufacturing operations of the Processing Factory.

With reference to the notice issued by 深圳市寶安區國家稅務局觀瀾稅務分局 (Shenzhen Municipal Office of the State Administration of Taxation, Guanlan Tax Branch of Baoan District*) dated 16 December 2011, the registration of the cancellation of the taxation of the Processing Factory has been granted. On 19 January 2012, 深圳市寶安區地方稅務局觀瀾稅務所 (Local Taxation of Shenzhen Municipal, Guanlan Tax Office of Baoan District*) confirmed that all tax issues of the Processing Factory have been handled and approved the cancellation of taxation registration.

On 11 January 2012, the Processing Factory applied to 南頭海關 (Nantou Customs*) for the cancellation of《對外加工生產企業海關登記通知書》(Customs Registration of Foreign Processing and Manufacturing Enterprises*) and it was approved by 南頭海關 (Nantou Customs*) on 12 January 2012.

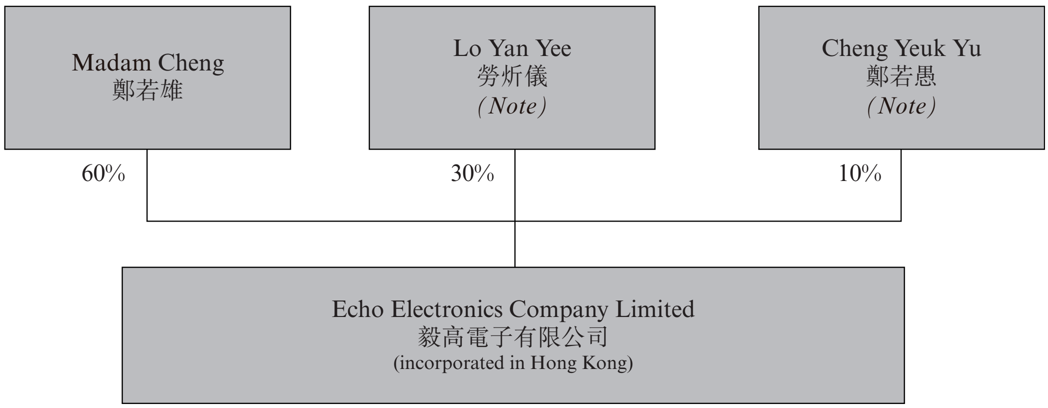
On 8 February 2012, the Processing Factory applied to 深圳市市場監督管理局 (Market Supervision Administration of Shenzhen Municipality*) for the cancellation of the registration of the Processing Factory and it was subsequently approved on 10 February 2012 by the issuance of《企業註銷通知書》(Cancellation Notice of Enterprises*). The PRC Legal Adviser confirmed that the business and operation of the Processing Factory legally ceased on 10 February 2012.

Upon completion of the Transformation, Yi Gao Tech is located at the same place as the Processing Factory in Dahe Industrial Zone, Huanguan South Road, Guanlan Town, Baoan District, Shenzhen, Guangdong Province, the PRC which comprises premises of one 5-storey industrial building, a staff dormitory building and other ancillary buildings with a total gross floor area of approximately 11,630 sq.m. As at the Latest Practicable Date, the Group has a total of 16 permanent full-time employees based in Hong Kong and has approximately 253 full-time staff in Shenzhen, the PRC. The Group's administration, finance, sales and marketing functions are conducted at its Hong Kong head office. The Hong Kong head office also serves to keep abreast of the latest market information and international prevailing trends.

As advised by the PRC Legal Adviser, Yi Gao Tech has obtained all necessary licenses, certificates, permits and approvals for the setting up of a WFOE, the Processing Factory completed the transfer of production equipments and remaining raw materials to Yi Gao Tech and the cancellation of the registration of the Processing Factory has been completed.

CORPORATE REORGANISATION

Prior to the Reorganisation, the shareholding and corporate structure of the principal operating company of the Group was as follows:



Note: The entire shareholdings of both Mr. Lo Yan Yee and Ms. Cheng in Echo Electronics were held by them respectively as trustees in favour of Madam Cheng under two declarations of trust both dated 24 December 2003. Madam Cheng made such trust arrangement to facilitate the management of the Group's business by Mr. Lo Yan Yee and Ms. Cheng, especially in respect of the Group' s internal operation as well as external liaison with the Group's suppliers, customers and other business partners.

Reorganisation

The Company completed the Reorganisation on 14 March 2013 in preparation for listing of its Shares on GEM pursuant to which the Company became the ultimate holding company of the Group. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in Appendix VI to this prospectus. The Reorganisation consisted primarily of the following steps:

- the incorporation of the relevant companies of the Group
- acquisition of Echo Electronics and Gold Treasure BVI
- transformation and upgrade of the Processing Factory into a WFOE

Incorporation of the relevant companies of the Group

(a) On 6 December 2010, Gold Treasure BVI was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares with par value of US$1.00 each. No share was issued upon incorporation.

(b) On 21 December 2010, the Company was incorporated in the Cayman Islands with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares with par value of US$1.00. Madam Cheng acquired 10 shares of the Company on the date of incorporation. On 23 June 2011, the authorized share capital of the Company was increased by HK$10,000,000 by the creation of 1,000,000,000 new shares of HK$0.01 each, of which 100,000 new shares of HK$0.01 each were allotted and issued fully paid at par value to Madam Cheng on 24 June 2011. On 24 June 2011, the Company repurchased all the 10 issued shares of US$1 each at a price of US$10 and cancelled 50,000 shares of US$1 each in the authorised share capital of the Company. On 13 January 2012, the Company changed its name from Gold Treasure Hung Holdings Limited to its current name.

(c) On 26 May 2011, Echo Electronics established Yi Gao Tech.

Acquisition of Echo Electronics and Gold Treasure BVI

(a) On 27 June 2011, Gold Treasure BVI acquired the entire issued share capital of Echo Electronics by allotment of 10,000 new shares to Madam Cheng. Accordingly, Madam Cheng transferred all shares of Echo Electronics under her name and directed Mr. Lo Yan Yee and Ms. Cheng to transfer all their shares of Echo Electronics to Gold Treasure BVI.

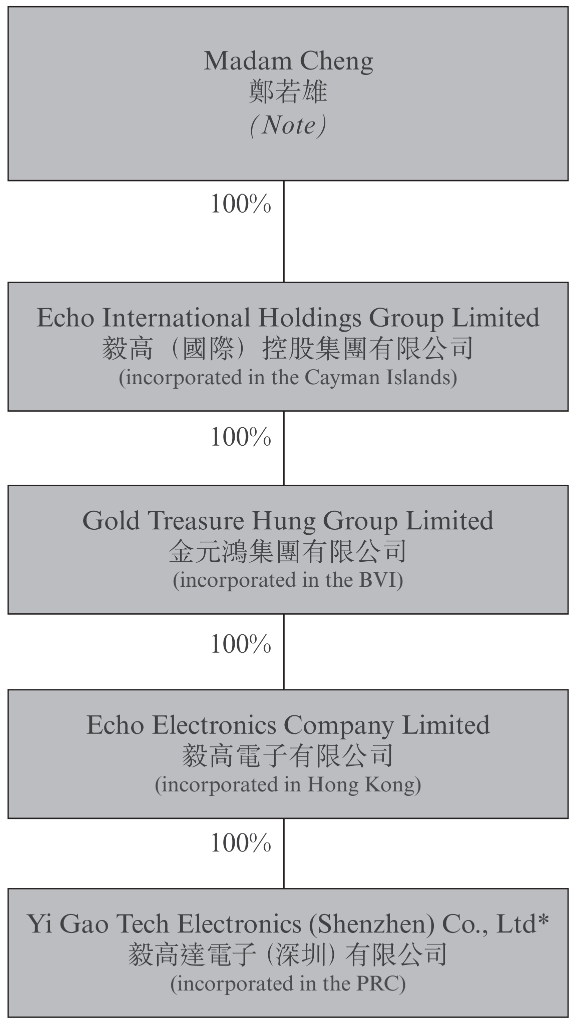
(b) On 14 March 2013, the Company acquired the entire issued share capital of Gold Treasure BVI by allotment of 9,900,000 new Shares to Madam Cheng.

Transformation and upgrade of the Processing Factory into a WFOE

The Processing Factory has completed the process of transferring its production equipments and remaining raw materials to Yi Gao Tech on 23 June 2011 and 13 September 2011 respectively. The Processing Factory had been deregistered on 10 February 2012.

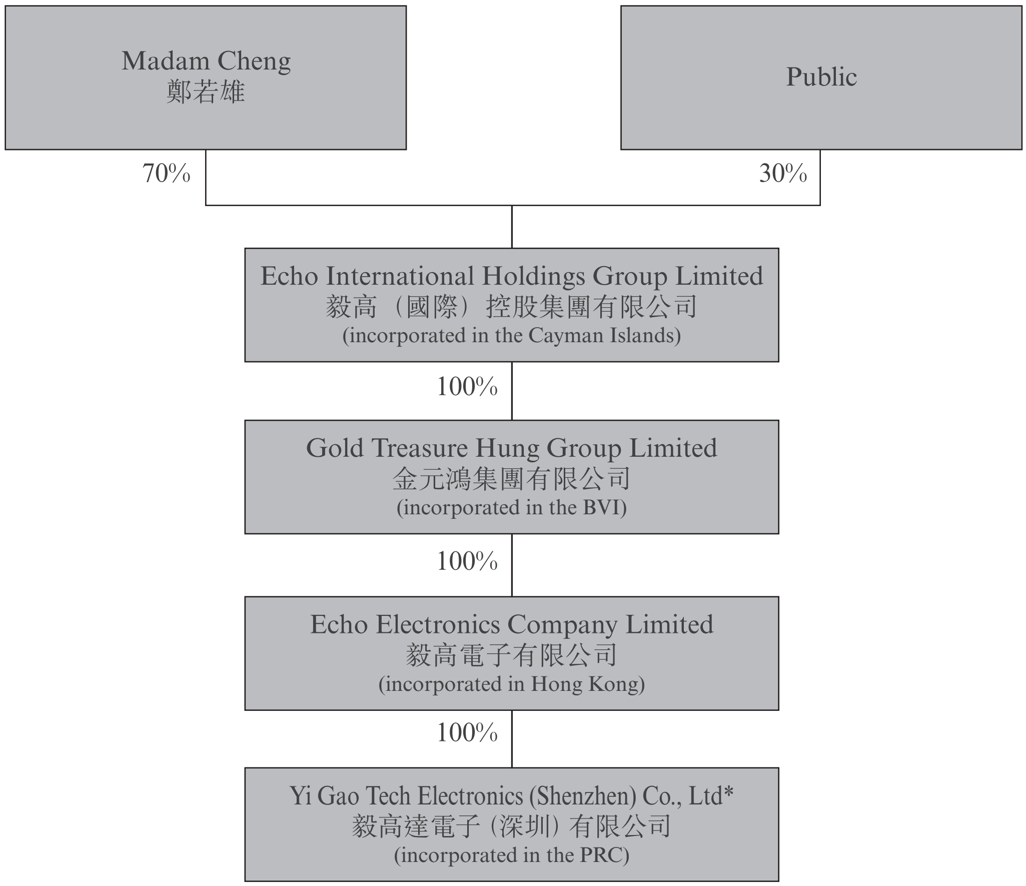
CHANGES IN THE SHAREHOLDING AND CORPORATE STRUCTURE

On 14 March 2013, the Group completed the Reorganisation in preparation for the Listing. As a result, the Company became the holding company of the Group. The following chart sets out the structure of the Group immediately after the Reorganisation:



Note: As at the Latest Practicable Date, Madam Cheng is the registered holder of 10,000,000 Shares representing the entire issued share capital of the Company.

The following chart sets out the shareholding structure and the principal operating subsidiaries of the Group immediately following completion of the Placing:



OVERVIEW

The Group is an established EMS provider in Hong Kong with its principal business of providing integrated manufacturing services which include design verification, sourcing and procurement, manufacturing, assembling, testing and inspection, packaging and after-sales services to its branded customers. The Group has its own product engineering team which has been providing design verification and enhanced software support to the Group's customers.

The Group's products mainly include hair remover, starter, control board, charger board and other miscellaneous electronic products which are PCB assemblies used in beauty related products, fishing related products, security related products and other electronic related products. In addition, the Group also provides one-stop complete electronic products manufacturing and assembly services and such complete products include security alarm, buzzer, fire alarm, massage toner, fishing indicator, and communicator. Moreover, the Group derives income from providing subcontracting services on PCB assemblies and manufacture of complete products on a consignment basis. Under this arrangement, the Group only provides manufacturing services and exclusive of raw materials and components used in production. The following table sets out the breakdown of the Group's turnover by the two main categories, namely, PCB assemblies and complete products during the Track Record Period:

	For the year ended 31 March					
	2011		2012		2013	
		Approximate		*Approximate*		*Approximate*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PCB assemblies						
Hair remover	21,607	26.19	8,129	13.33	11,622	16.21
Starter	4,482	5.43	966	1.58	836	1.17
Control board	5,791	7.02	6,142	10.07	11,781	16.43
Charger board	1,705	2.07	1,185	1.94	2,019	2.82
Others *(Note 1)*	4,476	5.43	4,595	7.55	4,582	6.40
Sub-total	38,061	46.14	21,017	34.47	30,840	43.03
Complete products						
Security alarm	8,970	10.87	4,302	7.05	2,992	4.17
Fishing indicator	10,404	12.61	8,797	14.42	8,880	12.38
Massage toner	6,819	8.27	7,295	11.96	14,653	20.43
Buzzer	5,789	7.02	6,603	10.83	5,215	7.27
Fire alarm	3,292	3.99	3,088	5.06	4,743	6.61
Communicator	3,245	3.93	5,759	9.44	3,135	4.37
Sub-total	38,519	46.69	35,844	58.76	39,618	55.23
Total sales of electronic products	76,580	92.83	56,861	93.23	70,458	98.26
Subcontracting income *(Note 2)*	5,918	7.17	4,129	6.77	1,249	1.74
Total revenue	82,498	100.00	60,990	100.00	71,707	100.00

Note:

1. Other electronic products assembled by the Group during the Track Record Period mainly include power adaptors, LED assemblies, alarms, receivers, keypads and headphones.

2. Electronic products produced by the Group under subcontracting services mainly include power supply, nail polisher, panel meter, control board, remote control, electronic lock, motor controller module and other miscellaneous components.

For the years ended 31 March 2011, 2012 and 2013, the Group produced and assembled a total number of approximately 4,147,513, 3,798,140 and 3,367,581 PCBs and complete electronic products respectively and in the volume range of approximately 1 to 50,000 units, 1 to 100,000 units and 1 to 150,000 units respectively. For the years ended 31 March 2011, 2012 and 2013, the Group had orders for manufacturing one unit as trial product and such aggregate sales were approximately 0.69%, 0.32% and 0.31% of total sales of the Group respectively. The Group does not normally sell one unit of its products to its customers and the Group's customers order one unit of the product normally due to their urgent needs or treating it as a prototype for their testing.

The Group's manufacturing operations had been conducted at the Processing Factory located in Shenzhen, the PRC pursuant to the Processing Agreement entered into between the Echo Co, the Processing Factory and the Processing Party on 29 November 1991. On 5 May 2011, Echo Electronics, a wholly-owned subsidiary of the Company, made an application to seek the transformation and upgrade of the Processing Factory into a wholly foreign-owned enterprise ("**WFOE**"), namely Yi Gao Tech, without relocating or suspending production (the "**Transformation**"). Details of the Transformation is set out in the sub-section headed "Transformation of the Processing Factory into a WFOE" under this section. As advised by the PRC Legal Adviser, Yi Gao Tech has been set up in accordance with the relevant PRC laws and regulations and has obtained all the approvals from competent authorities as well as has performed all necessary legal procedures which are legal and valid. The Group completed the transfer of the production equipments, raw materials and factory workers from the Processing Factory to Yi Gao Tech, which has undertaken and has been conducting all the production activities of the Group since September 2011 and the Processing Factory was deregistered in February 2012.

The PCBs and the complete electronic products produced and assembled by the Group of which their end products are mainly distributed to the retailers in the European Countries and the United States. Since its establishment, the Group has not developed its own brand for distribution of its electronic products.

The principal markets of the Group are the U.S. and the European Countries. For each of the three years ended 31 March 2011, 2012 and 2013, sales to the U.S. accounted for approximately 20.85%, 19.28% and 18.84%, respectively, of the Group's total sales; and sales to European Countries accounted for approximately 56.45%, 53.46% and 52.50%, respectively, of the Group's total sales.

The Group's principal customers are the well established electronic manufacturers and distributors with their own products. The business relationships between the Group and its major customers have been ranged from 1 to 15 years as at the Latest Practicable Date.

The table below sets forth a breakdown of the Group's gross profit and gross profit margin for its principal segments and principal products, for the Track Record Period:

	For the year ended 31 March					
	2011		2012		2013	
		Approximate		*Approximate*		*Approximate*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Beauty related products:						
Hair remover	6,403	29.63	2,063	25.38	3,942	33.92
Massage toner	2,018	29.59	2,326	31.88	8,248	56.29
Fishing related product:						
Fishing indicator	1,736	16.68	2,130	24.21	1,020	11.49
Security related product:						
Security alarm	1,935	21.57	1,090	25.34	1,025	34.28
Other electronic products:						
Starter	887	19.79	111	11.49	124	14.80
Communicator	1,041	32.08	2,461	42.73	1,528	48.75
Buzzer	2,258	39.01	3,128	47.37	2,544	48.78
Control Board	1,740	30.05	1,847	30.07	3,032	25.73
Charger Board	307	18.01	389	32.82	803	39.76
Fire alarm	928	28.22	1,319	42.70	2,314	48.79
Other	1,254	27.99	1,628	35.46	2,005	43.76
Subcontracting income	1,600	27.04	1,916	46.40	410	32.80
Gross profit & gross profit margin	22,107	26.80	20,408	33.46	26,995	37.65

With more than 20 years of experience in the EMS industry, the Group has received a number of certifications and recognitions in relation to electronic production from various organizations. Some of such certifications and recognitions include the ISO 9001: 2008 for the design and manufacturing of electronic buzzers and the manufacturing of magnetic switches and PCB assemblies), the EMC Certificate from Intertek Testing Services (Singapore) Pte Ltd, the Global Manufacturer Certificate. The EMC Certificate was issued to a type of alarms manufactured by the Group was considered to comply with the requirements under the EMC standards.

COMPETITIVE STRENGTHS

Although the competition among the provision of EMS is keen, the Directors attribute the past success of the Group and potential for future growth to the following principal factors:

Established relationships with key customers

Over the years of operations, the Group has established long-term business relationships with its major customers, which are well established electronic manufacturers and distributors with their own products. The Group has been providing EMS to its top five largest customers of the Group. As at the Latest Practicable Date, the Group's business relationships with these top five largest customers ranged from 1 to 15 years. Such long term business relationships stem from the recognition of the Group's quality products and timely delivery of customers' orders under tight delivery schedules and short production lead time. The Directors' views are based on the customer surveys conducted by the Group with the existing customers. Such customer surveys are conducted annually with the major customers of the Group in the scope of quality of the products manufactured, logistics arrangement, customer service and price. The Directors believe that such relationships help to retain the loyalty of its customers and reinforce commitment from its customers to place further orders with the Group.

The following tables summarize the duration of relationship and settlement methods between the Group and its top five customers during the Track Record Period:

Top five customers of the Group for the year ended 31 March 2013

Top five customers in terms of revenue, in descending order	Products purchased	Duration of relationship with the Group, not less than	Settlement method
First	Beauty related	15 years	T/T
Second	Fishing related	14 years	T/T
Third	Other electronic	1 years	T/T
Fourth	Other electronic	9 year	T/T
Fifth	Other electronic	2 years	T/T

Top five customers of the Group for the year ended 31 March 2012

Top five customers in terms of revenue, in descending order	Products purchased	Duration of relationship with the Group, not less than	Settlement method
First	Beauty related	15 years	T/T
Second	Fishing related	14 years	T/T
Third	Other electronic	6 years	Cheque
Fourth	Other electronic	15 years	Cheque
Fifth	Other electronic	7 years	T/T

Top five customers of the Group for the year ended 31 March 2011

Top five customers in terms of revenue, in descending order	Products purchased	Duration of relationship with the Group, not less than	Settlement method
First	Beauty related	14 years	T/T
Second	Fishing related	13 years	T/T
Third	Security related	13 years	T/T
Fourth	Other electronic	14 years	Cheque
Fifth	Other electronic	1 year	T/T

Leveraging on the established relationships between the Group and its customers, the Directors believe that such relationships will enable the Group to obtain stable orders from its customers and maintain a stable production while facing market instabilities.

High quality and reliability

The Group strives to provide quality and reliable products to its customers. A quality control system had been implemented to monitor the entire production of the products to ensure that the Group's products are manufactured with quality and reliable standard. Quality control measures are carried out at each stage of the manufacturing process starting from incoming production materials, production to final inspection by quality control staff of the Group's manufacturing operation. The quality control division of the Group's manufacturing operation is required to prepare reports on any substantial defects found on the production materials, semi-finished products and finished products, which will then analyse and discuss with the Group's corresponding department on how to avoid such defects from happening in the future. Based on the positive feedback from the Group's key customers after their regular factory visits, the Directors believe that the comprehensive quality control procedures and the standards established at each stage of manufacturing process starting from incoming production materials are critical success factors of the Group and constitute a competitive edge over other consumer electronic products manufacturers. Such edges enable the Group to meet the quality requirements as required by its customers.

No substantive product return and major customer complaints were recorded during the Track Record Period. The Directors believe that the Group's adherence to quality and reliability helps fortifying the trust among its customers and luring new customers which subsequently to secure more orders with the Group.

Emphasis on and adherence to international standards

Some of the Group's customers not only demand for quality products from the Group but also require the Group to meet certain standards in respect of the Group's operational effectiveness, environmental control and social accountability. The Group's wholly-owned subsidiary, Echo Electronics and the Processing Factory are both certified to the ISO 9001:2008 for the design and manufacturing of electronic buzzers and the manufacturing of magnetic switches and PCB assemblies.

The Company obtained a renewed EMC Certificate from Intertek Testing Services (Singapore) Pte Ltd on 14 April 2011. This certificate was issued to a type of alarms manufactured by the Company that was considered to comply with the requirements under the IEC standards namely, IEC 61000-6-1:2005 and IEC 61000-6-3:2006. EMC stands for electromagnetic compatibility and is defined as the ability of an equipment to function satisfactorily in its electromagnetic environment without introducing intolerable disturbances to anything in that environment. IEC 61000-6-1:2005 is the standard concerned with the EMC immunity requirements which are to ensure an adequate level of immunity for the electronic apparatus. IEC 61000-6-3:2006 is the standard concerned with the EMC emission requirements which are to ensure that disturbances generated by the electronic apparatus do not exceed a level which could prevent other apparatus from operating as intended.

As recognition of the Group's quality production, the Group has been also awarded with Global Manufacture Certificate. Global Manufacturer Certificate ("**GMC**") is a standard distinguishing quality for Chinese manufacturers which complies with the 8 GMC standards which include genuine manufacturer, high quality products, dedicated export team, considerable company size, research and development capability, social environmental responsibility, trust worthiness and reputation, as well as OEM/ODM experience. None of the mentioned international standards obtained by the Group is requested by the Group's customers in order for the Group to qualify as the manufacturer for them.

All of the products manufactured or processed by the Group comply with the RoHS. RoHS is an EU Directive which restricts the use of six hazardous materials, including lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls and polybrominated diphenyl ether, in the manufacture of various types of electronic and electrical equipments.

These accreditations demonstrate the overall quality of the products and the management of the Group. The Group is capable of fulfilling the specific requirements of and offering quality assurance to its customers.

Research and development capability

The Group started its business as the manufacturer of OEM products for its customers since 1989. Over the years, the Group has accumulated certain level of technologies and experience on manufacturing and assembling consumer electronic products in accordance with the specifications given by its OEM customers. Leveraging on the experience and knowledge derived from manufacturing and assembling OEM products, the Group developed an engineering team focusing on the research and development of softwares, and provide design enhancement and verification to its customers. As at the Latest Practicable Date, the engineering team consists of 6 staff including electrical, mechanical and software engineers. The engineering team has the capabilities to verify and develop the conceptual designs from the customers and turn such design concepts into deliverable products by improving the product designs, recommending the proper and suitable raw materials for production and testing of the trial products. The engineering team of the Group also aims to provide solutions to improve manufacturing efficiency on the existing products of its customers and reduce the cost of production. The engineering team of the Group co-designs the consumer electronic products with the Group's customers by providing design and engineering support based on the customers' needs and requirements. As a member of IPC — Association Connecting Electronics Industries, the Group has access to the market research studies, business reports and executive conference proceedings, as well as archive of past studies and reports. During the Track Record Period, the Group participates in exhibitions and international trade fairs in relation to consumer electronic products, such as China Hi-Tech Fair, China Consumer Electronics Fair (Shenzhen) and China Electronics Fair. All of the abovementioned keep the Group's management abreast of the latest industry trends and the technical developments in the consumer electronic products. The Directors believe that the Group's involvement in the product development stage strengthens the Group's relationship with the customers and ensures that the quality of the Group's products meets the customers' specifications.

Steady relationships with suppliers

Over the years of operations, the Group has established solid working relationships with its suppliers, which meet the standards required by the Group, particularly with the suppliers of Hong Kong. The Directors believe that in order to ensure the quality of its electronic products, the production materials used in the production process have to be supplied with consistency and of satisfactory standard. During the Track Record Period, the Group purchased its production materials from approximately 200 suppliers in Hong Kong and the PRC. As at the Latest Practicable Date, the Group's business relationships with its top five suppliers range from approximately 2 to 13 years.

Experienced management team

The growth and success of the Group's business are attributable to its experienced and dedicated management team with extensive knowledge in the EMS industry. The management team led by the founders, namely Mr. Lo Yan Yee and Madam Cheng, has over 24 years of operating experience with respect to the business in the EMS industry. Mr. Lo Yan Yee, one of the founders of the Group and chairman of the Board, has more than 35 years of experience in the electronics industry, having extensive experience and knowledge in business operations and management. Madam Cheng, one of the founders of the Group, chief operation officer and executive Director, has more than 34 years experience in the electronics industry, having extensive experience in the business development and pricing management. Mr. Cheng Kwing Sang, Raymond, executive director, chief executive officer and marketing director, who has been working with the Group for approximately 20 years, possesses extensive experience in marketing and business promotion. Ms. Li Fung Shan, chief financial officer and company secretary, is a practicing member of the Hong Kong Institute of Certified Public Accountants and has worked in various international accounting firms specializing in auditing and accounting. The Directors believe that the highly experienced management team enables the Group to capture market opportunities and to formulate and execute sound business strategies, as well as react to changes in market conditions in a timely manner. In order to ensure a smooth operation after the Transformation, the senior management team remains stable without any change after the completion of the Transformation.

BUSINESS MODEL

The Group's principal business is providing one-stop electronic manufacturing services to its customers.

The Group mainly provides PCB assembly and complete product assembly services for its key customers which are well established electronic manufacturers and distributors with their own products. PCB assembly is the process of assembling electronic components onto a PCB. Complete product assembly involves the assembly of assembled PCB with the plastic parts, the metal parts and packaging materials into the final completed products.

The Group's PCB assemblies are hair remover, starter, control board, charger board and other miscellaneous electronic products whereas the complete products manufactured and assembled by the Group are massage toner, fishing indicator, security alarm, fire alarm, communicator and buzzer.

A traditional OEM provider manufactures products or components that are purchased by the customer and retailed under the customer's brand name. The products manufactured by an OEM are so made according to the specifications and designs provided by the customer. The OEM business does not involve the design process, the sourcing and procurement process as the designs, specifications and raw materials are usually provided by their customers.

The following table sets out the general difference between OEM provider and EMS provider in terms of services provided:

	OEM provider	**EMS provider**
Product and design development	• usually according to the specifications and designs provided by the customers and no design enhancement will be provided to the customer	• conducts feasibility studies on customers' product prototypes to help them develop more efficient designs • design or co-design the electronic products with the brand owners
Raw materials procurement	• parts and components supplied by the customers or sourced from suppliers designated by the customers	• responsible for sourcing all the parts and components required for production • some EMS providers recommend suitable raw materials and electronic components to the brand owners

	OEM provider	EMS provider
Manufacturing and assembling	• provide PCB assemblies and complete product manufacturing and assembly services usually to high-volume customers	• provide PCB assemblies and complete product manufacturing and assembly services to both low and high-volume customers
Quality control and test development	• quality control procedures on semi-finished products and end products	• quality control procedures on the selection and testing of raw materials, semi-finished products and end products
Supply chain management	• not provided	• some EMS providers offer additional transportation and logistics services
After sales services	• not provided	• some EMS providers offer warranty services and product support services to the end customers

The Directors believe that the Group distinguishes itself from traditional OEM providers by providing value-added services to its customers. In addition to the Group's PCB assembly and complete product assembly services, the Group also provides design verification and enhancement services in terms of mechanical, electrical and software for the process of product development; procurement services by recommending and sourcing suitable electronic components and raw materials for the production; and providing quality control services during the production process.

As a provider of EMS, the Group works with its customers throughout their product development and manufacturing processes in order to enhance these processes as well as the reliability of their products. In this respect, the Group provides the following value-added services:

- Design enhancement and verification — The Group's engineering department conducts feasibility studies on customers' product prototypes to help them develop more efficient designs. The Group also recommends suitable raw materials and electronic components for their products.

- Raw materials procurement — The Group have established procurement and material control teams in Hong Kong to assist its customers to source for reliable suppliers that offer competitive prices. The procurement and material control department also continuously negotiates for better pricing and seeks alternative sources of supplies to achieve additional cost savings for the Group and its customers.

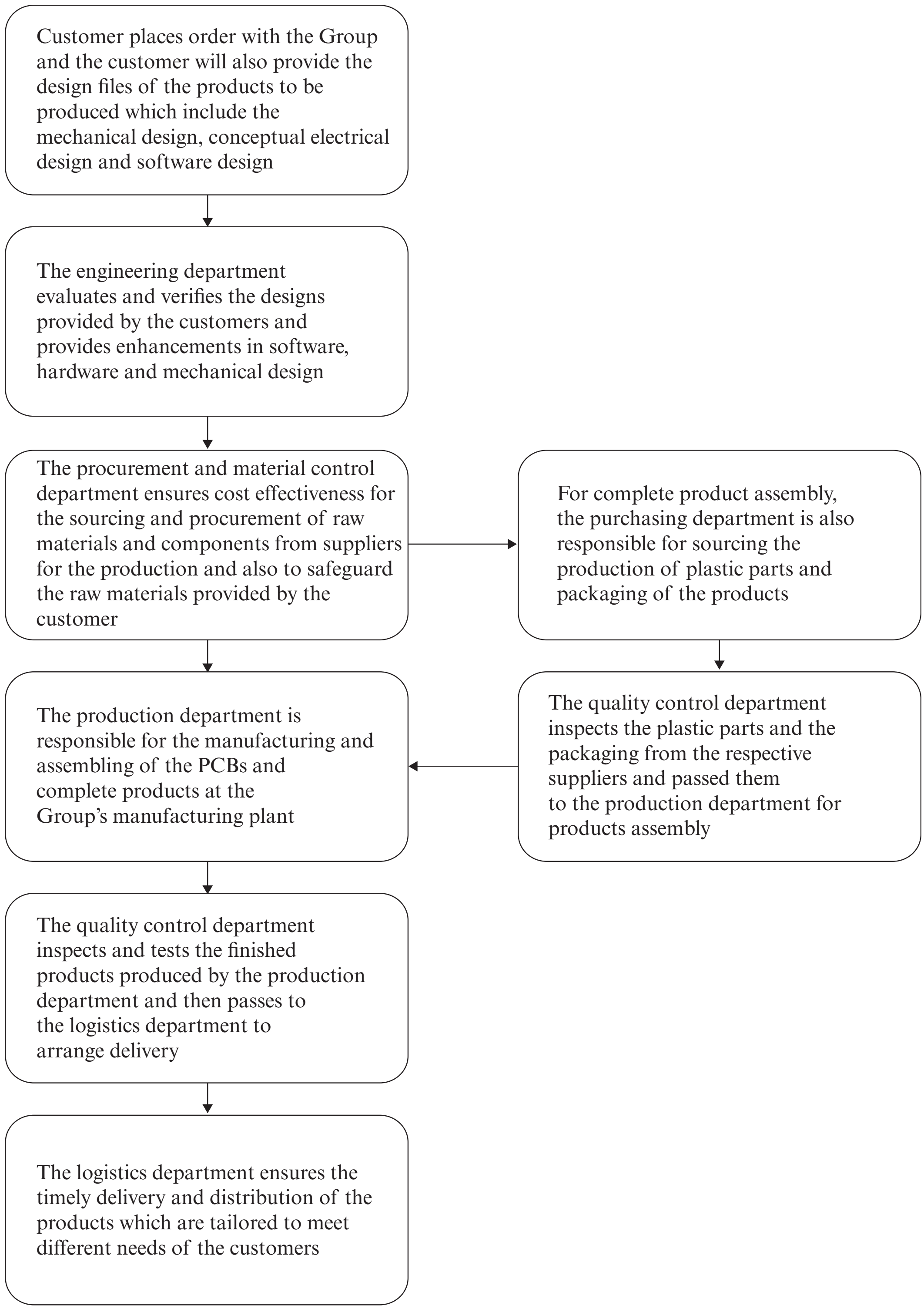
- Quality control — The Group imposes quality control procedures on the selection and testing of raw materials, semi-finished products and the end products throughout the production process to ensure the quality of the Group's products.

The table below sets forth the revenue generated by the EMS business classified into two categories, namely the sales of electronic products and the subcontracting income, in absolute amounts and as a percentage of the Group's total revenue during the Track Record Period:

	Year ended 31 March					
	2011		**2012**		**2013**	
		Approximate		*Approximate*		*Approximate*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Sales of electronic products	76,580	92.83	56,861	93.23	70,458	98.26
Subcontracting income	5,918	7.17	4,129	6.77	1,249	1.74
Total	82,498	100.00	60,990	100.00	71,707	100.00

Sales of electronic products comprise sales of PCB assemblies and complete product assemblies on a turnkey basis. As a provider of turnkey services, the Group is responsible for sourcing all required components for the product as well as the subsequent manufacturing processes. Subcontracting income comprises providing services of PCB assemblies and complete product assemblies on a consignment basis. Under the subcontracting arrangement, the Group provides manufacturing services by using raw materials and components that are supplied by the customers.

The key steps involved in the EMS business flow of the Group are as follows:



PRODUCTS

For the Group's EMS service, it provides PCB assembly and complete product assembly services to OEMs of various consumer electronic products. PCB assembly is the process of assembling electronic components onto a PCB. Complete product assembly involves the assembly of assembled PCB with the product parts into the final complete products. The Group's assembled products can be broadly classified into four principal segments, namely beauty related products, fishing related product, security related product and other electronic products.

Beauty related products

Hair remover

The Group assembles two PCBs for the main and handle unit of the hair remover. The functions of these two PCB assemblies are (i) to control the laser diode for removing specific amount of hairs; and (ii) to control the LEDs and buzzer for indication of its operating status.

Massage toner

The Group assembles the complete unit for the massage toner, which includes assembling the PCB and procuring the plastic casing. The PCB assembly controls the functions of electric current and flash for exercising and toning muscles.

Fishing related product

Fishing indicator

The Group assembles the complete unit for the fishing indicator, which includes assembling the PCB and procuring the plastic casing. The functions of the PCB assembly are (i) to control the transducers to transform slight movement into electronic signal for alerting the users; (ii) to control the speakers, vibrating units and LED for indication; and (iii) to control the communication between the fishing indicator and specific receivers via RF wireless communication. Fishing indicator is an electronic device which indicates to a fisherman, who uses the fishing technique of angling, that a fish might be hooked at end of the fishing line.


Security related product

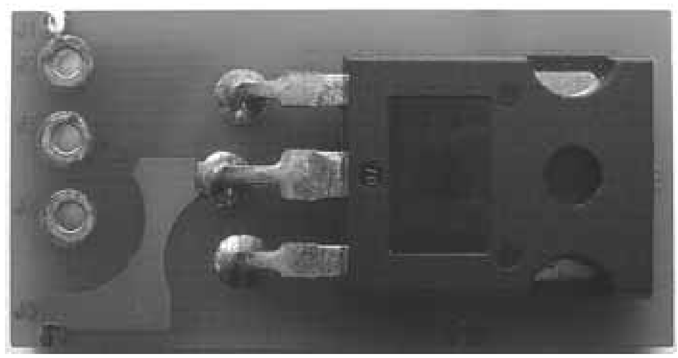
Security Alarm

The Group assembles the complete unit for the security alarm, which includes assembling the PCB and procuring the plastic casing. The functions of the PCB assembly are (i) to control the brightness of the LED and loudness of the speakers for alerting; and (ii) to detect the status of micro switch attached on the secured products.


Other electronic products

Starter

The Group assembles the PCB for the starter which is used for inductive ignition. The functions of the starter are (i) to control the ignition coil to step the voltage up to the needs of ignition; (ii) to control the route of pulse precisely; and (iii) to control current limit and clamp voltage. The Group's starter is part of the ignition starter switch, which is responsible for making the electrical connection between the battery and the starter solenoid when turning the ignition key on the vehicle.



Communicator

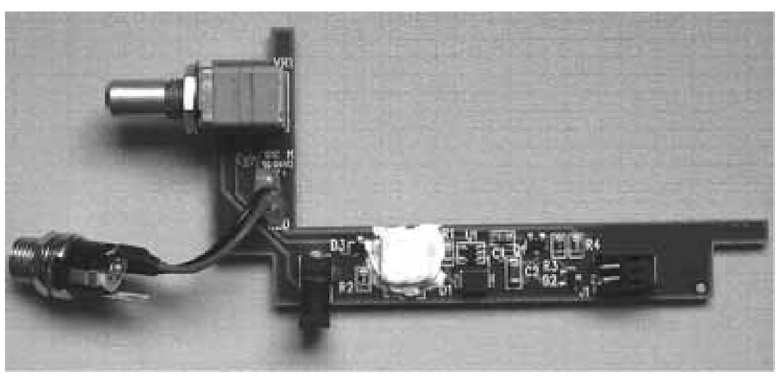
The Group assembles the complete unit for the communicator, which mainly includes assembling the PCB and procuring the plastic and metal casing. The function of the PCB assembly is to deliver user command and signal with corded/cordless devices. The communicator is part of the units of the radio paging systems and wireless messaging systems, which delivers messages or signals to the connected pagers. The radio paging systems and wireless messaging systems are widely used for hospitals, hotels, restaurants, casinos and emergency services.

Buzzer

The Group assembles the complete unit for the buzzer, which mainly includes assembling the PCB and procuring the plastic casing. The function of the PCB assembly is to control the electromechanical movement on the piezo element which in turn to generate sound.

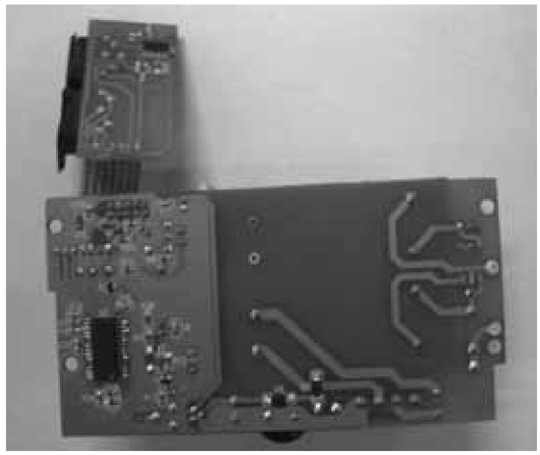
Control Board

The Group assembles the PCB with electronic components for the control board. The function of the control board assembly is to control the external device operation which is indicated by the LED.



Charger Board

The Group assembles the PCB with electronic components for the charger board. The function of the charger board is to convert direct current ("**DC**") voltage to reach a certain level of voltage for charging purpose.



Fire Alarm

The Group assembles the complete unit for the fire alarm, which involves assembling the PCB and procuring the plastic casing. The function of the PCB assembly is to convert electronic signal to sound signal by a buzzer.

PRICING POLICY

All sales are conducted on the basis of confirmed sales orders, the prices for which are negotiated on a case-by-case basis with each customer. The Group adopts a cost-plus pricing model for all customers and products categories. The selling price for each order is calculated in the formula of (estimated raw material costs + estimated labour costs + estimated factory overhead) x (1 + mark-up percentage).

The following table sets out the range of the mark-up percentage charged on the Group's products during the Track Record Period:

	For the year ended 31 March		
	2011	**2012**	**2013**
	Range of mark-up percentage *(%)*	**Range of mark-up percentage** *(%)*	**Range of mark-up percentage** *(%)*
Beauty related products:			
Hair remover	7–97	4–60	4–86
Massage toner	5–245	2–265	4–283
Fishing related product:			
Fishing indicator	4–114	4–102	6–139
Security related product:			
Security alarm	9–55	9–67	8–99
Other electronic products:			
Starter	2–118	4–77	17–136
Communicator	10–138	10–149	25–176
Buzzer	11–199	6–237	5–380
Control board	11–90	11–98	8–170
Charger board	11–66	13–72	36–97
Fire alarm	20–98	14–85	48–89
Others	2–173	10–236	3–258

* *High mark-up range due to product development fee embedded in the sales price.*

As confirmed by the Directors, the mark-up percentage is determined on a case-by-case basis and there is no uniform pricing policy for different customer categories and product categories. The mark-up percentages of products, even belonging to the same product category, usually vary largely with the style, model and specification of the products. The Group operates its business as an EMS provider and participates in the product and design development. The more the complexity of a product, the higher the mark-up margin the Group charges its customers, due to (i) the increased complexity of the processing involved; and (ii) part of the product development fee embedded in the sales price for those features. Therefore, the changes in the range of the mark-up percentage of each product category during the Track Record Period are usually a result of the change in the sales mix within that product category. For instance, among the major products of the Group, the Group did not sell the models of hair removers and fishing indictors having highest complexity for the year ended 31 March 2012, thus the upper ends of the range of mark-up percentage of these two product categories lowered as compared to the year ended 31 March 2011. In contrast, among the major products of the Group, the Group sold the models of massage toners with higher complexity for the year ended 31 March 2012, the upper end of the range of mark-up percentage of massage toner hence increased as compared to the year ended 31 March 2011. Moreover, the adjustments on selling prices also have an impact on the mark-up percentages. For example, the Group has not increased the selling prices of buzzers and control boards for a long time until the year ended 31 March 2011. After negotiations with its customers during the year ended 31 March 2012, the Group adjusted the selling prices of these two products upwards and this led to higher upper ends in their range of mark-up percentages.

For the year ended 31 March 2013, among the major products of the Group, the Group acquired a new customer for demand of control board and was able to charge a higher selling price which leads to a higher mark-up percentage. Also, the Group sold the models of buzzers, starters and fishing indicators having higher complexity for the year ended 31 March 2013, thus the upper ends of the range of mark-up percentage of the product categories were higher as compared to the year ended 31 March 2012.

The selling prices of the Group's products are determined based on a number of factors including (i) production costs (including costs of raw materials and components); (ii) manufacturing overheads; and (iii) the relationship with different customers. The Group adjusts the prices of its products according to the variations of the above-mentioned items.

The following table sets out the average selling price of the products produced by the Group during the Track Record Period:

	For the year ended 31 March					
	2011		2012		2013	
	Sales units	Average unit selling price *(HK$)*	Sales units	Average unit selling price *(HK$)*	Sales units	Average unit selling price *(HK$)*
Beauty related products:						
Hair remover	142,963	151.14	105,939	76.73	191,140	60.80
Massage toner	216,499	31.50	288,344	25.30	287,317	51.00
Fishing related product:						
Fishing indicator	48,813	213.16	57,950	151.80	25,990	341.67
Security related product:						
Security alarm	438,524	20.45	599,570	7.18	345,838	8.65
Other electronic products:						
Starter	144,011	31.12	10,600	91.13	7,050	118.58
Communicator	8,286	391.62	9,981	577.00	4,302	728.73
Buzzer	1,459,740	3.97	1,347,507	4.90	1,208,601	4.31
Control board	164,253	35.26	100,899	60.87	121,840	96.69
Charger board	16,460	103.58	20,000	59.25	20,500	98.49
Fire alarm	61,150	53.77	120,820	25.56	137,950	34.38
Others	809,154	5.54	666,123	6.90	793,144	5.78
Subcontracting income	637,660	9.28	470,407	8.78	223,909	5.58
Total	**4,147,513**		**3,798,140**		**3,367,581**	

The selling prices for the electronic products of the Group vary in accordance with the style, models and functions of the electronic products. The Group may receive orders for the production of complicated electronic products with higher selling price or less complicated electronic products with lower selling price. As a result, the fluctuations in the average selling price of the Group's products during the Track Record Period are mainly due to the different orders received for the production of electronic products which vary in style, models and functions as such.

For the year ended 31 March 2012, the increases in the average unit selling prices of buzzer, starter, communicator, control board and other electronic products were primarily due to the engagement of production of models with higher prices. The decreases in the average unit selling prices of security alarm, hair remover, massage toner, fishing indicator, charger board and fire alarm were mainly due to engagement of different models with lower average unit selling prices for the year ended 31 March 2012. For the year ended 31 March 2012, the average unit selling price of the Group's sub-contracting products decreased slightly by approximately 5.39% as compared to the same corresponding period last fiscal year since the Group was engaged to sub-contract for less complicated products which charged lower prices.

For the year ended 31 March 2013, the increases in the average unit selling prices of massage toner, fishing indicator, starter, communicator, control board, charger board and fire alarm were primarily due to engagement of production of models with higher prices. The decreases in the average unit selling prices of hair remover were mainly due to engagement of different models with lower unit selling prices for the year ended 31 March 2013. For the year ended 31 March 2013, the average unit selling price of the Group's sub-contracting products decreased by approximately 36.45% as compared to the year ended 31 March 2012 since the Group was engaged to sub-contract for less complicated products which charged lower selling prices.

PRODUCT DEVELOPMENT

For the Group's sales of electronic products businesses, the process begins with the Group receiving the full mechanical design and conceptual electrical and software designs from the customer for a new electronic product to be manufactured by the Group.

The engineering department will then prepare a proposal for product development to verify and enhance the mechanical and electrical design of the electronic products by making a trial product for testing. The engineering department has the capabilities to verify and develop the conceptual designs from the customers and turn such design concepts into deliverable products by improving the product designs, recommending the proper and suitable raw materials for production and testing of the trial products. The trial product will undergo assessments, reviews and approvals by cross-departments, including engineering department, quality control department and production department with the main focus on factors such as production feasibility, functionality, performance, quality, cost efficiency, packaging and product safety. Such trial product may be sent to customers for the purposes of seeking customers' general approvals and feedbacks. The trial products will then be fine-tuned to ensure that the products can achieve an optimal design and cost efficiency prior to the mass production.

The Directors believe that the Group's ability for design verification and enhancement is attractive to its customers and enhances the Group's competitiveness.

The Group's subcontracting business does not involve the above processes as the designs, specifications, production procedures and production materials of the electronic products are provided by the subcontracting customers.

The intellectual property supplied by the Group's customers to be used for production of its products are mainly divided into (i) hardware equipments; and (ii) software. The hardware equipments supplied includes the production apparatus, production moulds, testing apparatus and testing equipments. The software supplied includes the software embedded in the electrical circuits, technical design and information of the products of the Group's customers. The Group has devised and supervised the implementation of measures by the Processing Factory and/or Yi Gao Tech to ensure proper usage and storage of the intellectual property rights and confidential information of the Group's customers. These measures include (i) restrictions on access to computers, areas of production and storage facilities at the Group's manufacturing operation; (ii) assigning specific authorised personnel to supervise the usage and storage of these information and materials; and (iii) cautious and proper measures in respect of the disposal of unused materials and production moulds which include destroying or returning to the Group's customers after usage. The Group will record all the incoming hardware equipments supplied by the Group's customers under a register and places such hardware equipments in a solitary room. If any of the staff wishes to withdraw the customers' hardware equipments, he/she must be given access to such equipment by the senior management personnel and such access will be recorded in the register. In case the Group is required to provide the production moulds to the plastic suppliers to produce the plastic parts for the Group's products, the Group requires the plastic parts suppliers to enter into confidentiality agreements under which the plastic parts suppliers undertake to protect the confidentiality of the designs and production moulds.

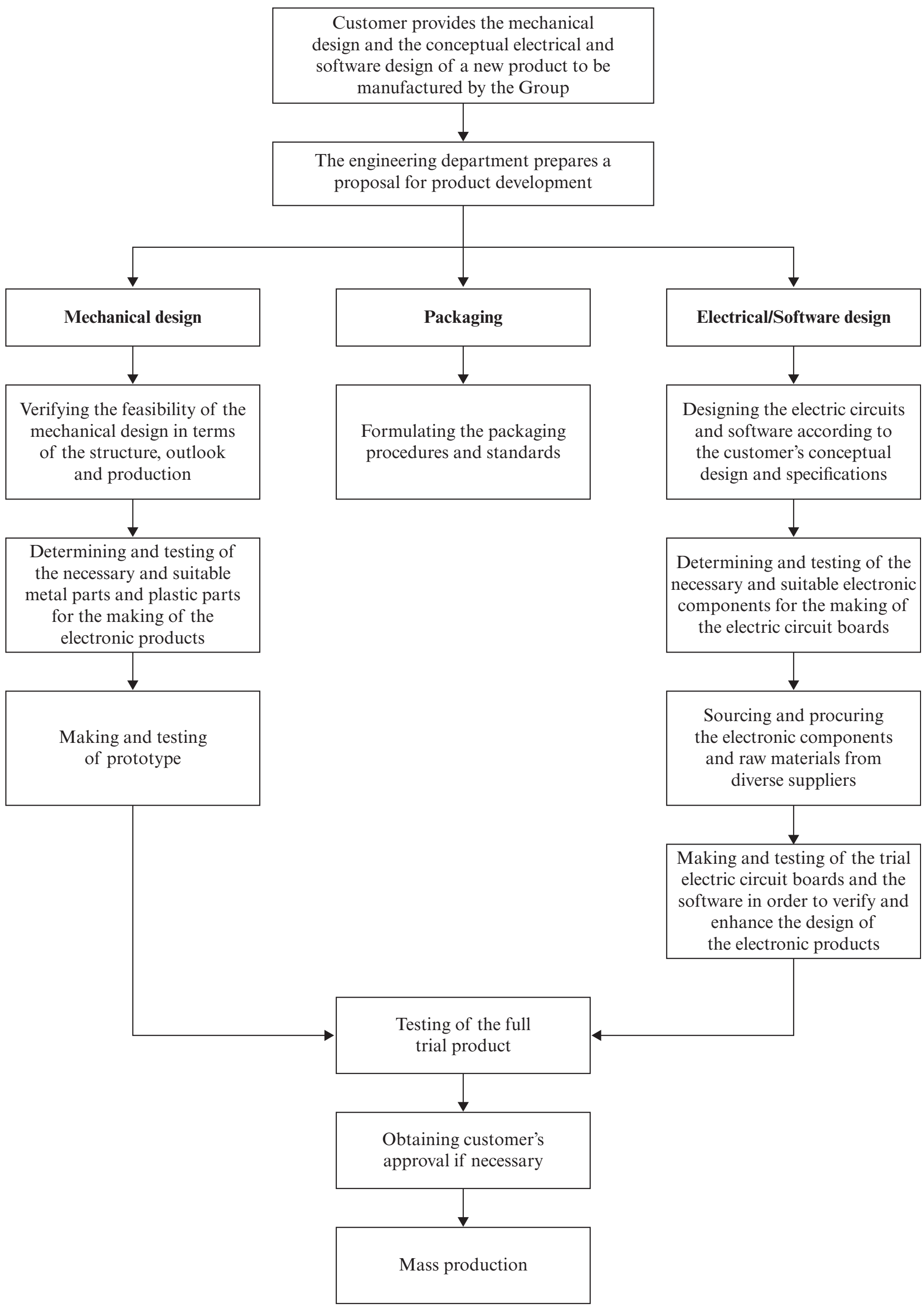
All the software supplied by the Group's customers is maintained in a secured server of the Group to which only Mr. Lo Ding To has access. In the event that the staff of the engineering department wish to have access to the software, they will only be allowed to have such access in a solitary computer room under the supervision of Mr. Lo Ding To in order to protect customers' intellectual property rights. The computers that store the software are password-protected. In addition, the Group maintains confidentiality agreements with its employees to protect the intellectual property rights of the Group's customers.

Mr. Lo Yan Yee and Mr. Lo Ding To are both responsible for the supervising of the usage and storage of intellectual property rights and customer's confidential information, the disposal of unused materials and production moulds. Mr. Lo Yan Yee, one of the founders of the Group, has been in charge of such duties since the establishment of the Group. Mr. Lo Ding To, the production manager, has also been responsible for such duties since he joined the Group.

Although the Group has never agreed, either orally or in writing, to indemnify its customers for any misuse or leakage of mould or intellectual property rights to external parties nor any maximum potential liabilities for such misuse or leakage, the Group may be held liable to indemnify its customers for losses they suffered as a result of such misuse or leakage and the Directors and/or senior management of the Group might be subject to the criminal prosecution in the event that the Group misuses or leaks such mould or intellectual property rights of its customers to external parties.

During the Track Record Period and up to the Latest Practicable Date, the Group had not experienced (i) any leakage or misuse of the customers' designs, software, production moulds and/or intellectual property rights to external parties; and (ii) any claims against the Group for breach of confidentiality agreements or leakage of customers' intellectual property rights.

The following table illustrates the basic work flow of the product development of the Group:



PRODUCTION PROCESS

The Group has several major electronic products, namely hair remover, massage toner, fishing indicator, security alarm, starter, communicator, buzzer, control board, charger board and fire alarm. Their respective production procedures are illustrated below.

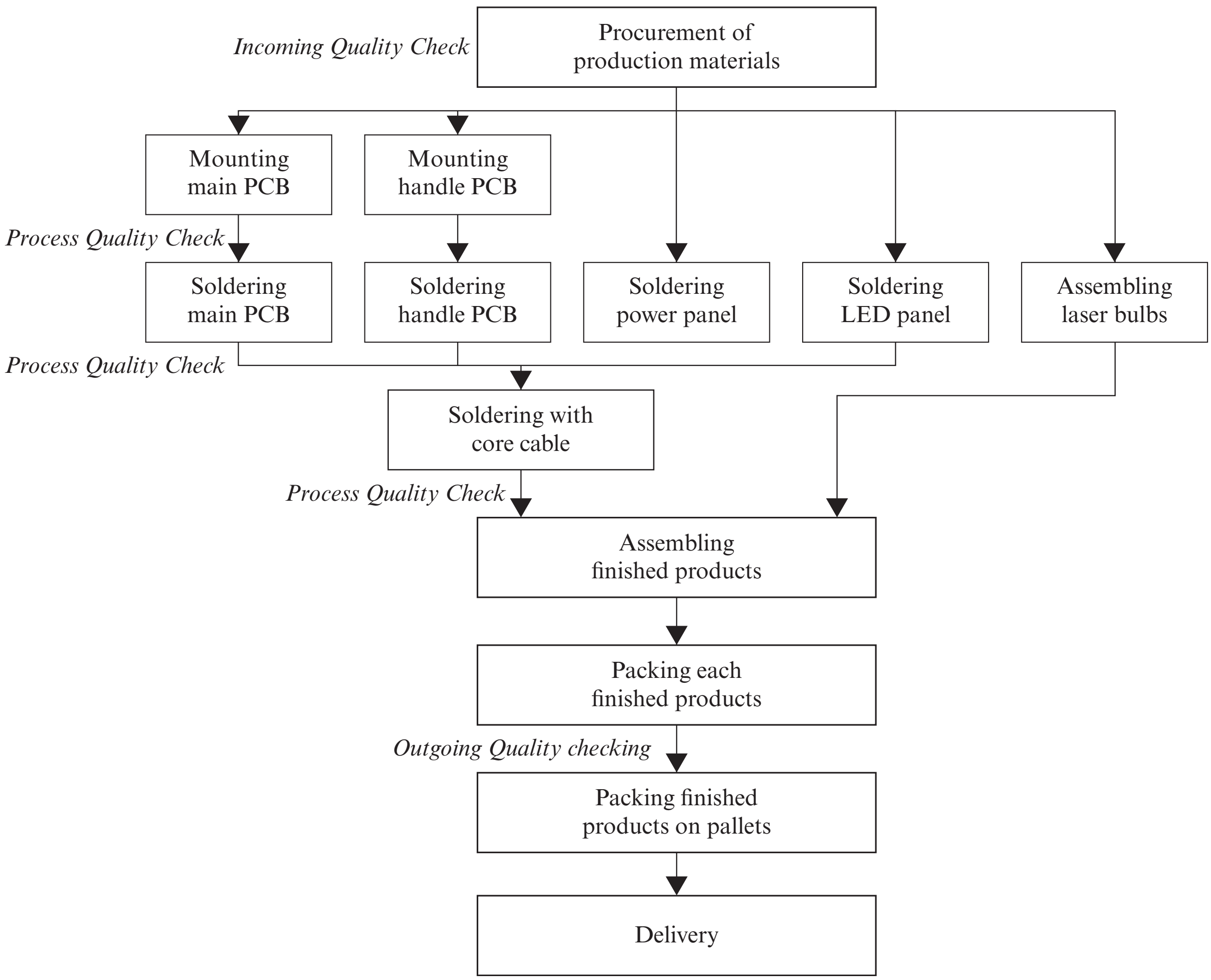
Upon receiving enquiries or preliminary designs from customers, the Group will discuss with its customers regarding their specifications and technical issues for new products and if required, the Group will provide engineering services to them. Once the Group and its customers agree on the designs and specifications, prototypes will be produced and tested accordingly. Upon the customers of the Group giving their approval on the prototypes, quotations will be made by the Group to its customers. The marketing department will issue pro forma invoices confirming the details of the order such as product type, quantity of production, pricing and payment terms with the Group's customers. As soon as the customers agree with the quotations and place confirmed orders, the Group will schedule the production plan and procure production materials for the production of the confirmed orders. During the Track Record Period, the production time for the Group's products, from the time orders were confirmed to the time the products leave the Group's factory, usually ranged from 1 to 6 months.

After the production, together with the respective invoices and delivery documents such as bill of lading, are delivered to the destinations designated by the Group's customers, the shipping department will notify the accounting department, which will then issue monthly statements to the customers at the beginning of next month. The customers will settle the trade balances according to credit terms and payment methods stated on the monthly statements. Once settlement is made, the accounting department will issue official receipts and send notifications via email to the customers for acknowledgement purpose.

Should the Group fails to manufacture its products in accordance with the designs, specifications and prototypes agreed between the Group and its customers, the Group may be held liable for the losses suffered by its customers arising from the same. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of the Directors having made reasonable enquiries, no claim has been made against the Group by its customers for the Group's failure to comply with the designs, specifications and prototypes for the production of their products.

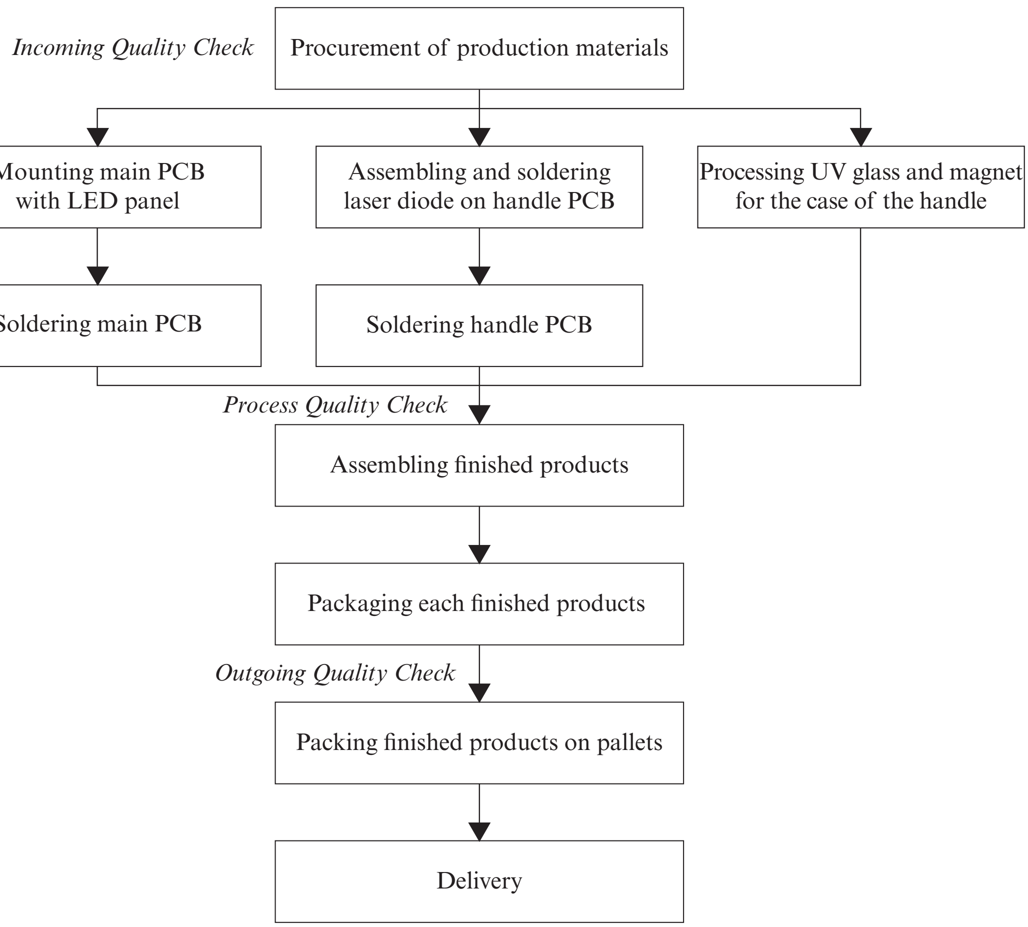
Beauty related products

Hair remover



After procuring the required production materials of the hair remover which includes the blank PCBs for the main board and handle, power panel, LED panel and laser bulbs, such components must pass through the incoming quality check before they are placed on the assembly lines. The process begins with the mounting of the electronic components such as capacitors, resisters and ICs on the PCBs for the main board which to be handled by the SMT machines. In order to detect abnormalities in the positioning of soldered components, a process quality check is performed by an automatic optical inspection machine on the mounted PCBs for the main board and handle. In the soldering process, the Group solders the larger electronic components on the PCBs for the main board and handle, the power panel and the LED panel. At the process quality check of appearance inspection, products that are visibly defective will be eliminated. The PCBs for main board and handle, power panel, LED panel and the laser bulbs are then assembled and soldered together with the core cable. The outgoing quality check is performed by the testing and inspecting of the electrical and functional performance of the PCB assemblies. After the outgoing quality check, the process culminates with the packaging and shipment of the finished PCB products.

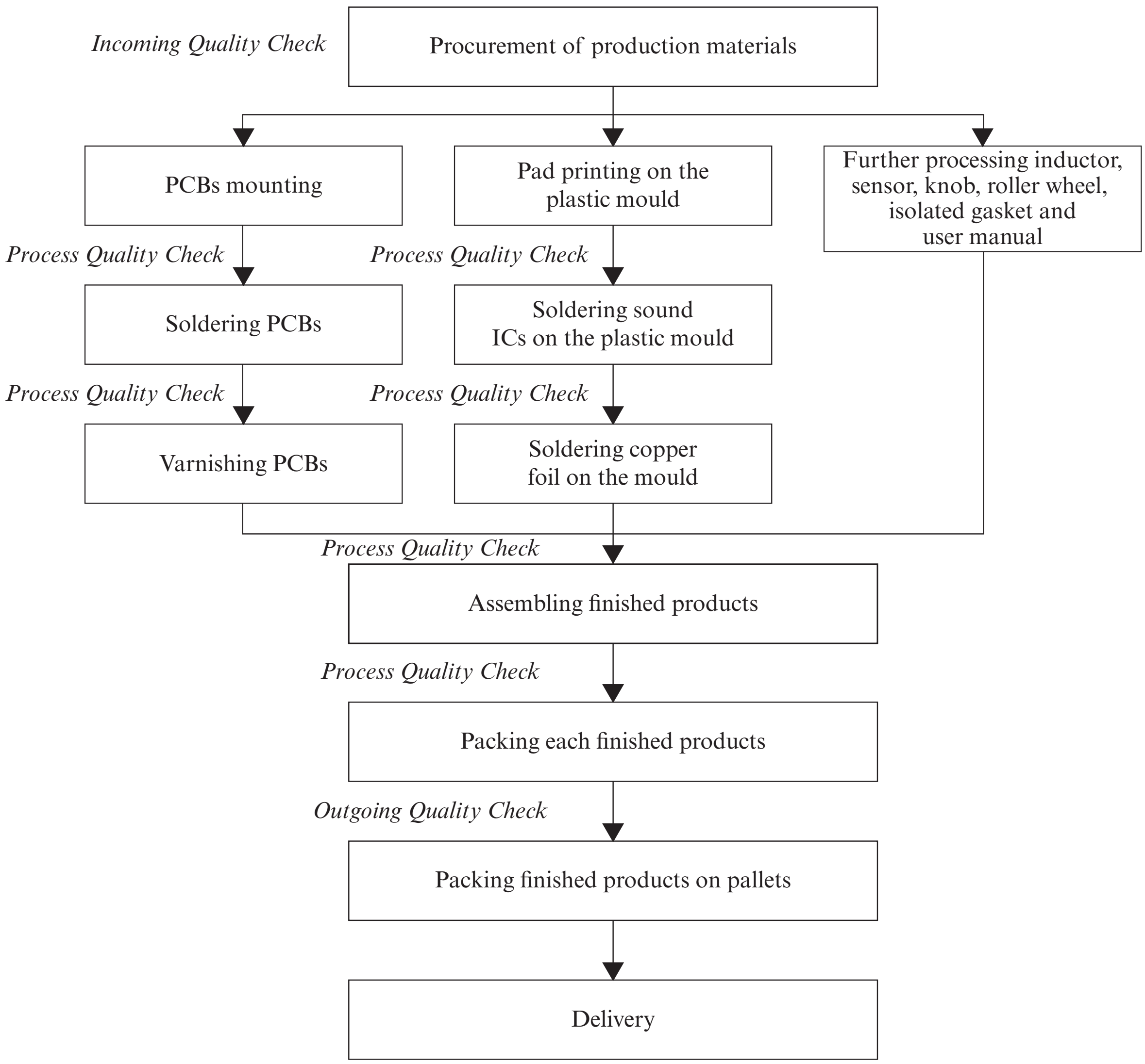
Massage toner



After procuring the required production materials of the massage toner which includes the blank PCBs for the main board and handle, laser diode, UV glass, such components must pass through the incoming quality check before they are placed on the assembly lines. The process begins with (i) the mounting of the electronic components such as capacitors, resisters and ICs on the main board PCB by the SMT machines; (ii) soldering the laser diode on the PCB for the handle; and (iii) processing UV glass and magnet for the plastic case of the handle. In the soldering process, the Group solders the larger electronic components on the PCBs for the main board and handle. At the process quality check of appearance inspection, products that are visibly defective will be eliminated. The PCBs for main board, handle and the plastic case are then assembled together. The outgoing quality check is performed by the testing and inspecting of the electrical and functional performance of the finished product. After the outgoing quality check, the process culminates with the packaging and shipment of the finished products.

Fishing related product

Fishing indicator

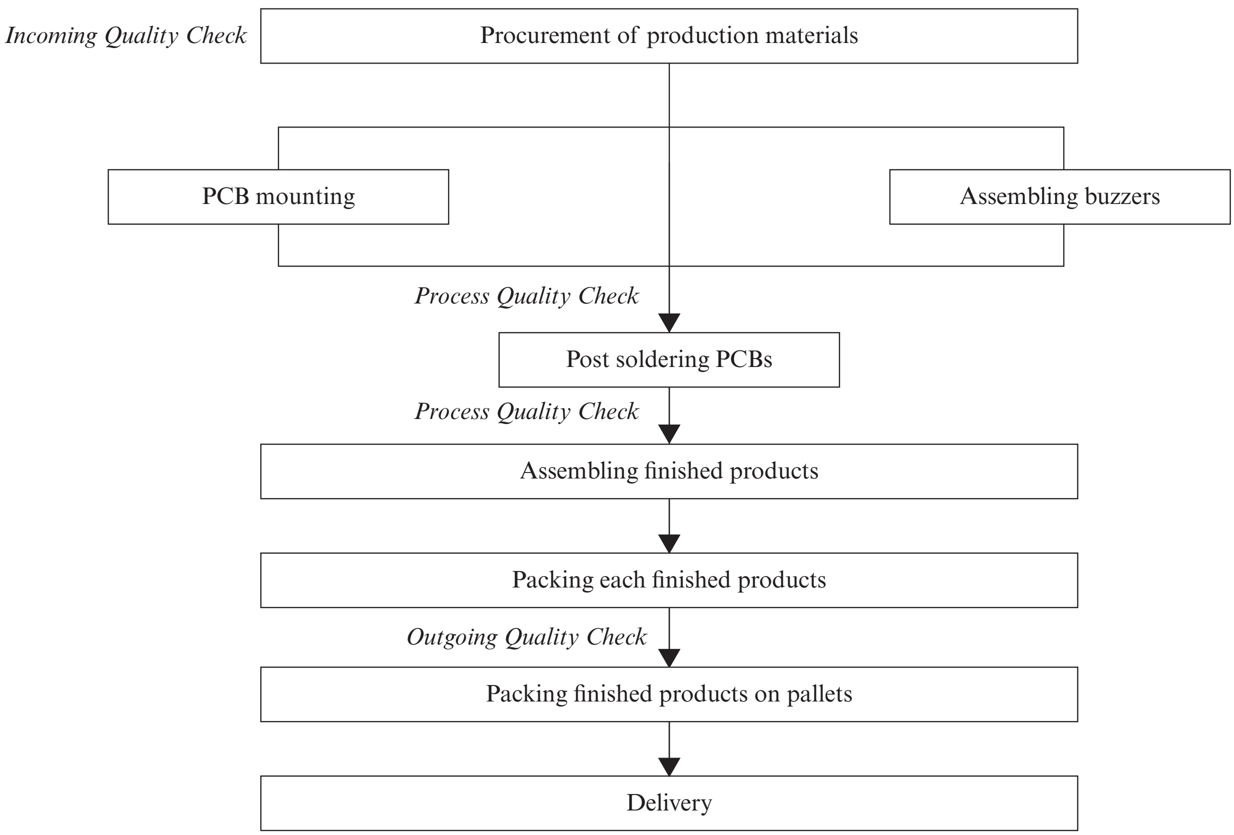


The purchasing department procures the required production materials of the fishing indicator which include the blank PCBs, plastic mould, ICs, inductor, sensor, knob, roller wheel and isolated gasket, such raw materials and components must pass through the incoming quality check before they are placed on the assembly lines.

The process begins with three main procedures which are (i) the mounting of the electronic components on the PCB by the SMT machines; (ii) the pad printing on the plastic mould; and (iii) the further processing of various components. At the appearance inspection stage, products that are visibly defective will be eliminated. In the soldering process, the Group solders the larger electronic components on the PCBs and the sound ICs on the PCB and the plastic mould respectively. After a process quality check, the PCBs are being varnished with a special coating for protection and copper foil is soldered on the plastic mould. The PCB and the plastic mould are then assembled together. The outgoing quality check is performed by the testing and inspecting of the electrical and functional performance of the finished product. After the outgoing quality check, the process culminates with the packaging and shipment of the finished products.

Security related product

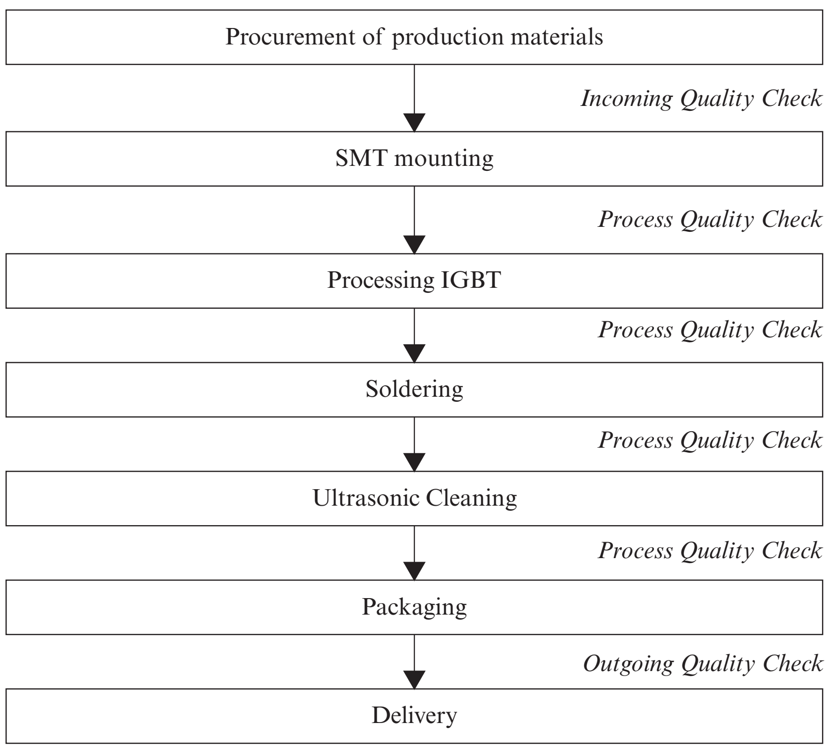
Security alarm



The two major components for manufacturing hand-held consumer electronics security alarm are PCBs and buzzers. After procuring the specific PCBs and other electronic components, the electronic components will be mounted on the PCBs according to customers' specifications and designs. On the other hand, the components made up of the buzzers will be assembled. Once the mounted PCBs and assembled buzzers passed the process quality checking, soldering of PCBs will be proceeded to ensure all the electronic components on the PCBs, including the buzzers, are soldered securely. The post-soldered PCBs will be gone through the process quality check again before assembling the PCBs and buzzers as the finished products. An outgoing quality check will be done by the Group before the finished products are delivered to the customers' designated destination.

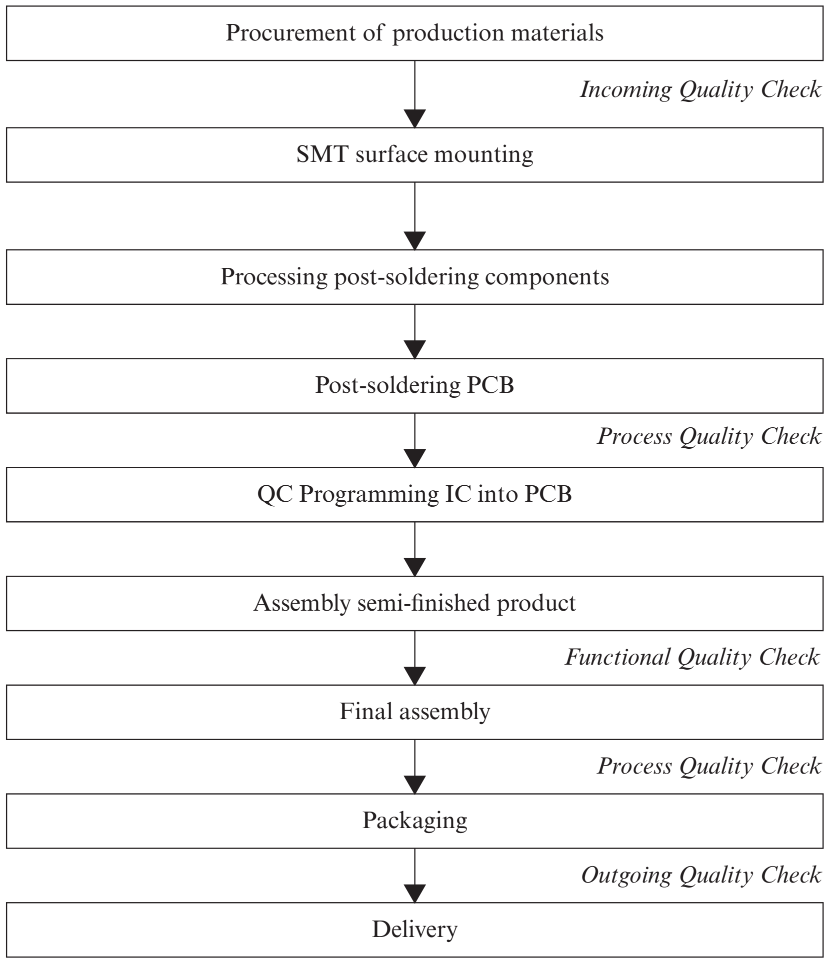
Other electronic products

Starter



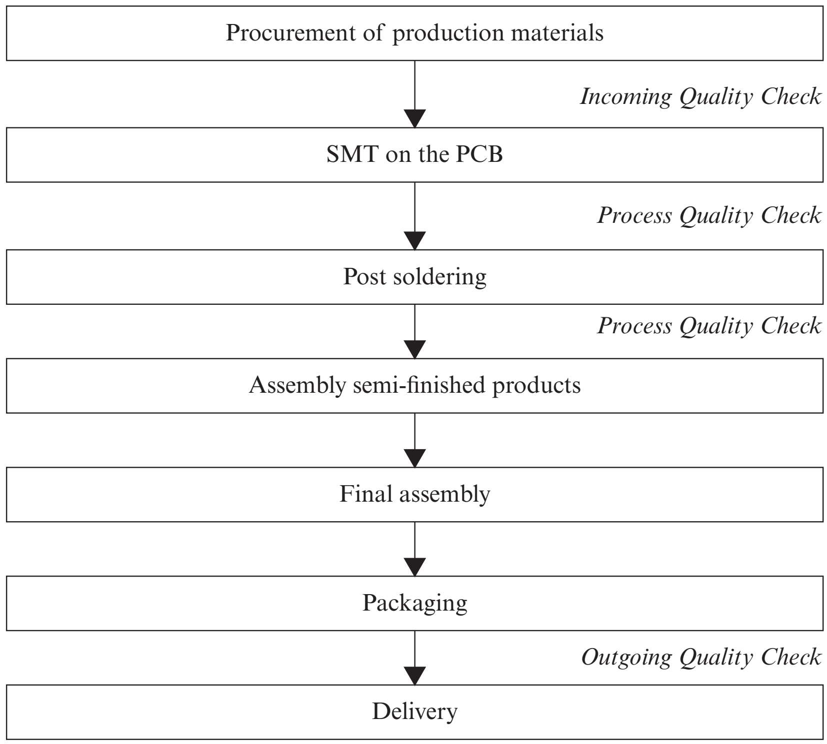
Production of starter comprises two major components that are PCB and IGBT. After the procurement of PCBs, a layer of material will be painted on it and undergo a printing process in a SMT machine. A checking of IGBT will be done to ensure the IGBT components comply with the specifications and standards after the process of incoming quality check of PCB. A post soldering process will joint all necessary components onto the PCB and then go through an ultrasonic cleaning process; a process quality checking will be performed again in between the step of post soldering and ultrasonic cleaning. When all PCB assembly starters passed the outgoing quality check, all products will be attached ROHS labels and packed with specific packaging before delivering to customers.

Communicator



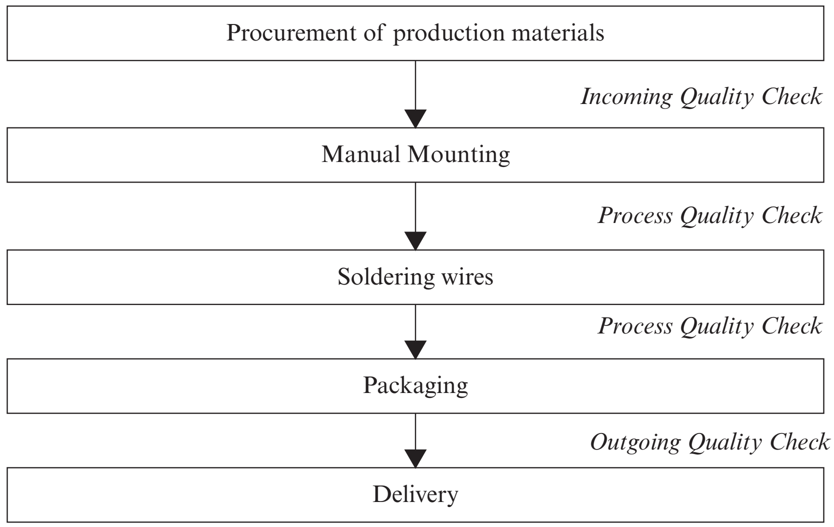
The production of communicator consists of several components such as PCBs, electronic parts and metal cases. After the procurement of all necessary components, electronic parts will be put into SMT machine for the surface mounting process. A processing of post-soldering components will be done for the succeeding process of post-soldering PCBs; workers will solder the prepared electronic parts onto the PCBs by using hand-held solder equipment. A semi-finished product will be produced after the assembling of metal case and PCB and that will then send to process the final assembly after a functional quality check. An outgoing quality check will be performed when all finished goods are produced. Finally, all goods will be packed with the specified packaging according to the customers' specifications and deliver to customers.

Buzzer



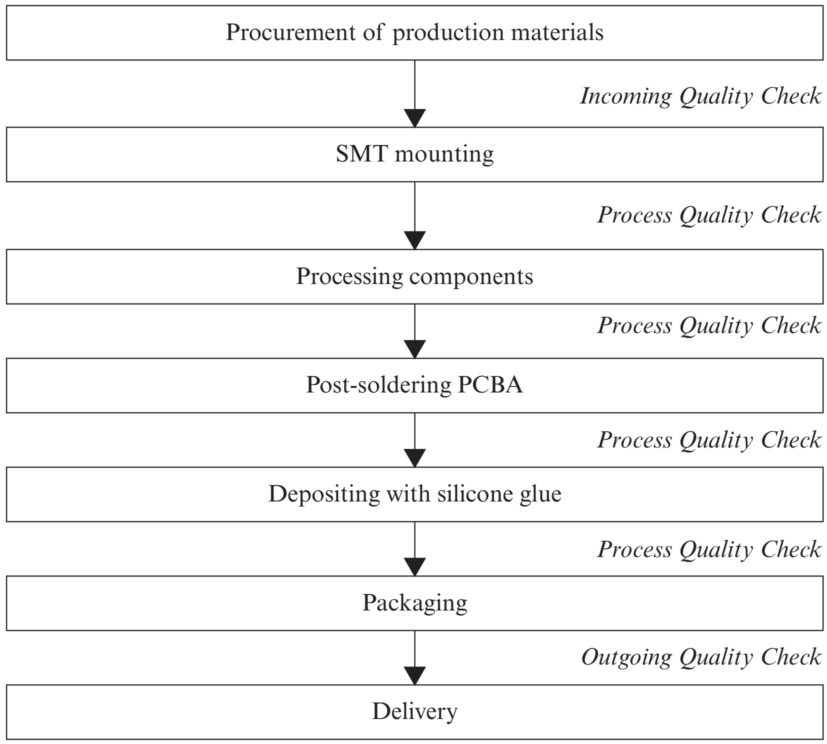
Buzzer is mainly produced by various components and materials including electronic parts, PCB, sound chip and plastic case. All suitable electronic parts will be mounted on PCBs through a SMT machine and a post soldering process will be done by workers to join the electronic pins and cables on the PCBs; process quality check will be performed in between each production process to ensure the quality meets the customers' specifications and required standards. Afterwards, metal chips will be combined on plastic cases by a process of gluing to become a semi-finished product, and finally a thin plastic round shaped case that is for sound emission will be jointed with the semi-finished products by a jig to become a finished product. All products will be performed an outgoing quality check and packed with specified packaging before delivering to customers.

Control Board



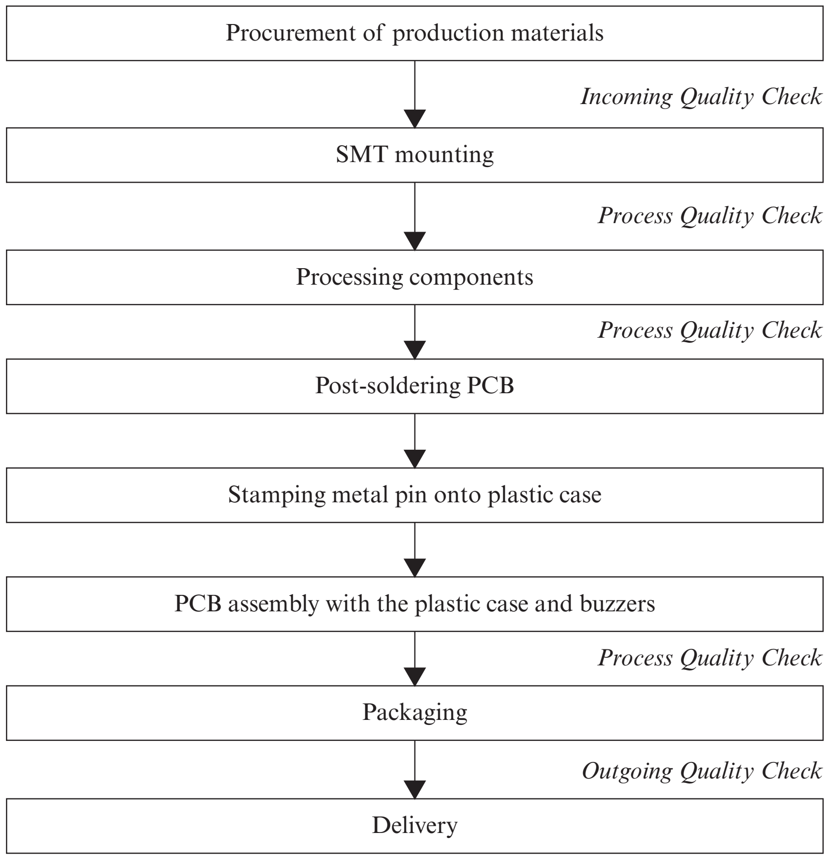
After procuring the required production materials of the control board which include the PCB, diode and inductance, such components must pass through the incoming quality check before they are placed on the assembly lines. The first process is manual mounting, all necessary electronic components will be mounted on the PCBs and a process quality check will be performed before soldering the wires. The wires will then be cleaned after soldering. After the outgoing quality check, the process culminates with the packaging and shipment of the finished PCB products.

Charger Board



The major components comprised in the production of charger board are PCBs, DC socket and other electronic components. After the procurement of all the necessary electronic components, the components will be placed into a SMT machine for the mounting process. Process quality check will be performed in between each production process before entering into each step. Afterwards, processing of DC socket and other electric components will be carried out. The bottom of PCBs will be cleaned after a post soldering process done for assembling the PCBs with the processed DC socket. Afterwards, silicone glue will be deposited to cover the black and red line on the bottom of PCBs.

Fire Alarm



Fire alarm is mainly produced by various components and materials including electronic parts, diode, PCB, terminal block and buzzer. Process quality check will be performed in between each production process to ensure the quality before proceeding to next step. The process begins with the mounting of the electronic components on the PCB by the SMT machines. After processing of the diodes, terminal blocks and other electronic components, the PCB will be assembled and post-soldered with those components. Afterwards, metal pin will be stamped on the plastic case and finally the PCB will be assembled with the plastic case and buzzer. After the outgoing quality check, the process culminates with the packaging and shipment of the finished products.

SUPPLIERS

In order to maintain the Group's inventory of production materials at a minimum level, the Group typically procures raw materials and components upon receipt of purchase orders from its customers. During the Track Record Period, the Group does not have any suppliers designated by its customers. The Group has not entered into any long-term contracts with its suppliers. During the Track Record Period, the Group was able to mitigate the risk of the increase in costs of production materials by passing to its customers through an increase in the price of its products.

The Directors attribute the Group's success partly to its well-established relationships with its suppliers. Apart from the quality of the materials supplied by the Group's suppliers, the Directors, in considering which supplier to use, take into account the commercial viability of the terms of supply such as the delivery lead-time, the cost of purchase and payment terms quoted by potential suppliers. The Group intends to source production materials from various suppliers which can meet the standards of the Group so as to reduce its reliance on any single supplier. During the Track Record Period, the Group had not encountered any substantial difficulties in the procurement of production materials from its suppliers in the PRC and Hong Kong and there had been no material legal dispute between the Group and its suppliers. The Directors do not foresee that the Group will encounter any difficulty in the sourcing of production materials in the future. As a result, no long term contract had been entered into between the Group and the suppliers.

The payments made by the Group to its Hong Kong suppliers are primarily in Hong Kong dollars or US dollars and the payments made to PRC suppliers are primarily in Renminbi or US dollars. The Group settles its purchases by way of cheques and telegraphic transfer with its suppliers with generally 30 days credit terms.

For the years ended 31 March 2011, 2012 and 2013, the Group's largest supplier of production materials accounted for approximately 5.75%, 7.11% and 8.83% of the Group's total purchases and the Group's five largest suppliers accounted for approximately 22.60%, 25.73% and 34.71% of the Group's total purchases respectively. The Group has established business relationship with its five largest suppliers from 2 to 13 years.

During the Track Record Period, the Group's five largest suppliers are all Independent Third Parties. None of the Directors or any of their respective associates or any Shareholder (who or which owns more than 5% of the issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue) has any interest in the Group's five largest suppliers during the Track Record Period.

PRODUCTION MATERIALS

The production materials purchased by the Group mainly comprised ICs, PCBs, semiconductors, connectors, switches, transmitters, receivers, plastic and metal parts, packaging materials and consumables. The cost of production materials is the major component for production costs of the Group. For the years ended 31 March 2011, 2012 and 2013, the cost of production materials used were approximately HK$42.05 million, HK$26.69 million and HK$32.12 million which accounted for approximately 69.63%, 65.76% and 71.83% of the Group's total cost of sales respectively. For the year ended 31 March 2013, the ratio of the production materials to the cost of sales increased to 71.83% due mainly to the change in cost structure as the factory expenses of an administrative nature are no longer included in the cost of sales after the Transformation. During the Track Record Period, the Group shifted the burden of purchase of costs of materials to customers by adjusting the selling prices of its products upwards. During the Track Record Period, the Directors estimated that approximately 81.37% of the orders were able to shift 100% of the increments in the cost of raw materials to the sales price of the Group's products, and the remaining orders were able to shift in the range of approximately 9.63% to 72.38% of the increments in cost of the raw materials to the sales price of the Group's products.

The following table illustrates the amount of production materials consumed by the Group and the average purchase prices of production materials during the Track Record Period:

Production materials	For the year ended 31 March 2011				2012				2013			
		Approximate % of total consumption	*Quantity consumed*	*Standard average purchase price*		*Approximate % of total consumption*	*Quantity consumed*	*Standard average purchase price*	*Total*	*Approximate % of total consumption*	*Quantity*	*Standard average purchase price*
	HK$'000		*Unit*	*HK$*	*HK$'000*		*Unit*	*HK$*	*HK$'000*		*Unit*	*HK$*
Semiconductors	8,304	19.75%	13,081,262	0.62	3,798	14.22%	7,771,725	0.59	6,269	19.52%	8,206,658	0.66
ICs	6,175	14.69%	1,760,207	3.44	4,541	17.02%	1,316,731	3.64	3,902	12.15%	1,758,237	2.08
Connectors & switches	3,222	7.66%	2,923,538	1.06	2,177	8.16%	2,293,491	1.23	2,053	6.39%	960,907	1.32
PCBs	3,417	8.12%	1,908,304	1.68	2,372	8.89%	1,466,311	1.82	3,004	9.35%	2,156,278	1.15
Plastic parts	3,687	8.77%	7,986,345	0.47	3,372	12.64%	4,058,379	0.77	2,103	6.55%	3,144,820	0.71
Metal parts	1,341	3.19%	7,614,648	0.20	1,271	4.76%	6,753,111	0.21	1,115	3.47%	4,427,684	0.19
Transmitters	622	1.48%	16,550	62.17	154	0.58%	9,677	59.16	1,892	5.89%	17,205	64.19
Receivers	431	1.02%	3,679	117.78	148	0.55%	1,269	127.52	570	1.77%	4,791	98.28
Consumables	2,721	6.47%	154,444	20.15	2,064	7.74%	107,526	22.79	958	2.98%	49,462	21.20
Packaging materials	986	2.35%	7,200,457	0.14	385	1.44%	2,944,672	0.20	600	1.87%	2,362,916	0.21
Others	11,146	26.50%	34,058,183	0.33	6,405	24.00%	26,082,263	0.31	9,651	30.06%	23,084,066	0.43
	42,052	100.00%	76,707,617		26,687	100.00%	52,805,155		32,117	100.00%	46,173,024	

For the years ended 31 March 2011 and 2012, the costs of production materials purchased by the Group remained relatively stable. Despite the price changes in connectors and switches, plastic parts, packaging materials and consumables, the standard average prices of all the other production materials experienced little fluctuation and their percentage changes accounted for less than 10% from the year ended 31 March 2011 to the year ended 31 March 2012. This was primarily attributable to the stable market demand for these production materials and the steady costs of raw materials during the years ended 31 March 2011 and 2012.

The standard average prices of plastic parts increased by 65.07% from approximately HK$0.47 per unit for the year ended 31 March 2011 to approximately HK$0.77 per unit for the year ended 31 March 2012. The increase was primarily attributable to the price adjustment by a major supplier of plastics parts, which had not raised the price of its supply for more than 10 years. The standard average prices of consumables increased by 13.10% from approximately HK$20.15 per unit for the year ended 31 March 2011 to approximately HK$22.79 per unit for the year ended 31 March 2012, which was mainly due to the increase in the cost of solder, one of the major consumables, brought about by the higher raw material price. The standard average prices of packaging materials increased by 44.11% from approximately HK$0.14 per unit for the year ended 31 March 2011 to approximately HK$0.20 per unit for the year ended 31 March 2012. The increase was mainly driven by the rising costs of packaging cards and boxes supplied by the PRC suppliers as a result of the hiking PRC labour costs, coupled with the increasing purchases of large-sized packaging cards and boxes. The standard average prices of connectors and switches increased by 16.04% from approximately HK$1.06 per unit for the year ended 31 March 2011 to approximately HK$1.23 per unit for the year ended 31 March 2012, which mainly resulted from the rising costs of production for switches and sockets.

For the years ended 31 March 2012 and 2013, the costs of production materials purchased by the Group remained relatively stable. Despite the price changes in semiconductors, ICs, PCBs and receivers, the standard average prices of all the other production materials experienced little fluctuation and their percentage changes accounted for less than 10% for the two years ended 31 March 2012 and 2013. This was primarily attributable to the stable market demand for these production materials during the two years ended 31 March 2012 and 2013. The standard average prices of semiconductors increased by approximately 12.60% from approximately HK$0.59 per unit for the year ended 31 March 2011 to approximately HK$0.66 per unit for the year ended 31 March 2013. The increase was primarily attributable to the increase in the cost of transistor, one of the major semiconductors purchased by the Group for the production of all products. The standard average prices of PCBs decreased by approximately 36.77% from approximately HK$1.82 per unit for the year ended 31 March 2012 to approximately HK$1.15 per unit for the year ended 31 March 2013. The standard average prices of ICs decreased by approximately 42.91% from approximately HK$3.64 per unit for the year ended 31 March 2012 to approximately HK$2.08 per unit for the year ended 31 March 2013. The decrease was primarily attributable to the sourcing of lower price ICs. The standard average prices of receivers decreased by approximately 22.93% from approximately HK$127.52 per unit for the year ended 31 March 2012 to approximately HK$98.28 per unit for the year ended 31 March 2013. The decrease was primarily attributable to the majority of the receivers purchased by the Group during the year ended 31 March 2013 were models with basic functions only.

During the Track Record Period, in order to minimise the impacts from the rising costs of raw materials, (i) the Group has adopted the cost-plus pricing model and purchase orders are negotiated with the customers taking into account the then prevailing market situation and recent trend in the pricing of raw materials and the estimated overhead costs; (ii) the Group has not been engaged in any long-term orders; and (iii) the Group made recommendations to its customers on the use of raw materials as well as the product designs in order to achieve cost savings in raw materials. As a result, the Group does not maintain any hedging policies against the rising costs of raw materials.

PRODUCTION FACILITIES

During the Track Record Period and up to the Latest Practicable Date, the production activities of the Group is located in Guanlan, Shenzhen City, Guangdong Province, the PRC. Both the Processing Factory and Yi Gao Tech are located in this production site. Furthermore, the Group has warehouse located in Tsuen Wan, Hong Kong.

The production site is a leased production facility which occupies a gross floor area of approximately 8,655 sq.m. during the Track Record Period. The following table sets out a brief summary of the Group's production facility as at the Latest Practicable Date:

Location	Number of production lines	Description and approximate gross floor area as at the Latest Practicable Date
Da He Industrial Zone, South Huanguan Road, Guanlan Town, Baoan District, Shenzhen City, Guangdong Province, the PRC (中國廣東省深圳市寶安區觀瀾街道環觀南路大和工業區高科園)	13	The production site is a 5-storey building with a gross floor area of approximately 8,655 sq.m.

The following table shows the estimated annual production capacity and the actual production output of the production facilities in the Group's products during the Track Record Period:

	Year ended 31 March								
	2011			2012			2013		
	Estimated annual production capacity (units) *(Note 1)*	Actual annual output (units)	Estimated average utilisation (%) *(Note 2)*	Estimated annual production capacity (units) *(Note 1)*	Actual annual output (units)	Estimated average utilisation (%) *(Note 2)*	Expected maximum capacity during the period (in unit)	Actual production during the period (in unit)	Utilization rate
Hair remover	142,560	142,963	100.28	113,784	105,939	93.11	142,560	191,140	134.08%
Massage toner	198,000	216,499	109.34	297,000	288,344	97.09	297,000	287,317	96.74%
Fishing indicator	50,160	48,813	97.31	65,208	57,950	88.87	65,208	25,990	39.86%
Security alarm	422,400	438,524	103.82	536,976	599,570	111.66	536,976	345,838	64.40%
Starter	130,680	144,011	110.20	11,880	10,600	89.23	11,880	7,050	59.34%
Communicator	8,448	8,286	98.08	10,824	9,981	92.21	10,824	4,302	39.75%
Buzzer	1,306,800	1,459,740	111.70	1,173,744	1,347,507	114.80	1,173,744	1,208,601	102.97%
Control board	169,752	164,253	96.76	95,040	100,899	106.16	95,040	121,840	128.20%
Charger board	17,160	16,460	95.92	24,024	20,000	83.25	24,024	20,500	85.33%
Fire alarm	86,328	61,150	70.95	110,880	120,820	108.96	126,456	137,950	109.09%
Others	819,720	809,154	98.71	739,200	666,123	90.11	739,200	793,144	107.30%
Subcontracting orders	543,840	637,660	117.25	490,512	470,407	95.90	258,192	223,909	86.72%

Notes:

1. Estimated maximum annual production capacity are calculated based on the allocation of the production lines for different products in the respective years, one 8-hour operating shift per day and 22 working days per month.

2. Utilisation of the Group's production lines had often exceeded their maximum capacity during the Track Record Period. This was due mainly to the increasing machine hours by engaging labour to work extra overtime. As advised by the PRC Legal Adviser, both the Processing Factory and Yi Gao Tech have complied with the relevant labour laws and regulations for the engagement of its employees to work overtime, especially for the payment of overtime pay, during the Track Record Period.

As some of the production procedures regarding the production of the Group's products are labour intensive, the fluctuations on the estimated annual production capacity and estimated average utilisation rate for various products during the Track Record Period are mainly due to the allocation of labour force on the production of respective products and whether the Group engages the production workers to work overtime. In addition, the variation in the complexity and style of the electronic products for production will affect the estimated average utilisation rate.

As advised by the PRC Legal Adviser, the Processing Factory established under the Processing Agreement and Yi Gao Tech have obtained all necessary licenses, approvals and permits from the appropriate regulatory authorities for its business operations in the PRC and have complied with all relevant laws and regulations in relation to environmental protection, labour and taxation matters. Details of the Processing Agreement have been set out in the sub-paragraph headed "Processing Arrangement" in this section.

As at the Latest Practicable Date, there are approximately 146 production workers and 52 quality control workers working over 13 production lines in the Yi Gao Tech. Such 13 production lines include the 2 SMT production lines, 1 gluing line, 1 manual mounting line, 1 processing line, 2 post soldering lines, 4 assembling lines and 2 packaging lines. For the three years ended 31 March 2011, 2012 and 2013, the aggregate production volume of PCB assemblies and complete electronic products amounted to approximately 4,147,513, 3,798,140 and 3,367,581 units respectively.

PROCESSING ARRANGEMENT

The PRC government introduced economic reform and open door policy in 1979 with an aim to attract foreign investments to the region. A number of reform programs were implemented in Guangdong Province, the PRC including the introduction of the processing and assembling investment mode to Hong Kong manufacturers. This mode of investment comprised various incentives to investors including the exemption from the requirements for (i) import licenses; (ii) import taxes upon importation of parts, materials and equipment used directly in the processing and assembling operations; and (iii) export permission for the export of products after processing.

The rationale behind the introduction of the processing and assembling investment mode by the PRC government in 1979 was to increase the employment rate in the PRC and gain foreign investment, in terms of both capital and technology know-how from overseas, which in turn fostered the manufacturing industry and economies of certain second and third tier cities in the PRC. Such mode of investment was particularly popular in Guangdong Province and the Pearl River delta area in the 90's.

Under such historical context, the Group entered into the Processing Agreement with, among others, the Processing Party on 29 November 1991 to begin its manufacturing business of electronic products in the PRC for the following reasons: (i) a processing arrangement involved relatively small capital investment as compared to setting up its own production plant; (ii) the regulatory requirements for a processing arrangement is much simpler than setting up its own production plant; (iii) the avoidance of complicated reporting requirements by the PRC government; and (iv) the enjoyment of tax concessions.

In arriving the terms of Processing Agreement, the Processing Party took into account of several factors, including but not limited to, the processing fee, the stability of business operations of the foreign party, the expected growth in processing fee along with the development of the processing operations and the year of relationship and trustworthiness of the foreign party.

Before the Transformation of the Processing Factory into a WFOE, the Group's manufacturing operations had been undertaken by the Processing Factory in the PRC pursuant to the Processing Agreement entered into, among others, with the Group on 29 November 1991. The Processing Agreement was subsequently renewed in 1994, 1999 and 2008 for terms of five to ten years expiring on 30 November 2014. The Processing Party and its beneficial owners were Independent Third Parties within the meanings of the GEM Listing Rules. Before the Transformation, the Group's production relied on the processing arrangement as stipulated under the Processing Agreement. The Directors believe that the

Processing Agreement enabled the Group to improve production efficiency, enhance the quality of the Group's products, reduce production costs and assist in the maintenance of a competitive cost base.

Pursuant to the terms of the Processing Agreement, Echo Electronics was engaged in the processing business in which the manufacturing and processing procedures were undertaken by the Processing Factory while Echo Electronics was responsible for the supply of the necessary production materials, packaging materials, machineries and equipments. Echo Electronics was responsible for paying corresponding processing fees and other production-related expenses incurred by the Processing Factory for its manufacturing operations. The manufacturing and quality control processes were carried out under supervision of the Group's management with Mr. Lo Yan Yee since the set up of the Processing Factory in 1991 and Mr. Lo Ding To since 2009. In addition, the Group also provided guidance, monitoring and training to the staff and management of the Processing Factory during its daily operations. As such, the Group obtained control over the key areas of the manufacturing and processing procedures undertaken by the Processing Factory including but not limited to production material sourcing, manufacturing, processing, quality controlling, warehousing and product delivery.

The factory foreman of the Processing Factory was designated by the Processing Factory and was not an employee of the Group. He was responsible for the overall supervision of the operation of the Processing Factory. According to the Processing Agreement, the factory foreman and the employees of the Processing Factory were recruited by the Processing Factory, but under the supervision of the Group over the key areas of the manufacturing process undertaken by the Processing Factory including but not limited to production materials sourcing, manufacturing, quality controlling, warehousing and product delivery. Even though the Group had no authority on the employment and dismissal of the employees of the Processing Factory, the Group could submit a request to the Processing Factory and demand for either replacement or employment. As confirmed by the Directors, the Group had only submitted requests to the Processing Factory for the employment of factory workers during the Track Record Period. However, the Processing Factory had full discretion on the employment and replacement of all personnel of the Processing Factory.

Pursuant to the terms of the Processing Agreement, the Processing Factory was obliged to work exclusively for Echo Electronics. The machinery, equipments and production materials of the Processing Factory were provided and owned by the Group and were solely used for the production orders placed by Echo Electronics. The Directors confirmed that the Processing Factory had not provided manufacturing services to any other parties apart from the Group during the Track Record Period.

Set out below are the summary of particulars of the processing arrangement:

Parties

The parties to the Processing Agreement are set out below:

(1) the Processing Party, being 深圳市寶安外經發展有限公司 (Shenzhen City Baoan Foreign Economic Development Ltd*), is an Independent Third Party;

(2) the foreign party, being Echo Electronics since 30 December 2006 and the entity of the foreign party was Echo Co before 30 December 2006;

(3) the Processing Factory; and

(4) the Undertaking Party, being Shenzhen City Da He Min for the period from 30 December 2006 to 16 November 2011, was an Independent Third Party. The entity of the Undertaking Party had been changed several times since the Processing Agreement was entered in November 1991. The entity of the Undertaking Party for the period from 29 November 1991 to 8 August 2005 was Shenzhen City Bao Guan Cheng and for the period from 9 August 2005 to 29 December 2006 was Shenzhen City Da Bu Xiang, which are all Independent Third Parties.

The Processing Party was a state-owned company and was engaged in conducting processing arrangements and providing agency service regarding import and export matters in the Baoan District. As the Processing Factory was located within the region and did not have import and export rights, the Directors are of the view that it was in the interest of the Group to cooperate with the Processing Party to enter into the Processing Agreement for the production of electronic products.

The last Undertaking Party was Shenzhen Da He Min, which was a cooperative company in the PRC owned as to approximately 39.98% and 60.02% by 深圳市大和民集體資產委員會 (Committee of collective assets of Shenzhen City Da He Min*) and the villagers of Guanlan Da He Min Village respectively. The principal activities of Shenzhen City Da He Min are commercial operations in the PRC and supply of raw materials.

Supplemental agreements and extension agreements to the Processing Agreement had been entered into between the parties to the Processing Agreement from time to time to cater for, among other things, the changes of the Undertaking Party and foreign party, the changes of name and location of the Processing Factory, the extension of the Processing Agreement, and the additions of scope of productions of the Processing Factory. Save as the aforesaid, there is no material change in the terms of the Processing Agreement. As advised by the PRC Legal Adviser and confirmed by the Directors, all necessary regulatory approvals in respect of the supplemental agreements and extension agreements to the Processing Agreement have been obtained. On 28 October 2011, Echo Electronics entered into a termination agreement with the Processing Party, Shenzhen De He Min and the Processing Factory, pursuant to which the Processing Agreement was terminated and the approval for the termination of the Processing Agreement was obtained from 深圳市寶安區經濟促進局 (Shenzhen Municipal Economic Bureau of Baoan District*) on 16 November 2011.

Date of the Processing Agreement

29 November 1991 (as supplemented and renewed from time to time)

Duration

From 29 November 1991 to 30 November 2014 (terminated from 16 November 2011)

Primary responsibilities of the contracting parties

(1) the Processing Factory was responsible for the processing of products ordered by Echo Electronics pursuant to the terms of the Processing Agreement;

(2) the Undertaking Party provided the necessary production premises, existing water and electricity utilities and labour for production, shall assist Echo Electronics in respect of the processing fees related customs clearance and be responsible for employing the head of factory, accounting personnel and labour management personnel of Processing Factory;

(3) the Processing Party conducted processing arrangements and provided agency service regarding import and export matters;

(4) Echo Electronics provided all necessary production machineries and materials (including production materials, accessories and packaging materials) to the Processing Factory for production. Such machineries and equipments provided shall be owned by the foreign party;

(5) Echo Electronics paid the processing fees which were the actual expenses reasonably incurred by the Processing Factory for its processing work; and

(6) Echo Electronics paid all transportation costs of machineries and equipments and materials provided by it and products processed by the Processing Factory.

Before the relocation of the Processing Factory in 2006, the Undertaking Party had provided the Group with the production premises owned by it. Since the entering of the lease agreement dated 6 November 2006 between the Processing Factory, Ms. Feng Shao Fang and Ms. Zhang Feng Ying, the Undertaking Party, Shenzhen City Da He Min, did not provide the Group with the production premises owned by it. It was because the Group considered the options of the production premises provided by

Shenzhen City Da He Min were not suitable for the Group. The Group decided to rent the production premises from Ms. Feng Shao Fang and Ms. Zhang Feng Ying, who were introduced by Shenzhen City Da He Min. Ms. Feng Shao Fang and Ms. Zhang Feng Ying are local PRC residents and are Independent Third Parties.

As advised by the PRC Legal Adviser, there is no mandatory requirement under the PRC laws or regulations in relation to the processing arrangement in the PRC as to whether the responsibility of providing production premises falls on the undertaking party or foreign parties to a processing arrangement. There are no laws or regulations prohibiting the foreign party or the processing factory to a processing agreement from renting production premises from another party other than the undertaking party to a processing agreement. The PRC Legal Adviser also advised that no approval or registration from the relevant PRC authorities is required for such provision of production premises.

As advised by the PRC Legal Adviser, under the Processing Agreement, the Processing Factory is responsible for any claims or liabilities with regard to work safety, environmental protection and labour related issues of it or any breach of the applicable PRC laws and regulations. As the Processing Factory is a non-legal person enterprise and it can not independently bear civil liabilities, Echo Electronics may also in practice be held jointly and severally liable with the Processing Factory in respect of the aforesaid claims or liabilities. In addition, according to the undertaking set out in the registration form for the Transformation, Yi Gao Tech and the Processing Factory are jointly and severally liable for the claims or liabilities arising during the period of the Transformation. The PRC Legal Adviser further advised that there is no specific law and regulation in the PRC to define the legal liability of the undertaking party under a processing agreement, therefore, the legal liability of the Undertaking Party arising from any breach of any laws or regulations by the Processing Factory will be determined by the PRC courts on a case by case basis.

As advised by the PRC Legal Adviser and up to the Latest Practicable Date, they did not identify any major non-compliance with applicable laws and regulations and they did not identify any material/foreseeable litigations or claims which had been/will be brought against the Processing Factory.

As confirmed by the Directors, they were not aware of any major non-compliance with applicable laws and regulations and any material litigations or claims which Echo Electronics may be held liable to any breach of any laws or regulations by the Processing Factory under the Processing Agreement during the Track Record Period and up to the Latest Practicable Date.

Production monitoring

In monitoring the production process of the Processing Factory, the Group adopts the following measures, including (i) holding regular weekly meetings with the senior management of the Processing Factory to review and monitor the production schedule and resources planning of the Processing Factory; (ii) reviewing the daily work in progress reports of the Processing Factory to keep updated about the status of the manufacturing orders placed by the Group to ensure on-time delivery; (iii) reviewing corresponding monthly reports of the Processing Factory such as payment for labour insurance, payment for social security insurance and processing fees breakdown; and (iv) sending its representatives, namely Mr. Lo Yan Yee and Mr. Lo Ding To, to station at the Processing Factory to monitor the production process. One of the executive Directors, namely Mr. Lo Yan Yee, meets with the management of the Processing Factory, to supervise the Processing Factory to ensure that the Group's guidance and instructions are executed properly. In addition, with a view to further improving efficiency and cost effectiveness of the production process of the Processing Factory, the Group, from time to time, provides technical guidance and production techniques to the Processing Factory throughout its production process. The Group also purchases and installs upgraded machineries and equipments in the Processing Factory to increase the level of automation and enhance cost efficiency.

Right of termination or renewal

Each of the parties may terminate the Processing Agreement by giving the other parties three months' prior notice, subject to (i) payment of a compensation amount equal to one month processing fees by reference to the average monthly processing fees paid for the six months immediately prior to such termination; and (ii) duly approved by the original approving authority. Similarly, three months prior notice must be given for renewal of the Processing Agreement which is subject to the agreement of all parties.

In view of the Transformation having been approved on 16 May 2011, the WFOE, namely Yi Gao Tech has been set up on 26 May 2011 and the new customs registration number has been obtained on 8 July 2011. The Processing Agreement and the Processing Factory were terminated and deregistered on 16 November 2011 and 10 February 2012, respectively.

Processing fees

The processing fees payable by the Group were to materially reimburse the production costs incurred by the Processing Factory. The production costs include labour costs, utilities expenses and rental payment generally. Labour costs were subject to variation depending on the number of workers actually engaged by the Processing Factory for the provision of processing services to the Group and the amount of overtime allowance payable to such worker. Furthermore, Echo Electronics was required under the Processing Agreement to ensure that the workers recruited by the Processing Factory received a specified minimum amount of monthly income for their processing services. The exact unit rate was negotiated on a case by case basis between Echo Electronics and the Processing Factory by reference to the type of goods involved, their specifications and the complexity of the processing services required. Accordingly, the Group was able to monitor the wages and rental expenses incurred by the Processing Factory.

For the years ended 31 March 2011 and 2012, the total processing fees incurred by the Group were approximately HK$18.34 million and HK$8.58 million respectively. The decrease in the total processing fees for the year ended 31 March 2012 was mainly attributable to the establishment of Yi Gao Tech to undertake the production activities of the Processing Factory. The production costs therefore have been directly charged under Yi Gao Tech since September 2011. For the period from its establishment to 31 March 2012, approximately HK$3.60 million of direct labour and HK$1.71 million of overhead were charged under Yi Gao Tech as production costs. There was no processing fees incurred for the year ended 31 March 2013. The following table sets out the breakdown of the processing fees incurred by the Group during the Track Record Period:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Recognised as direct labour in cost of sales			
Wages, social securities and housing provident fund	11,995	5,187	—
Recognised as overhead in cost of sales			
Payments to Undertaking Party	99	24	—
Payments to Processing Party	95	84	—
Rental fees to Ms. Feng Shao Feng and Ms. Zhang Feng Ying	1,853	747	—
Messing expenses incurred by staff canteen of the Processing Factory and other personnel expenses	1,170	506	—
Other factory overheads	3,127	2,036	—
	6,344	3,397	—
Total processing fees	**18,339**	**8,584**	**—**

The total processing fees incurred by the Group formed part of its direct costs which would be accounted for cost of sales under the income statements of the Group. The processing fees incurred by the Group are charged to cost of sales as those costs are directly related to the production of the Group's products.

Machineries and equipments

Ownership of the machineries and equipments remains vested in the Group and is required to be returned to the Group upon the termination of the Processing Agreement. The net book values of plant and machinery as at 31 March 2011, 2012 and 2013 were approximately HK$0.43 million, HK$0.22 million and HK$0.18 million respectively.

TRANSFORMATION OF THE PROCESSING FACTORY INTO A WFOE

Processing arrangement was one of the most favourable forms of foreign investment in the PRC when the Processing Agreement was entered into in 1991. Under a typical processing arrangement, the foreign party would invest in the form of provision of raw materials, equipments and machineries and payment of a processing fee in return for production services provided by the PRC counterparties. With China's accession to the World Trade Organization ("**WTO**") in late 2001, the PRC Government has changed its policies to enhance its competitive edge against fellow members of the WTO. In respect of the manufacturing sector, new policies were adopted to attract high-tech industries and discourage those in the form of contract processing, which mostly focused on low-end consumer products with highly polluted industrial process. Accordingly, the PRC Government carries out a series of new policies in 2008 which include《關於深圳市來料加工企業原地不停產轉型外商投資企業操作意見》(Guidance opinions on the transformation of processing enterprises without suspension of production and to become foreign invested enterprises*) allowing the transformation and upgrade of contract processing factories to foreign investment enterprises to carry on manufacturing business in the mode of import processing under the transformation and upgrade program. In addition, it is unlikely that the PRC Government will renew the contract processing licenses to the existing contract processing factories once their licenses are expired. The Directors consider that the material change from the Transformation would be the different tax treatment which would apply to the Group, however, the Group would be benefited from being entitled to sell its products domestically in the PRC.

On 5 May 2011, Echo Electronics submitted the application for the transformation of the Processing Factory to become a WFOE, namely Yi Gao Tech, in view of the "Upgrade and Transformation" — a policy by the PRC Government continues to encourage and retain foreign investment interests. The Directors are of the view that the Transformation will diversify the Group's mode of operation in the PRC as the products manufactured by Yi Gao Tech can be sold in the PRC market which will provide opportunities for the Group to expand its business and create a new line of income stream.

Before the Processing Factory revokes its business registration, the Group is allowed to first set up a provisional WFOE and the two enterprises are allowed to co-exist within a certain period. Permission is granted by the PRC Customs for the two enterprises to use both the old and new Customs registration numbers within a specified timeframe which is within 3 months from the receipt of the new Customs registration number during which the Processing Factory undergoes the Transformation. Before the Processing Agreement is terminated, the Processing Factory undergoing the Transformation is allowed to continue to execute the Processing Agreement. During the period of the Transformation, the Processing Factory is allowed to transfer the remaining raw materials to the new WFOE and therefore, the production of the Group has not been suspended.

As the industry of manufacturing of electronic products does not require prior examination and approval, the environmental protection department and work safety supervision department would issue their approval comments in the form of "change of status". As the Processing Factory undergoing Transformation will not change its premises, the original fire prevention procedures of the Processing Factory will continue to apply. The foreign economic and trade department and industry and commerce administration department would allow the WFOE to apply for approval documents, permits and business license using the old papers. The WFOE is also allowed by the PRC Customs to remain in the same management category and enjoy the same preferential policies as a processing factory. However, there was no preferential policy enjoyed by the Processing Factory in the past and Yi Gao Tech has not adopted any preferential policy. The Processing Factory undergoing the Transformation is not required to go through relevant customs procedures according to the supervision measures applicable to newly set-up enterprises.

Echo Electronics submitted the application for the Transformation of the Processing Factory to become a WFOE, namely Yi Gao Tech on 5 May 2011. Referring to the《深圳市來料加工企業原地不停產轉型登記表》(Registration form for the transformation of processing factory in Shenzhen*) submitted to 深圳市寶安區經濟促進局 (Shenzhen Municipal Economic Bureau of Baoan District*) on 13 May 2011, which has been executed by the relevant parties to the Processing Agreement, it indicated that the Processing Factory, the Processing Party and the Undertaking Party agreed to the Transformation. The establishment of Yi Gao Tech was approved by the People's Government of Shenzhen Municipality on 18 May 2011 by the issuance of 中華人民共和國台港澳僑投資企業批准證書 (Certificate of Approval for Establishment of Enterprises with investment of Taiwan, Hong Kong, Macau and Overseas Chinese in the PRC*) and the relevant business license has been issued on 26 May 2011. Yi Gao Tech has submitted for the registration of Social Insurances on 27 June 2011 and the registration of the payment of housing provident fund on 23 June 2011. On 20 June 2011, Yi Gao Tech obtained a new customs registration number and as advised by the PRC Legal Adviser, the Group should apply for the cancellation of the old Customs contract with the relevant PRC Customs and transfer its production equipments and remaining raw materials within 3 months from the receipt of the new Customs registration number and within 6 months from the receipt of the Certificate of Approval for Establishment of Enterprises with foreign investment in the PRC (中華人民共和國台港澳僑投資企業批准證書) regarding Yi Gao Tech to apply for the cancellation of the Processing Factory.

During the process of transferring the Processing Factory's production equipments and remaining raw materials to Yi Gao Tech, the Processing Factory and Yi Gao Tech continued to operate in parallel with each other to undertake the productions activities of the Group. Yi Gao Tech and the Processing Factory are to co-exist until the transfer is completed. During the period of transfer, the PRC Customs allowed both Yi Gao Tech and the Processing Factory (through import/export agency) to import raw materials for production and export the Group's manufactured products. The production equipments were transferred to Yi Gao Tech pursuant to 《進出口貨物免稅證明》(Tax exemption certificate on imports & exports*) issued by 深圳海關 (Shenzhen Customs*) on 23 June 2011. As advised by the PRC Legal Adviser, the remaining raw materials of the Processing Factory has been transferred to Yi Gao Tech pursuant to 《進口貨物報關單》(Import declarations*) submitted by Yi Gao Tech to 南頭海關 (Nantou Customs*) on 1 September 2011. On 5 September 2011, the Group applied for the cancellation of the old Customs contracts with 南頭海關 (Nantou Customs*) and the application was subsequently approved on 13 September 2011. As the location of Yi Gao Tech has remained the same with the Processing Factory after completion of the Transformation, there are no costs incurred for the transfer of the production equipments, raw materials and factory workers from the Processing Factory to Yi Gao Tech.

All the production contracts of the Processing Factory had been cancelled on 22 September 2011, which were agreed by the Undertaking Party and Processing Party together with the relevant authorities. Echo Electronics entered into a termination agreement with the Processing Party, the Undertaking Party and the Processing Factory on 28 October 2011 for the termination of the Processing Agreement. The Group's application for cancellation of the Processing Agreement was submitted and its approval was obtained from 深圳市寶安區經濟促進局 (Shenzhen Municipal Economic Bureau of Baoan District*) on 16 November 2011. As the Transformation was the reason for the termination of the Processing Agreement, the Processing Factory, the Processing Party and the Undertaking Party were all agreed on the Transformation pursuant to the "Registration form for the transformation of processing factory in Shenzhen" submitted by the parties on 13 May 2011. According to the《關於促進加工貿易轉型升級的若干意見》(Opinions on the encouragements for the transformation of processing enterprises*) promulgated on 9 September 2008 by Guangdong Provincial Government, Guangdong Provincial Government supports and encourages the processing enterprises to transform into foreign investment enterprise, by providing necessary guidance and support to assist the Transformation. As the termination of the processing arrangements is part of the necessary procedures to complete the Transformation, the PRC Legal Adviser advised that, Echo Electronics is not liable for bearing any legal liabilities arising from the early termination of the Processing Agreement.

Yi Gao Tech has been approved by深圳市寶安區國家稅務局觀瀾稅務分局 (Shenzhen Municipal Office of the State Administration of Taxation, Guanlan Tax Branch of Baoan District*) as an export enterprise eligible for export tax rebate with effect from 1 August 2011 pursuant to a written confirmation dated 25 August 2011. With reference to the notice issued by 深圳市寶安區國家稅務局觀瀾稅務分局 (Shenzhen Municipal Office of the State Administration of Taxation, Guanlan Tax Branch of Baoan District*) dated 16 December 2011, the registration of the cancellation of the taxation of the Processing Factory has been granted. On 19 January 2012, 深圳市寶安區地方稅務局觀瀾稅務所 (Local Taxation of Shenzhen Municipal, Guanlan Tax Office of Baoan District*) confirmed that all tax issues of the Processing Factory have been handled and approved the cancellation of taxation registration.

On 11 January 2012, the Processing Factory applied to 南頭海關 (Nantou Customs*) for the cancellation of《對外加工生產企業海關登記通知書》(Customs Registration of Foreign Processing and Manufacturing Enterprises*) and it was approved by 南頭海關 (Nantou Customs*) on 12 January 2012.

On 8 February 2012, the Processing Factory applied to 深圳市市場監督管理局 (Market Supervision Administration of Shenzhen Municipality*) for the cancellation of the registration of the Processing Factory and it was subsequently approved on 10 February 2012 by the issuance of《企業註銷通知書》(Cancellation Notice of Enterprises*). The PRC

Legal Adviser confirmed that the business and operation of the Processing Factory legally ceased and the Processing Factory was deregistered in the PRC on 10 February 2012. The Directors confirm that there were no liabilities arising from the completion of the Transformation.

As advised by the PRC Legal Adviser, Yi Gao Tech has obtained all necessary licenses, certificates, permits and approvals for the setting up of a WFOE, the Processing Factory completed the transfer of production equipments and remaining raw materials to Yi Gao Tech and the cancellation of the registration of the Processing Factory has been completed. Furthermore, the Transformation is in compliance with《廣東省關於來料加工企業原地不停產轉型的操作指引》(Guidance on the transformation of processing enterprises without suspension of production in Guangdong Province*) issued together by eleven governmental departments in Guangdong Province and《關於深圳市來料加工企業原地不停產轉型外商投資企業操作意見》(Guidance opinions on the transformation of processing enterprises without suspension of production and to become foreign invested enterprises*) issued by 深圳市人民政府辦公廳 (The General Office of the Shenzhen Municipal People's Government*) except for the deregistration of the Processing Factory within the prescribed period. The PRC Legal Adviser have confirmed that the Transformation is legal and valid having considered such non-compliance as all the cancellation procedures have been completed and approved by relevant government authorities.

The deregistration of the Processing Factory was not completed before 17 November 2011, which is the date 6 months from the receipt of the Certificate of Approval for Establishment of Enterprises with foreign investment in the PRC (中華人民共和國台港澳僑投資企業批准證書) in relation to Yi Gao Tech, due mainly to the procedures are complicated and involved various relevant PRC authorities. As further advised by the PRC Legal Adviser, the Group's non-compliance with《廣東省關於來料加工企業原地不停產轉型的操作指引》(Guidance on the transformation of processing enterprises without suspension of production in Guangdong Province*) in relation to the delay in the deregistration of the Processing Factory within the prescribed time limit has no legal liability or penalty as there is no penalty set out in the non-compliance of such guidance and the PRC Legal Adviser has also consulted with 廣東省對外貿易經濟合作廳 (The Department of Foreign Trade and Economic Co-operation of Guangdong Province*) regarding this matter. According to the results of consultation between the PRC Legal Adviser and The Department of Foreign Trade and Economic Co-operation of Guangdong Province, the said authority advised that the prescribed time limit for the deregistration of the processing enterprises set out in the "Guidance on the transformation of processing enterprises without suspension of production in Guangdong Province" is a general guidance rather than a mandatory requirement and there is no legal liability or penalty arising from such non-compliance. On the basis that (i) The Department of Foreign Trade and Economic Co-operation of Guangdong Province was the leading unit of the eleven departments which issued the Guidance on the transformation of processing enterprises without suspension of production in Guangdong Province; and (ii) The Department of Foreign Trade and Economic Co-operation of Guangdong Province, which is a component department of the People's Government of Guangdong Province, is in charge of foreign trade and economic co-operation affairs foreign investment and port management, the PRC Legal Adviser are of the opinion that it is the proper and competent authority to consult with regarding the transformation of processing enterprises and responding to consultations in accordance with its responsibilities. Based on the aforementioned especially that the PRC Legal Adviser is of the view that the "Guidance on the transformation of processing enterprises without suspension of production in Guangdong Province" is a general guidance rather than a mandatory requirement, the PRC Legal Adviser are of the opinion that (i) the Group will not be subject to any penalty and/or legal liability; and (ii) the legality of the Transformation is not affected by the Group's failure to complete the deregistration of the Processing Factory within the prescribed period under the guidance.

The Group has continued to lease the same production premises pursuant to the lease agreement entered into between Yi Gao Tech, Ms. Feng Shao Fang and Ms. Zhang Feng Ying on 22 June 2011. There is no major difference on the terms of the previous lease agreement entered into by the Processing Factory on 6 November 2006 and the lease agreement entered into by Yi Gao Tech on 22 June 2011 except that the monthly unit rental rate has been increased from RMB12.10 per sq.m. to RMB13.31 per sq.m. and the lessee was changed from the Processing Party to Yi Gao Tech. Yi Gao Tech has employed all existing workers of the Processing Factory who were willing to be transferred to Yi Gao Tech and therefore, such workers of the Processing Factory entered into the employment agreements with Yi Gao Tech and transferred to Yi Gao Tech. Approximately 260 factory workers of the Processing Factory had signed their respective employment agreement(s) with Yi Gao Tech and there were approximately 100 factory workers who had not transferred their employment from the Processing Factory to Yi Gao Tech at the time of completion of the Transformation. There were approximately 100 factory workers not having their employment transferred from the Processing Factory to Yi Gao Tech because, given the increase in industrial production and rising demand for factory workers in Guangdong Province at that time, they considered the Transformation an opportunity for them to seek alternative employment on better terms. The Directors confirmed that the Group had fully settled the relevant salary payments to these factory workers. Despite Yi Gao Tech was not successful in retaining these factory workers, the Directors are of the view that the Group's PRC employees are being paid at the market rate. In August 2011, Yi Gao Tech hired additional staff of approximately 60 factory workers in order to replenish the loss of factory workers, who had not transferred to Yi Gao Tech, and to meet the Group's existing and future production schedule. The Directors confirmed that there has been no material interruption in Yi Gao Tech's operation since it has undertaken the Group's manufacturing operation in September 2011 and has been conducting the same up to the Latest Practicable Date.

As reviewed by the PRC Legal Adviser, the previous employment agreements entered into with the Processing Factory and the new employment agreements entered into with Yi Gao Tech are in the same format prescribed by 深圳市寶安區勞動局 (Shenzhen Municipal Labour Bureau of Baoan District*). All the terms under the two sets of employment agreements are the same except that there is an additional clause in the new employment agreement which stated the change of employer from the Processing Factory to Yi Gao Tech and that Yi Gao Tech acknowledges the continuity of the duration of service for the employee with same salary and same position.

The Group completed the transfer of the production equipments, remaining raw materials and factory workers from the Processing Factory to Yi Gao Tech, Yi Gao Tech has undertaken all the production activities of the Group since September 2011. Up to the Latest Practicable Date, the Group has not experienced any material disruption in the operation of Yi Gao Tech. As advised by the PRC Legal Adviser, Yi Gao Tech has been set up in accordance with the relevant PRC law and has obtained all the approvals from competent authorities as well as performed all necessary legal procedures which are legal and valid.

Since the set-up of Echo Co in 1989 and the entering into of the Processing Agreement in 1991, the founders of the Company and the executive Directors, Mr. Lo Yan Yee and Madam Cheng both have over 22 years of extensive experience in the electronics industry and supervising the factory operation in the PRC. Mr. Lo Yan Yee has extensive experience in managing and supervising the production teams and engineering teams in the Processing Factory to ensure that all the objectives of the factory management are well achieved. Mr. Lo Yan Yee is also responsible for providing guidance, monitoring and training to the staff in the Processing Factory to enhance and maximise the production efficiency and utilisation of labour force. Madam Cheng principally oversees the operation of Hong Kong office and the procurement of the Group. In addition, the Group had seconded Mr. Lo Yan Yee and Mr. Lo Ding To to support and co-ordinate certain operations of the Processing Factory since 1991 and 2009 respectively. Mr. Lo Ding To, the production manager, has nearly 3 years of experience in factory operation and is responsible for the control and implementation of the day-to-day manufacturing operations of Yi Gao Tech. After completion of the Transformation, Mr. Lo Yan Yee and Mr. Lo Ding To are also assigned to manage the manufacturing business of Yi Gao Tech. The Directors are of the view that the Group's management possesses the knowledge and experience to manage Yi Gao Tech's production, manufacturing and staff so as to allow a smooth operation after the Transformation. In order to manage the Group's manufacturing operation smoothly after completion of the Transformation, the Group (i) was able to retain and transferred all the key staffs and senior management of the Processing Factory to work in Yi Gao Tech; (ii) has maintained a good working relationship with the PRC workers and there has been no labour disputes since the set up of Yi Gao Tech and up to the Latest Practicable Date; and (iii) has ensured all the products manufactured at Yi Gao Tech are timely delivered to the Group's customers and made according to the Group's customers' specifications. There were a total of 20 key staff and senior management having been transferred from the Processing Factory to Yi Gao Tech, which include (i) 8 senior management personnel, namely the head of procurement and material control, the head of engineering, the head of administration, the head of production, the head of finance and accounting, the head of quality control, the head of inventory control and the Factory Foreman; and (ii) 12 key staff namely 2 electronic engineers, 1 mechanical engineer, 1 computer engineer, 1 quality control engineer, 4 accounting staff and 3 administration staff.

The Transformation only results in changing the "non-corporate" form of the processing arrangement undertaken in the Processing Factory into a "corporate" form of Yi Gao Tech as a foreign-owned enterprise in undertaking the same production process and manufacturing operations as before. The Transformation may mean that Yi Gao Tech as a foreign-owned enterprise does have a wider business scope than that of the Processing

Factory as the products manufactured by Yi Gao Tech are allowed to be sold in the PRC market. But this should only be deemed to be possible opportunities for expansion of business rather than any change in the nature of the business activities or business model of the Group. In this regard, the issue of any implementation plan for the transformation from manufacturing through processing arrangement to self-manufacturing does not arise, as Yi Gao Tech is actually carrying on the production process and manufacturing operations in the same manner as they have been carried out by the Processing Factory during the Track Record Period. After the Transformation, the Group still provides similar electronic manufacturing services to its branded customers and has also participated in the subcontracting of manufacturing services to its customers. The Group's principal products remain the same as before, that is, the PCB assemblies and complete electronic products. There are no changes in the principal business activities and principal products of the Group after the Transformation. On the basis of the abovementioned, the Sole Sponsor is of the view that the Transformation does not and will not result in a change in the principal business of the Group and the business model of the Group remains the same and has not changed.

Effects on the operation of the Group arising from the Transformation

Under the processing arrangement, Echo Electronics is responsible for providing raw materials, equipments and machineries and a payment of a processing fee (which include the labour costs and overhead costs) in return for the manufacturing services provided by the Processing Factory. As the Processing Factory is non-legal person enterprise and has no import/export rights, the Processing Party is engaged to provide the necessary import and export services for raw materials and finished goods respectively. All finished products are exported to Echo Electronics in Hong Kong for delivery to overseas since the Processing Factory has no rights for PRC domestic sales. As Echo Electronics is not allowed to transfer funds directly to the Processing Factory, Echo Electronics remits the processing fee to the Processing Party and the said fee is transferred to the Processing Factory with the deduction of administrative charges.

Upon completion of the Transformation, Yi Gao Tech has undertaken the manufacturing operation of the Group and the Processing Factory was deregistered. Yi Gao Tech is an independent legal person entity and is an indirect wholly-owned subsidiary of the Company established in the PRC. Yi Gao Tech has import/export rights and is able to import raw materials and export finished goods itself without engaging an import/export agent. Being a WFOE, Yi Gao Tech is allowed to sell its products in the PRC domestic market which will provide opportunities to the Group to create a new line of income stream. However, the Company has no current intention to sell its products domestically in the PRC and will continue to export all of its products. The Company will explore opportunities to develop sales channel with PRC domestic customers in order to expand the Group's business in the PRC market. The overhead costs and the labour costs will be directly incurred by Yi Gao Tech and no processing fee will be charged since the Processing Agreement was terminated and deregistered. In addition, Yi Gao Tech would have independent rights for foreign exchange settlement and funds transfer with no administrative charges attached. Save for the changes in taxation treatments of WFOE and Echo Electronics, the Directors consider that there is no loss of preferential policies and treatments for the Group with respect to the Transformation.

The following table sets out the comparison between the Processing Factory and the WFOE in respect of legal status, establishment and taxation. Further details of the tax effect arising from the Transformation are set out in the sub-section headed "Taxation" under this section.

	Processing Factory	**WFOE**
Nature of incorporation	Not an independent legal person identity	Independent legal person identity
Management Fee	Subject to a management fee paid to the Processing Party	Not applicable
Sales channel	100% for exports and no rights for domestic sales	Empowered for domestic sales and export sales
Tariff on imported equipments	Equipment can be supplied to the processing factory by foreign party on a no price basis as such no import tax will be imposed on the equipment	Except for the investment projects which are under the encouraged categories set out in 外商投資產業指導目錄 (Guidance on investment industries for foreign investors*), all imported equipments are subject to import tax
Material supplies	Domestic purchase is subject to approval and with restriction	Domestic purchase is not under control
Customs management fee	Customs management fee is charged at 0.15% and 0.3% on imported materials and equipments respectively *(Note)*	Not applicable

	Processing Factory	**WFOE**
Foreign exchange & finance	The settlement of the processing fee income is handled by commercial administration together with the deduction of foreign exchange differences and others relative administrative charges Sales invoices are not allowed to issue	Independent rights for foreign exchange settlement and no administrative charges will be attached Sales invoices are allowed to issue
Legal rights	Unable to obtain land use right or property disposition right; and unable to apply for trademark and patent right	Able to obtain land use right or property disposition right; and is entitled to apply for trademark and patent right
Legal liability	Unlimited liability	Limited by the capital contribution
Value added tax	Processing charge is exempted	Subject to a valued added tax of 17% but is refundable for export products
Hong Kong taxation	Profits from the sale of goods that are manufactured by the Processing Factory are entitled to 50% profits tax exemption	Not applicable
PRC enterprises income tax	Not applicable	Applicable tax rate is 25%

	Processing Factory	**WFOE**
Labour liabilities	As advised by the PRC Legal Adviser, under the PRC laws, as the Processing Factory is not a legal person according to the relevant PRC laws and regulations, it would not be held solely liable for any labour liabilities In judicial practice, in light of it being considered as managing the operation of the Processing Factory, Echo Electronics could also be held jointly responsible with the Processing Factory for any labour liabilities incurred by the Processing Factory	Yi Gao Tech is a legal person and it will be held solely liable for labour liabilities
Materials procurement	All raw materials were procured by the Group and then were supplied to the Processing Factory for production. Any liability arising from procurement and supply agreements lied with Echo Electronics	There has been no material change in the pricing and payment terms for the Group's procurement of raw materials except Yi Gao Tech is allowed to purchase raw materials from PRC based suppliers without restrictions
Liquidity risk	To settle the expenses incurred by the Processing Factory, payments of processing fees were paid by Echo Electronics pursuant to the Processing Agreement. The Group bears the liquidity risk of the Processing Factory	As Yi Gao Tech is a member of the Group and its operating expenses are financed by Echo Electronics, there is no change in the Group's exposure to the liquidity risk

	Processing Factory	**WFOE**
Other counterparty risks	No relevant counterparty risks as the Processing Factory would not enter into any contracts. All the suppliers's contract and/or customers' contract are entered by the Group's companies, which are exposed to the counterparty risks	As a legal person, Yi Gao Tech will be subject to counterparty risks if it enters into contracts with PRC suppliers and/or PRC customers. As Yi Gao Tech is a member of the Group, there is no change in the Group's exposure to the counterparty risks

Note: During the Track Record Period, there was no customs management fee payable to the PRC Customs as the Processing Factory did not import any new equipment and the imported raw materials were used entirely for the manufacturing of exported goods.

In addition to the above, the revenue and pricing policy of goods such as classification of income and unit selling price remain the same before and after the Transformation. As regards to production costs structure, the Group is no longer required to pay the processing fee to the Processing Party and the Undertaking Party subsequent to the Transformation. The factory expenses recognised as processing fee booked in the cost of good sold before the Transformation but is now recognised as administrative and other expenses after the Transformation. The Group is no longer eligible to enjoy the tax exemption on 50% of its profits and it is required to treat all its profits under Hong Kong profits tax and Yi Gao Tech is subject to PRC enterprise income tax after the Transformation. Except for the above, the Directors are of the view that there is no change in the business form of the Group, before and after the Transformation, as there is no change in the Group's materials procurement and the Group's exposure to liquidity risk and other counterparty risk remain the same.

Financial impact of the Transformation

The WFOE, namely Yi Gao Tech, was established and has undertaken and has been conducting the production activities of the Processing Factory (which was deregistered in February 2012) since September 2011. Set out below is the table illustrating the impact of such Transformation on the financial results of the Group for the twelve months preceding and after Yi Gao Tech has undertaken the manufacturing operations of the Group.

	Prior to the Transformation	Subsequent to the Transformation	Description of the impact	Relevant financial information	For the twelve months ended 31 August 2011	2012
Cost structure	The cost of sales directly borne by the Group comprises costs of materials only. Direct labour and overhead costs were reimbursed through the payments of processing fees.	Costs of materials, direct labour and overhead costs were all directly borne by the Group and no processing fee was paid.	The Transformation decreased the processing fees from approximately HK$17.44 million for the twelve months ended 31 August 2011 to approximately HK$1.29 million for the twelve months ended 31 August 2012. The processing fee as a percentage of cost of sales decreased from approximately 31.63% for the twelve months ended 31 August 2011 to approximately 2.91% for the twelve months ended 31 August 2012.	Processing fee Processing fee as a percentage of cost of sales	HK$17.44 million 31.63%	HK$1.29 million 2.91%
Gross profit	The Group paid the processing fees to reimburse the production costs incurred by the Processing Factory. The whole amount of the processing fees was recognised as cost of sales.	Yi Gao Tech has undertaken the operation of the Processing Factory. The factory expenses incurred have been recognised as cost of sales or administrative expenses according to the nature of the expenses.	Part of the factory expenses previously recognised as processing fees included in cost of sales now recognised as administrative and other expenses, including staff salaries and other administrative expenses amounted to approximately HK$1.18 million and HK$3.53 million respectively. Accordingly, such recognition decreased the cost of sales by approximately HK$4.71 million and increased the gross profit by the same amount for the twelve months ended 31 August 2012. The estimated impact on the gross profit margin was an increase of approximately 6.60%. In other words, without such allocation, the gross profit margin would be approximately 31.27% for the twelve months ended 31 August 2012, assuming all other variables remained unchanged. The change in recognition increased the administrative and other expenses by approximately HK$4.71 million for the twelve months ended 31 August 2012.	Cost of sales Gross profit Gross profit margin Administrative and other expenses	HK$55.13 million HK$27.56 million 33.33% HK$6.80 million	HK$44.36 million HK$27.04 million 37.87% HK$13.60 million
Income taxation	The Group enjoyed the tax exemption on 50% assessable profits under Hong Kong profits tax and no PRC enterprise income tax was charged.	The tax exemption on 50% assessable profits under Hong Kong profits tax was no longer applicable, and PRC enterprise income tax was charged at 25%.	The combination of the loss of tax exemption on 50% assessable profits under Hong Kong profits tax and the charge of the PRC enterprise income tax at 25% increased the income tax amount and hence the effective tax rate of the Group for the twelve months ended 31 August 2012.	Taxation Effective tax rate	HK$1.22 million 6.07%	HK$3.54 million 19.05%
Net profit	Please refer to the impact on income taxation as mentioned above.	Please refer to the impact on income taxation as mentioned above.	The increase in the effective tax rate had a negative impact on the net profit and the net profit margin.	Net profit Net profit margin Net profit margin excluding reversal of provision of Social Insurances	HK$19.00 million 22.98% 22.98%	HK$15.06 million 21.09% 12.83%

Note:

No direct impact on the consolidated statement of financial position.

Pursuant to the terms of the Processing Agreement, Echo Electronics was engaged in a processing business in which the manufacturing and processing procedures were undertaken by the Processing Factory while Echo Electronics was responsible for the supply of the necessary production materials, packaging materials, machineries and equipments. Echo Electronics was responsible for paying corresponding processing fees and other production related expenses incurred by the Processing Factory for its manufacturing operations. Accordingly, the assets and the liabilities in relation to the processing arrangement have always stayed with the Group and therefore the Transformation did not involve any transfer of assets or liabilities from the Processing Factory to the Group.

QUALITY CONTROL ON PRODUCTION

The Group has adopted quality control policies and imposes those quality control procedures on the selection and testing of raw materials, semi-finished products and the end products throughout the production process to ensure the quality of its products as well as adhere to customers' specification. As at the Latest Practicable Date, the Group's quality control department comprised 52 staff members. For the years ended 31 March 2011, 2012 and 2013, the Group incurred approximately RMB1.18 million, RMB1.36 million and RMB1.22 million respectively for the costs of quality control. During the Track Record Period, the quality control staffs employed by the Processing Factory worked under the supervision of the management of the Group to monitor the quality of the products. After completion of the Transformation, the quality control staffs are employed under Yi Gao Tech and Mr. Lo Ding To, the production manager, together with Factory Foreman of Yi Gao Tech, Mr. Mo Zhaohe, monitor each stage of the quality control process on a daily basis. Mr. Lo Ting To's involvements in quality control include (i) reviewing all the quality control reports on the finished goods; (ii) meeting with quality control supervisor to discuss any enhancements in quality control processing; (iii) organizing training in quality control for new incoming quality control staffs if necessary; and (iv) discussing with the head of procurement and material control department in the event that quality control report shows that the raw materials are substandard or deflective.

In recognition of the quality control procedures in place, both Echo Electronics and Yi Gao Tech have been certified to the ISO 9001:2008 in respect of its management system for design and manufacturing of electronic buzzers, manufacturing of magnetic switches and PCB assemblies since 1997. The latest validity period of such certificate is from 6 August 2012 to 22 July 2015 and was certified by TÜV NORD CERT GmbH. The ISO certification process involves the review of the Group's production processes and quality management system and subject to annual reviews and observations during various periods.

The Group's major quality control procedures are as follows:

(1) Incoming quality check

The Group's quality control department conducts inspections and sample testing on the raw materials and components when they are delivered to the Group's manufacturing operation to ensure such materials and components meet the required standards. The quality control staff prepares a report on the results of the testing and inspection of raw materials and components and such report will be reviewed by the head of the quality control department. In addition, monthly and yearly reports are prepared to evaluate and monitor the quality and capability of the suppliers. Any raw materials or components which cannot pass the incoming quality check are returned to the suppliers. As raw materials are required to meet the RoHS standards, the quality control team reviews the RoHS testing report provided by the relevant suppliers in order to ensure that such raw materials do not contain any hazardous material. In the event that the suppliers cannot provide a valid RoHS testing report, the Group will return the raw materials to the relevant suppliers. The raw materials and components which pass the incoming quality check are delivered and stored in the warehouse. The raw materials and components which could not pass the incoming quality check and were returned to the suppliers amounted to approximately HK$0.30 million, HK$0.27 million and HK$0.22 million, representing approximately 0.74%, 0.79% and 0.80% of the total production materials purchased for the years ended 31 March 2011, 2012 and 2013 respectively.

(2) Process quality check

During the production processes, quality control procedures are conducted in major control points to ensure the semi-finished products meet the required standards and customers' specifications. If the semi-finished products are found to be defective, such semi-finished products will pass to the production department for repair and will return to the quality control department for re-test. If the defective rate is more than 3%, the defective semi-finished product will pass to the engineering department to identify the problem and make adjustments to the production techniques.

(3) Outgoing quality check

The quality control team inspects and tests the finished products in random order. The Group's quality control team adopts the following criteria for the number of sample size for random inspection and testing out of the total production order/lot and the relevant acceptance level for the number of sample size found with major and/or minor defects.

Size of production order/lot	Random sample size	The Group will reject the whole production lot if there are following number or more of the sample size found with major defects *(Note 1)*	The Group will reject the whole production lot if there are following number or more of the sample size found with minor defects *(Note 2)*
2–8	2	1	1
9–15	3	1	1
16–25	5	1	1
26–50	8	1	2
51–90	13	1	2
91–150	20	1	2
151–280	32	2	3
281–500	50	2	4
501–1,200	80	3	6
1,201–3,200	125	4	8
3,201–10,000	200	6	11
10,001–35,000	315	8	15
35,001–150,000	500	11	22
150,001–500,000	800	15	22
Greater than 500,000	1,250	22	22

Notes:

1. Major defect is one that is likely to create failure or to reduce materially the usability of the unit for its intended purpose, or having an obvious discrepancy with the original design and/or customers' requirements. Such major defect will probably affect the sales of the Group's customers.

2. Minor defect is a discrepancy from the standards, but one that is not likely to affect the usability and functionality of an object or is departure from the established standards and customers' requirements. Such minor defect will probably not affect the sales of the Group's customers.

The quality control team inspects and tests the finished products in random order. The examiners prepare the finished goods quality report in terms of physical appearance, customers' specifications, functionality and quality. Defective finished products will be sorted out and returned to the production department for repair. Otherwise, those defective finished products which cannot be repaired will be disposed of. The sample testing results in relation to the defective products are recorded and submitted to the relevant departments for analysis. As the raw materials supplied to the Group are accompanied with RoHS testing report and such report is reviewed by the Group's incoming quality control team, the Group does not engage any external laboratories to test the finished products. After the final inspection, the finished products will be packaged and delivered to the warehouse to arrange delivery to the customers.

During the Track Record Period and up to the Latest Practicable Date, there were no material claims for delay in delivery, defective products or sales returns from the Group's customers. As confirmed by the Directors, there was no non-compliance of the quality requirements imposed by the EU and the United States, nor any product recalls during the Track Record Period and up to the Latest Practicable Date. In addition, there has been no claim against nor compensation paid by the Group in relation to any intellectual property rights.

The Directors consider that the above quality control procedures of the Group are effective given the overall low defective rate of the Group's products. For the three years ended 31 March 2011, 2012 and 2013, the Group had approximately 146 units, 246 units and 446 units of products returned from its customers, representing approximately 0.003%, 0.006% and 0.01% of its total sales units, respectively. On the basis that the defective rate of the Group's products is low and the Group's production facilities have obtained various quality standard certifications including ISO9001 certification for its quality management system for design and manufacture of electronics buzzers and the manufacture of magnetic switches and PCB assemblies since 1997 and EMC Certificate for manufacture of alarms, the Sole Sponsor concurred with the Directors' view that the Group maintains effective quality control procedures.

PRODUCTION SAFETY

The Group has taken necessary measures to protect its PRC staff's safety at work. The Group has established operational safety guidelines and manuals to be implemented at the Processing Factory and/or Yi Gao Tech, such as fire safety manual, production safety manual and emergency procedure manual which set out (i) the responsibilities of the senior management and workers in relation to production safety; (ii) the procedures to be adhered to for the prevention of accident; (iii) the guidance in case of emergency situations; and (iv) safety management system of hazardous chemicals.

Production process safety ensures that facilities are designed, operated and maintained properly. The Group has a standard of production process safety which can be applied to the Processing Factory and/or Yi Gao Tech as a whole to guide the design and maintenance of production facilities. An experienced internal team, which is led by Mr. Tang Yi Ping, is responsible for checking the implementation of these standards at all time. Mr. Tang Yi Ping joined the Processing Factory since 2001 and is currently the head of administration and safety officer of Yi Gao Tech. Mr. Tang Yi Ping has over 10 years in administration management of PRC factory, Mr. Tang Yi Ping obtained a professional diploma in Administrative Management from Wuhan University in 1994 and has been awarded the qualification as safety officer by 深圳市安全生產監督管理局 (Shenzhen Municipal Office of the Administration of Work Safety*) on 18 January 2006. All the PRC production workers of the Group are required to have occupational safety training and operators of certain production lines are required to have special training before they are allowed to operate the facilities. As advised by the PRC Legal Adviser, based on the report obtained from the competent local work safety authorities, the Group has complied in all material aspects with 《中華人民共和國安全生產法》(PRC Production Safety Law*).

During the Track Record Period and up to the Latest Practicable Date, the Group has not experienced any material claims or incidents in relation to safety issues or been involved in any accident causing death or serious injury in the course of the Group's business operations.

INVENTORY CONTROL

The inventory of the Group consists of raw materials, work-in-progress and finished goods. The Group considers that controlling the level of inventory is important to the overall profitability. The Group generally plans the purchase of raw materials and components after the receipt of the customers' confirmed orders, except for materials which the Group purchases in bulk procurement or purchases based on prevailing and forecast material price. The Group has set up an adequate internal control policy in monitoring the Group's inventories, which has maintained written policies and guidelines on its inventory control procedures which include production materials and consumables purchase and receipt, receipt of finished goods produced by the Processing Factory and Yi Gao Tech, stock in-and-out, stock storage and inventory stock take to monitor the Group's inventories. The Group purchases raw materials from multiple sources wherever possible, in order to ensure a stable supply of major raw materials, which include semiconductors, ICs, connectors, switches and PCBs. The purchasing department of the Group is responsible for sourcing and procurement of raw materials which amounted to approximately HK$42.05 million, HK$26.69 million and HK$32.12 million for the years ended 31 March 2011, 2012 and 2013 respectively. Segregation of duties is achieved in procurement — each purchase order placed to the Group's supplier is prepared by a purchasing staff, and then reviewed and approved by the purchasing manager. Final payments to suppliers for each placed order, such as T/Ts and cheques, are approved and signed by Madam Cheng. Moreover, the Group's purchasing department works closely with the procurement and material control team of the Processing Factory to monitor the inventory movements along the production processes. Since Yi Gao Tech has begun its production and after the Transformation, both the Group's purchasing department and the production team of Yi Gao Tech closely monitor and control the inventory movements to ensure a smooth production process. With the accurate and updated inventory records, the Group is able to replenish the production materials within a short time span. The Group also carries out physical stock counts from time to time to identify any residual production materials after the completion of the customers' orders. For obsolete, unused or unconsumable production materials, the Group will sell it as stocks. Such policy has been consistently applied by the Group during the Track Record Period and up to the Latest Practicable Date. The Directors are of the opinion that inventory management contributes to the efficient use of the Group's working capital and reduce the risk of inventory obsolescence.

Purchase orders for production materials with designated specifications for particular sales order are normally made after related sales orders have been placed by its customers. Generally, production materials are purchased with an average lead time of approximately 6 to 8 weeks. During the Track Record Period, there were no provisions made for obsolete or slow-moving inventory.

CUSTOMERS

During the Track Record Period, the Group's total revenue amounted to approximately HK$82.50 million, HK$60.99 million and HK$71.71 million respectively. Most of the Group's sales are made to well established electronic manufacturers and distributors with their own products.

The consumer electronics manufacturers in the European Countries and the United States generally have their own respective brands or portfolios of brands which are sold and distributed to their own respective chain stores, other independent wholesalers, retailers and/or other department stores throughout the European Countries and the United States. During the Track Record Period, the Group had sold PCB assemblies and complete electronic products to over 120 customers from over 30 countries.

Over the years of operations, the Group has established working relationships with its major customers through the Group's delivery of quality electronic products. The Directors believe that one of the attributes of the Group's success is its ability to secure business from its customers located in European Countries and the United States and maintain long-term relationships with them.

As at the Latest Practicable Date, the Group's five largest customers have maintained business relationships with the Group for periods ranged from 1 to 15 years. All of the five largest customers of the Group are Independent Third Parties. For the years ended 31 March 2011, 2012 and 2013, the Group's largest customer accounted for approximately 34.46%, 25.29% and 26.86% of the Group's total revenue respectively and the sales to the Group's top five largest customers amounted to approximately HK$54.94 million, HK$35.00 million and HK$43.39 million, representing approximately 66.60%, 57.38% and 60.51% of the total turnover of the Group respectively. None of the Directors, their respective associates or the Company's existing Shareholders, who will be interested in more than 5% of the Company's issued share capital immediately following the completion of the Placing and the Capitalisation Issue, has any interest in any of the Group's five largest customers for each of the years ended 31 March 2011, 2012 and 2013.

Such long standing relationships stem from the recognition of the Group's quality products and timely completion of customers' order under delivery schedules and short production lead time. The Directors believe that such close relationships help preserve the loyalty of its customers and reinforce commitment from its customers to place further orders with the Group.

During the Track Record Period, the European Countries were the largest market of the Group, accounting for over 50% of the turnover of the Group. Set out below is the breakdown of the Group's turnover during the Track Record Period with respect to geographical areas:

	For the year ended 31 March								
	2011			2012			2013		
	Number of customers	*HK$'000*	*Approximate %*	*Number of customers*	*HK$'000*	*Approximate %*	*Number of customers*	*HK$'000*	*Approximate %*
European Countries									
United Kingdom	18	43,770	53.06	19	25,056	41.08	16	29,722	41.45
Belgium	1	138	0.17	1	5,052	8.28	1	5,308	7.40
Other European countries *(Note 1)*	23	2,653	3.22	22	2,501	4.10	20	2,619	3.65
	42	46,561	56.45	42	32,609	53.46	37	37,649	52.50
United States	15	17,198	20.85	15	11,760	19.28	12	13,508	18.84
Hong Kong	29	11,173	13.54	27	11,137	18.26	26	12,213	17.03
Asian Countries other than Hong Kong *(Note 2)*	15	4,856	5.87	11	2,941	4.82	12	5,623	7.84
Others *(Note 3)*	16	2,710	3.29	17	2,543	4.18	17	2,714	3.79
Total	**117**	**82,498**	**100.00**	**112**	**60,990**	**100.00**	**104**	**71,707**	**100.00**

Notes:

1. Other European Countries include Bulgaria, Denmark, Finland, France, Germany, Italy, Netherlands, Poland, Portugal, Slovakia, Spain, Sweden and Switzerland and Ukraine.

2. Asian Countries include the PRC, India, Israel, Malaysia, Singapore and Taiwan.

3. Other countries include Argentina, Australia, Brazil, Canada, Columbia, Egypt, New Zealand, Russia, South Africa and Ukraine.

4. The Group's geographical segments are classified according to the port of export.

The principal markets of the Group's consumer electronics products are the European Countries, United States and Hong Kong. In aggregate, they represented approximately 90.84%, 91.00% and 88.37% of the Group's total turnover for the three years ended 31 March 2011, 2012 and 2013 respectively. For the years ended 31 March 2011, 2012 and 2013, the Group has a total of 117, 112 and 104 customers who have placed purchased orders with the Group respectively. For the year ended 31 March 2012, the Group has acquired a total of six new customers of which three were from Hong Kong and each of the remaining three was from United States, Taiwan and United Kingdom respectively. The Group has established long-term relationships with its customers, particularly with those located in the European Countries and the United States where all of the five largest customers are based over there during the Track Record Period. The Group has relationships with its top five customers ranging from 1 to 15 years. The Directors believe that the loyalty of its customers is attributable to the high quality standards of the products supplied by the Group and its ability to make timely delivery of products at a competitive price.

For the year ended 31 March 2012, the revenue from the European Countries decreased by approximately 29.96% to HK$32.61 million as compared to previous fiscal year and it was primarily due to Customer A was in the process of developing a new model for hair removers and production had not yet commenced thereby reducing its purchase orders with the Group in an amount of approximately HK$13 million. The decrease in the revenue from the Asian Countries for the year ended 31 March 2012 of approximately 39.43% was due mainly to Customer B was in the process of relocating its PRC factory thereby postponing and reducing its purchase orders with the Group. The decrease in the demand of the Group's customers in the United States was due mainly to the further economic downturn and unemployment in the United States arising from the lingering effect of the financial crisis of 2007–2008. For the year ended 31 March 2012, there was a drop in the number of customers in other European Countries, Hong Kong and Asian Countries as the demand of such customers for the Group's products was weak in the atmosphere of the credit crisis in Europe for such period.

For the year ended 31 March 2013, the revenue from the European Countries increased by approximately 15.46% to HK$37.65 million as compared to previous financial year and it was primarily due to the resumption of normal purchases from Customer A since May 2012 and production had commenced during the year ended 31 March 2013 thereby increasing its purchase orders with the Group in an amount of approximately HK$3.84 million. The increase in revenue from Asian Countries was mainly due to increase in sales to Taiwan of approximately HK$2.49 million due to a new customer with whom the Group started to do business since its incorporation in September 2011.

SALES AND MARKETING

As at the Latest Practicable Date, the Group's sales and marketing department consists of 2 staff members, who are all located in the Hong Kong office. The sales and marketing department of the Group is responsible for sales and promotion of the Group's EMS and the updating with the most recent market trends and customers' preferences. Besides promoting the Group's EMS, the sales and marketing team also acts as coordinators between the customers and different departments of the Group and closely monitor production planning, procurement and quality control to ensure the products meets its customers' specification and quality standard. The Group has adopted a strategic sales and marketing policy by targeting and focusing on small quantity orders of high quality electronic products rather than bulk orders of electronic products. However, this business strategy does not restrict the Group from accepting bulk orders of EMS.

For customers' requisition, the Group leverages its relationship with existing clientele network for referrals of new customers. The Group's websites also serve as an effective promotional platform for its services and products as well as a communication channel with its customers. The information provided in the Group's websites includes the Group's profile, service and management, capabilities and information about products of the Group's EMS businesses. In addition, the Group markets its EMS to potential customers by using various advertising media which include magazines and websites of Global Sources and Global Markets and the directory of Hong Kong Electronics Industry. For the years ended 31 March 2011, 2012 and 2013, the expenses for the advertisements amounted to approximately HK$0.16 million, HK$0.19 million and HK$0.09 million respectively. The Group has maintained close relationships with its sales agents who are responsible for the introduction, referral of and liaising with customers. During the Track Record Period, the

Group had a total of 1 sales agent which referred customers to the Group but no service agreements have been entered with the Group. For the years ended 31 March 2011, 2012 and 2013, the commission paid to the sales agents amounted to HK$0.17 million, HK$0.61 million and HK$0.16 million respectively.

Approximately HK$0.26 million of the commission expenses for the year ended 31 March 2012 was related to the sales for the year ended 31 March 2011 since the amount and the terms of the commission payable to one sales agent had been under negotiation and only came to a compromise during the latter year. The Directors confirm that all the commission expenses related to the sales during the Track Record Period were fully recognised in the financial statements as of 31 March 2012 and 2013. Therefore, such an increase in commission expense is one-off in nature. In the future, the Directors expect some of the customers previously referred by sales agents will directly engage the Group and the reliance on sales agents will be reduced, having regard to (i) the proposed expansion of the sales and marketing department; and (ii) increase in the sales and marketing budget for maintaining existing customers and expanding its sales network.

CREDIT CONTROL

The Group uses its best endeavour to exercise tight credit control and the Group's finance and accounting department reviews the credit terms of each existing and prospective customer. The settlement and credit terms granted to customers are determined with reference to, among other things, (i) length of business relationship; (ii) payment history; and (iii) financial strength and creditability of the customer.

During the Track Record Period, the Group normally grants credit terms ranging from 0 to 90 days to its customers. The Directors may from time to time approve extended credit period for extra 30 to 90 days to certain major customers during the relevant periods. The granting of extended credit period depends on the customer's payment history, the amount of the customer's order and the customers' business relationship with the Group. As at 31 March 2011, 2012 and 2013, the trade receivables with extended credit period were approximately 37.00%, 35.11% and 27.76% out of the respective total trade receivables.

In case of the presence of outstanding trade receivables, written reminders will be sent to the respective customers. If the Group cannot recover the outstanding trade receivables being owed by the customers after liaisons and on a case by case basis, a legal demand letter from the Group's solicitors will be sent to such customers as and when appropriate. Under certain circumstances, the Group may consider taking legal action to recover the outstanding trade receivables.

The Group's trade receivables during the Track Record Period were approximately HK$9.73 million, HK$9.07 million and HK$14.66 million respectively. During the Track Record Period, the Group recorded no bad debts which indicates that all of the customers pay their outstanding debts under the Group's effective credit control policy.

INTERNAL CONTROL

The Group has maintained an internal control system into its organizational structure, with all operation departments responsible for the implementation of the internal control procedures based on the established policies and procedures; and the company secretary of the Company being responsible for testing various controls and to make recommendations to the management on improvement of the internal control system.

In order to avoid any further or other non-compliance, the Group has engaged GDT CPA Limited, an independent accounting firm, to review the Group's internal control system. Based on GDT CPA Limited's review and recommendations, the Group had adopted measures and policies to improve its internal control systems.

The Group has adopted the following internal control measures to improve its internal control systems since February 2012:

1. **Cash management**

   - rotation of duty for cash count and cash deposit on a monthly basis;
   - the Group's management has set out a maximum limit for cash purchases;
   - separate teams have been assigned for the preparing and distributing of cash wages to the PRC staffs; and
   - appropriate and detailed policies and procedures have been set up for cash disbursements.

2. **Sales and accounts receivable**

   - credit evaluation has been maintained for management's review;
   - different access rights have been set up for the access of customer profiles; and
   - the Company's legal advisers have been engaged to report to the management of the Group on the latest changes to the regulatory requirements on a regular basis.

3. **Purchases and accounts payables**

   - the production department reporting feedbacks to the purchasing department on a monthly basis;
   - the settlement of current accounts with the Directors in relation to the materials purchasing are processed with the finance and accounting department to reconcile the Directors' claims forms with suppliers' invoice, purchase orders, receiving reports, and purchase approvals issued by the head of procurement and material control department and/or the Group's

factory general manager. The settlement of current accounts with the Directors is related to the purchase of raw materials online by using the credit card of the relevant Director on behalf of the Group by taking advantage of his/her credit card's higher credit limit and concessions for bulk purchase with due regard to and for the sake of administrative convenience;

- This arrangement was first started in September 2005 and ceased to continue from October 2012 as the Directors considered it is vital to establish a clear-cut demarcation between the Directors' expenses and the Group's purchases and it was not necessary for the arrangement to continue as the Group can purchase raw materials from internal resources or external financing. Prior to October 2012, as advised by the Directors, the Group did not attempt to increase its corporate credit card's limit. The Directors have confirmed that this arrangement will not be revived after the Listing. During the years ended 31 March 2011 and 2012, the amount of purchases made by the Directors was approximately HK$0.84 million and HK$0.47 million which amounted to approximately 2.00% and 1.76% of the Group's total raw materials purchased by the Group respectively.

During the Track Record Period, the kinds of raw materials purchased online were mainly semiconductors, ICs, connectors and switches and metal parts. As online purchasing provides an alternative for the Group to purchase raw materials, the Directors are of the view that this procurement model has a positive impact on the stability in the supply of key raw materials for the Group's production.

The Directors confirmed that the Company had not experienced any difficulties in procuring additional bank financing during the Track Record Period and up to the Latest Practicable Date. The Directors do not foresee any difficulties in procuring additional financing after the Listing, if necessary.

4. Production and inventory

- reporting on the usage of raw materials monthly to the department heads;
- finance and accounting department has been notified for terms of production orders to ensure the purchase and usage of raw materials can be reconciled to the accounting records; and
- evaluating the stage of completion for work in progress will be done on a monthly basis.

5. Property, plant and equipment

- formal documentation has been established to record the internal transfers and the disposals of property, plant and equipment;

- the management has set out different limits for the purchase of different classes of property, plant and equipment instead of a general limit;
- regular review for the disposal or written-off of property, plant and equipment will be performed at least once a year;
- the property, plant and equipment register cross-checking with records of the finance and accounting department for discrepancies checking, updating and maintaining; and
- the user of the property, plant and equipment and the accounting staffs are conducting regular checking on the property, plant and equipment to obtain a better understanding of the conditions of the property, plant and equipment.

Based on the review and follow up review of the Group's internal control systems conducted by GDT CPA Limited, GDT CPA Limited concluded that they have not identified any significant internal control weakness or breakdown in relation to the Group's internal control systems. The Directors confirm that there was no instance of breakdown in the Group's internal control systems during the Track Record Period and up to the Latest Practicable Date. GDT CPA Limited is a local accounting firm established in the year 2010 with a total of 15 employees as at the Latest Practicable Date. Out of the total 15 employees of GDT CPA Limited, there are 7 qualified accountants of which 2 are directors holding the Practising Certificates with Hong Kong Institute of Certified Public Accountants. The practising directors of GDT CPA Limited have been previously involved and engaged in various internal control review projects for four companies listed on the Main Board of the Stock Exchange.

Upon Listing, an executive Director, Mr. Lo Ding To, will perform the role of compliance officer. Mr. Lo Ding To will be supported by the company secretary of the Company, Ms. Li Fung Shan, to ensure that the internal control procedures are being followed. In addition, the Company will procure annual review of the effectiveness of its financial reporting and internal control system by the audit committee of the Company. The Company will appoint Tanrich Capital as its compliance adviser to assist the Company with the compliance matters and issues in relation to the GEM Listing Rules. Based on the aforementioned, both the Directors and the Sole Sponsor are satisfied that the Group's internal control systems are effective and adequate.

COMPETITION

The Directors believe that the global market of EMS industry is fragmented with a large number of local and overseas players. The Directors are of the view that the establishment of a manufacturing business of consumer electronics normally does not require substantial capital investment and advanced technology and, accordingly, has a relatively low entry barrier. The Directors consider that competition within the industry is keen and there are numerous competitors, operating on different scales, which are engaged in the business similar to that of the Group. The Group's competitors include numerous EMS providers for consumer electronics based in Hong Kong and the PRC. According to the publicly available official sources of the Hong Kong Trade Development Council, the total exports of electronics from Hong Kong in 2011 was approximately HK$1,850.68 billion. The Group's market share in the electronics manufacturing industry was estimated to be insignificant.

While the Directors are of the view that the principal bases which the Group competes are product quality, timely delivery and customer services, the Group competes favourably with its competitors by offering high quality products at competitive price to its customers. Accordingly, the Directors believe that the Group has established a market presence in the European Countries and the United States.

CERTIFICATIONS AND RECOGNITIONS

The Group had been granted the following certifications and recognitions which certified its quality standards and management system in relation to its production have reached the international standards:

Certification/ recognitions	**Issuing organisation/ authority**	**Validity period of certificate/ date of issue**	**Process/products certified or recognised**
ISO 9001:2008	TÜV NORD CERT GmbH	From 6 August 2012 to 22 July 2015	A management system in line with the ISO 9001:2008 standard for the design and manufacturing of electronics buzzers and the manufacturing of magnetic switches and PCB assemblies

Certification/ recognitions	Issuing organisation/ authority	Validity period of certificate/ date of issue	Process/products certified or recognised
Global Manufacturer Certificate (“**GMC**”)	Global Market Group (Asia) Limited	7 January 2010 (with no expiry date)	Complies with the following standards of GMC: (i) certified manufacturer; (ii) R&D ability; (iii) high productivity; (iv) social environmental responsibility; (v) expertise team of foreign trade; (vi) OEM/ODM experience; (vii) considerable company size; and (viii) credit or goodwill
IPC member	IPC — Association Connecting Electronics Industries	From October 2001 to 31 October 2014	IPC is a global trade association which provides leading source for industry standards, training, market research and public policy advocacy
EMC Certificate	Intertek Testing Services (Singapore) Pte Ltd	14 April 2011 (with no expiry date)	Alarms were tested and found to be in conformity with IEC 61000-6-1:2005 and IEC 61000-6-3:2006

The above certificates and recognitions are not necessary for the manufacture or sale of any specific type of the Group's products to any particular market; however, they could enhance the Group's existing and potential customer's confidence towards the Group and recognise the Group's quality standards and management system are conformed with the international standards.

LICENCES AND CERTIFICATIONS

The Directors and the PRC Legal Adviser have confirmed that the Group and the Processing Factory and Yi Gao Tech have obtained the necessary certificates, permits and licences for operating its current business in the PRC. To ensure that Yi Gao Tech possess all the relevant licences and permits required from time to time, the Group will regularly review the renewal of all the relevant licences and permits of Yi Gao Tech. The management of the Group will, through checking publications of the relevant PRC regulators and authorities from time to time, keep up to date of any changes in the relevant rules and regulations in the PRC. The Group will also seek advice from the PRC Legal Adviser to ensure due compliance of the applicable laws and regulations in respect of Yi Gao Tech from time to time.

INSURANCE

In accordance with the regulatory requirements of the PRC, the Processing Factory and Yi Gao Tech have maintained insurance schemes that cover unemployment, pension, work-related injuries, medical expenses and maternity for its PRC employees. The Processing Factory and Yi Gao Tech have also maintained insurance which covers damage to its office equipments, machineries and inventories arising from natural hazard or accidents. The Group maintains insurance policies which cover, among other things, office premises, employees' compensation and export credit. In Hong Kong, the Group has also taken out employees' compensation, employer's liability insurance and medical insurance for its staff, business package insurance and product liability insurance for Echo Electronics.

The business package insurance covers the actual loss or damage to the contents, business interruption and loss of money in the head office of Hong Kong, employees' compensation and any public liability it might incur. For public liability, Echo Electronics will be indemnified against (1) all sum which it shall become legally liable to pay for compensation in respect of (i) bodily injury to or illness of any person and (ii) loss of or damage to property arising from its business in Hong Kong and (2) all costs and expenses of litigation arising from public liability provided that the liability for all compensation payable to any claimant or any number of claimants in respect of or arising out of any one accident or series of accidents arising out of one event shall not exceed HK$5,000,000. The business package insurance has been maintained by the Group for purpose of ensuring the general business operation of the Group in Hong Kong, and insurance for public liability is part of the business package insurance. Therefore, the insurance for public liability claims in the business package insurance does not cover the claims in the U.S. and Europe during the Track Record Period. The Directors have confirmed that there has not been any complaint or claim against the Group for (i) any injury to or illness of any person, or (ii) loss of or damage to property in connection with the Group's business in the U.S. and the EU or during the Track Record Period and up to the Latest Practicable Date.

Echo Electronics has maintained a worldwide product liability insurance since 1 November 2012, under which Echo Electronics is indemnified for and/or arising out of claims for any injury to any person and/or any damage to tangible property first made against arising out of or in connection with any of its product provided that such indemnity shall not exceed US$1 million for any one claim and in the aggregate.

The Directors are of the view that the existing insurance coverage for product liability is adequate for the Group's operation for the following reasons:

(1) the Group's products mainly include hair remover, starter, control board, charger board and other miscellaneous electronic products which are PCB assemblies used in beauty related products, fishing related product, security related product and other electronic related products, and such products do not have the capability to cause any serious injury or damage to any person or property;

(2) the risk of product liability for the Group is low as there has not been any claim against the Group for any product liability during the Track Record Period and up to the Latest Practicable Date; and

(3) the premium of the current worldwide product liability insurance for the year commencing from 1 November 2012 is HK$156,000, and is consolidated disproportionate to the likelihood of the risk.

The Sole Sponsor shares the same view with the Directors that such insurance coverage of the product liability is adequate and customary to the Group's products.

To mitigate the risk of product liability claims, the Group adopts stringent quality control procedures throughout the production process to ensure the quality of its products as well as adherence to customers' specifications. In addition, as confirmed by the Directors, there has not been any claim against the Group for any product liability during the Track Record Period and up to the Latest Practicable Date.

The Directors believe that the insurance policy specifications and insured limits of the Group, the Processing Factory and Yi Gao Tech are in line with the normal industry practice in the PRC and Hong Kong and the existing insurance coverage is adequate for the Group's operation. The Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, the Group did not have any material claim or liabilities arising from any accidents relating to its operations and did not have any major production interruption.

TAXATION

The Group is carrying on business in Hong Kong and is subject to Hong Kong profits tax in respect of the profits arising or derived from Hong Kong. For the years ended 31 March 2011, 2012 and 2013, the applicable tax rate in Hong Kong was 16.5%. Before the Transformation, the Group had been operating the businesses by entering into the Processing Agreement with the Processing Factory. Pursuant to the Departmental Interpretation and Practice Notes No.21 issued by the Hong Kong Inland Revenue Department, the production processes were carried out at the Processing Factory under the Processing Agreement and profits of Echo Electronics arising from the sale of goods that were manufactured by such PRC entity could be apportioned on a 50:50 basis and the assessable profits so apportioned could be treated as non-taxable under Hong Kong profits tax. As a result of the tax exemption on 50% assessable profits of the Group attributable to offshore activities, the effective tax rate of our Group for the year ended 31 March 2011 was approximately 9.22%. In addition, there is a 50% of depreciation allowance granted to the plant and machinery provided by Echo Electronics to the Processing Party for being used in the production service.

Under the regulations and the implementation of the Rules of the Provisional Regulations of the PRC Concerning Value Added Tax, value added tax is payable on the sale or import of goods and the provision of processing, repair and labor replacement services in the PRC. The value-added tax rate is generally levied at 17%, however, a tax rate of 13% is applicable to the sale or import of certain categories of necessities. Exports are exempted from value-added tax. Under the processing arrangement, the exported goods were exempted from valued added tax and the processing fee derived from the Processing Factory was not subject to valued added tax. However, the valued added tax on consumption of utilities for processing the export goods was not recoverable and had been treated as cost of goods sold. After the Transformation, Yi Gao Tech has been approved by 深圳市寶安區國家稅務局觀瀾稅務分局 (Shenzhen Municipal Office of the State Administration of Taxation, Guanlan Tax Branch of Baoan District*) as an export enterprise eligible for export tax rebate with effect from 1 August 2011 pursuant to a written confirmation dated 25 August 2011.

Upon completion of the Transformation, the Group's manufacturing operation has been undertaken by a WFOE, namely Yi Gao Tech since September 2011 and the Processing Factory was de-registered in February 2012. As a result, the profits of Echo Electronics arising from sale of goods that are manufactured by Yi Gao Tech cannot be apportioned on a 50:50 basis and there is no tax exemption on 50% assessable profits of the Group under Hong Kong profits tax. In addition, since Yi Gao Tech manufactures and sells its finished goods to Echo Electronics, the profits generated from such sales are subject to the PRC enterprise income tax at the prevailing rate of 25%. Yi Gao Tech is subject to a valued added tax of 17% but is eligible for valued added tax export refund of 13%. Under the export refund mechanism, export sales are exempted from valued added tax whereas the input valued added tax paid on domestic purchases of raw materials and consumption of utilities for production of exported goods can be refunded according to the valued tax refund rate applicable to the exported goods. As a result of the loss of tax exemption on 50% assessable profits under Hong Kong profits tax and the charge of the PRC enterprise income tax at 25% since September 2011, the effective tax rate of the Group increased from approximately 9.22% for the year ended 31 March 2011 to approximately 15.44% for the year ended 31 March 2012.

The Company has engaged GDT CPA Limited as its tax adviser to quantify the overall financial effect arising from the abovementioned tax issues for the years ended 31 March 2010 and 2011. As mentioned in the report of GDT CPA Limited, the unaudited pro forma taxation of the Group are approximately HK$2.61 million and approximately HK$2.78 million for the years ended 31 March 2010 and 2011 respectively as if the Transformation was completed, representing an increase of approximately 97.73% and approximately 143.99% to the taxation of the Group of approximately HK$1.32 million and approximately HK$1.14 million respectively. The unaudited pro forma net profit for the years ended 31 March 2010 and 2011 would be approximately HK$9.34 million and approximately HK$9.50 million, representing a decrease of approximately 12.50% and approximately 15.33% as compared to the actual results for the same corresponding period.

As confirmed by 深圳市寶安區國家稅務局觀瀾稅務分局 (Shenzhen Baoan District Municipal Office of State Administration of Taxation, Guanlan Branch*) and 深圳市寶安區地方稅務局 (Shenzhen Baoan Local Taxation Bureau*) by way of confirmations dated 3 April 2013 and 8 April 2013 respectively, the Processing Factory and Yi Gao Tech had not violated any relevant tax rules and regulations in the PRC, and had not been penalized by such supervising PRC tax bureaux. As advised by the PRC Legal Adviser, 深圳市寶安區國家稅務局觀瀾稅務分局 (Shenzhen Baoan District Municipal Office of State Administration of Taxation, Guanlan Branch*) and 深圳市寶安區地方稅務局 (Shenzhen Baoan District Municipal Office of Administration of Taxation*) are the proper supervising tax bureaux overseeing the tax position of the Processing Factory and Yi Gao Tech and have the authority to issue the above confirmations.

In a joint circular issued by the Ministry of Finance and the State Administration of Taxation, Caishui [2012] No. 71, detailed implementation and transitional rules were released to give effect to an expansion of VAT reform from Shanghai to 10 other locations in the PRC, including Guangdong Province. As such, the VAT reform, which replaced business tax with valued added tax, has been implemented in Shenzhen by way of a pilot programme since 1 November 2012. The industries subject to the pilot programme are the transportation and modern services industries only. As the Group does not fall into these two industries, the reform has not brought about any impacts on the Group. In the meantime, the Directors closely monitor the development of this programme. In case the programme is pronounced to include the sector which the Group is involved in, the Group will immediately engage a tax consultant to evaluate the impact of such reform on the Group.

In March 2012, the Hong Kong Inland Revenue Department formalised the Advance Pricing Arrangement ("**APA**") programme in Hong Kong by issuing Departmental Interpretation and Practice Notes No. 48 — Advance Pricing Arrangement ("**DIPN 48**"). APA programme stipulates the methodology to determine the transfer pricing for intercompany transactions. A taxpayer can benefit from an APA by obtaining certainty on the tax treatment of its intercompany transactions, avoiding the risk of double taxation as well as reducing audit and documentation burdens.

However, the application for APA under DIPN 48 is voluntary and subject to a threshold. The paragraph 17 of DIPN 48 states that the threshold for an APA application, which is subject to review by the Commissioner of Inland Revenue from time to time, is HK$80 million for each year covered in the APA if the controlled transactions involve sale and purchase of goods. Since the turnover of the Group for the year ended 31 March 2012 was approximately HK$60.99 million, being lower than the threshold, the Group therefore has not applied for the APA under DIPN 48. In the meantime, the management of the Group closely monitors the business operation of the Group, and whenever the transaction amount of the controlled transactions exceeds the threshold, the Group will seek a pre-filing meeting to discuss the requirements of the proposed APA. If appropriate, the Group will proceed and submit a formal APA application to the Senior Assessor (APA) of the Hong Kong Inland Revenue Department.

LEGAL COMPLIANCE

The Directors confirm that, as at the Latest Practicable Date and save as disclosed in the below sub-section headed "Social Insurances and Housing Provident Fund" of this prospectus, the Group has complied with all applicable laws and regulations in the jurisdictions in which it operates and has obtained all the necessary permits, certificates and licences for its operation during the Track Record Period.

Social Insurances and Housing Provident Fund

During the Track Record Period, the Processing Factory and Yi Gao Tech, being the Group's operating subsidiary or entity in the PRC, are required to make the Social Insurances and housing provident fund contributions for its employees in the PRC under the applicable laws and regulations in the PRC. As advised by the PRC Legal Adviser, the Processing Factory has only made full contributions of medical insurance, job-related injury insurance and birth insurance during the Track Record Period. Due to different levels of acceptance of the social security system by the employees, the Processing Factory has not made full contributions in respect of pension insurance, unemployment insurance and housing provident fund for its employees in the PRC. In particular, some employees were not willing to make corresponding contributions, because they declined the Group's payment of pension insurance and unemployment insurance on their behalf, as such payment might reduce their disposable income. As a result, the Processing Factory was not able to set up payment accounts for them at the relevant local social security insurance. Thus, the Group has not been able to make its respective portion of contributions to the pension insurance and unemployment insurance.

During the Track Record Period, the Group made contributions in aggregate amount of approximately RMB3.16 million (equivalent to approximately HK$3.99 million) to the Social Insurances and housing provident fund. For the years ended 31 March 2011 and 2012, the outstanding amount of the Social Insurances was approximately RMB1.17 million (equivalent to approximately HK$1.48 million) and RMB0.62 million (equivalent to approximately HK$0.78 million) respectively. The average number of staff who did not have full contributions of the Social Insurances was approximately 329 and 295 for the years ended 31 March 2011 and 2012 respectively. As confirmed by the Directors, the Group will settle the outstanding contributions of the Social Insurances upon request of the relevant PRC authorities. As advised by the PRC Legal Adviser for the basis of the calculation and such calculation has been reviewed by the reporting accountants of the Company, the estimated potential maximum amount of late penalties which the Group may be required to settle in relation to the outstanding Social Insurances before 30 June 2011 amounted to approximately RMB0.44 million (equivalent to approximately HK$0.55 million). Taking into account of the estimated potential maximum amount of late penalties which the Group may be required to settle in relation to the outstanding Social Insurances before 30 June 2011 amounted to approximately HK$0.54 million, the Directors are of the view that the Group's cash flow from operating activities as at least HK$20 million in aggregate for the two years ended 31 March 2012 and ended 31 March 2013 in accordance with Rule 11.12A of the GEM Listing Rules.

As advised by the PRC Legal Adviser, the Processing Factory may be ordered to pay such outstanding Social Insurances and/or housing provident fund contributions within a prescribed time limit by the relevant PRC authorities. As an employing unit, the Processing Factory has obligations to be responsible for the contributions of the Social Insurances and housing provident funds. Pursuant to the Processing Agreement, Echo Electronics is responsible for the payment of the salaries of the workers employed by the Processing Factory out of the processing fee. Therefore, after the related social insurance systems and housing provident funds established by the PRC Government, those contributions of the Social Insurances and housing provident funds should also be provided by Echo Electronics to the Processing Factory, being the employing unit.

According to the PRC Legal Adviser, the Processing Factory has not made full contribution of the pension insurance and unemployment insurance because some employees were not willing to participate in social insurance schemes. The employees, who did not participate in the Social Insurances scheme, had provided written confirmations to the Group that they would not claim against the Processing Factory and Yi Gao Tech regarding the outstanding Social Insurances. According to a letter dated 23 May 2012 issued by 深圳市社會保險基金管理局 (Administration of Social Insurance Fund of Shenzhen*), which confirmed that, during the period from 1 April 2010 to 31 March 2012, neither the Processing Factory nor Yi Gao Tech has been penalised for the violations of any laws, rules or regulations of the Social Insurances. In addition, the Processing Factory and Yi Gao Tech had obtained a confirmation letter dated 11 June 2012 from 深圳市社會保險基金管理局觀瀾管理站 (Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund*), which stated that, the relevant social insurance management department would no longer investigate the non-compliance of the Processing Factory and Yi Gao Tech for the period since their establishments up to 31 March 2012 and also confirmed that neither the Processing Factory nor Yi Gao Tech will be penalised for the violations of any laws, rules or regulations of the Social Insurances during such period. The Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund is able to confirm that the Group will not be penalised on the basis of Rule 20 of《勞動保障監察條例》(Regulation on Labor Security Supervision*), which stated that, the relevant labour security administration department would no longer investigate if they do not find any non-compliance or receive any reports or complaints within 2 years from the date of the violations of laws, rules or regulations in respect of the social security.

According to the information disclosed in the official website of the Shenzhen City Administration of Social Insurance Fund, Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund is the authority empowered to exercise control, co-ordination and registration of the Social Insurances in Guanlan, Shenzhen. On the basis that (i) the Administration of Social Insurance Fund of Shenzhen is the supervision and administration authority for the Social Insurances in Shenzhen; and (ii) the Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund is the authority empowered to exercise control, co-ordination and registration of the Social

Insurances in the Guanlan, Shenzhen, the PRC Legal Adviser are of the opinions that they are the proper and competent authorities to issue the confirmations to the Group given that the Processing Factory and Yi Gao Tech are located in Guanlan, Shenzhen. The PRC Legal Adviser are of the view it is not necessary for a higher authority to issue such confirmations because (i) Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund is an authorised institution appointed by Administration of Social Insurance Fund of Shenzhen; (ii) Yi Gao Tech is an enterprise located within the jurisdiction of Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund; and (iii) there is no relevant laws, regulations or guidances for the issue of such confirmations and as to how such confirmations should be done by a higher authority. In addition, the PRC Legal Adviser made a visit to 廣東省社會保險基金管理局 (Administration of Social Insurance Fund of Guangdong Province*) on 2 September 2013 and met the officials of the relevant departments for consultations regarding the Social Insurances. Such officials replied to the PRC Legal Adviser that (i) the Administration of Social Insurance Fund of Guangdong Province is not the higher authority of the Administration of Social Insurance Fund of Shenzhen and there is no vertical management affiliation between the two entities. The Administration of Social Insurance Fund of Guangdong Province only can provide operational guidance to the Administration of Social Insurance Fund of Shenzhen Social Insurance Fund Board there is no authority on executive management and audit supervision; and (ii) as the Processing Factory and Yi Gao Tech are enterprises based in Shenzhen, the Administration of Social Insurance Fund of Shenzhen is the valid authority to supervise the administration of the Social Insurances for enterprises in Shenzhen. Based on the above findings, the PRC Legal Adviser is of the opinion that the letters issued by the Administration of Social Insurance Fund of Shenzhen dated 23 May 2012 and 9 April 2013 respectively and the confirmation letter issued by Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund dated 11 June 2012 are the final decisions and the possibility of such decisions might be challenged by higher authority is remote.

The Sole Sponsor concurred with the view of the PRC Legal Adviser that both the Administration of Social Insurance Fund of Shenzhen and Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund are the competent authorities for issuing the aforesaid confirmations and there is no need to further seek any confirmations from higher authorities. In forming the aforesaid view, the Sole Sponsor (i) reviewed the legal opinions issued by the PRC Legal Adviser; (ii) reviewed the official website of the Administration of Social Insurance Fund of Shenzhen; and (iii) discussed with the PRC Legal Adviser to understand the main functions and responsibilities of both the Administration of Social Insurance Fund of Shenzhen and Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund.

As at the Latest Practicable Date and up to the date of the issuance of the PRC legal opinion, the Processing Factory and/or Yi Gao Tech did not receive any payment notice from the relevant PRC authorities and there were no complaints from the employees or complaints from the employees being received by the relevant PRC authorities. The Processing Factory will only be penalised if the Processing Factory fails to settle the outstanding contributions of Social Insurances upon request from the relevant PRC authorities. On the basis of the above, the PRC Legal Adviser are of the opinion that the possibility of the Processing Factory being penalised for the unpaid Social Insurances is basically not existent. Accordingly, the Group has not made any provision for (i) the outstanding pension insurance and unemployment insurance; and (ii) the penalty in relation to the unpaid Social Insurances. According to the receipt issued by the Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund, Yi Gao Tech completed the registration of the Social Insurances on 27 June 2011 and has commenced to contribute the Social Insurances in July 2011. As advised by the PRC Legal Adviser, in case the relevant PRC authorities issue payment notice for the outstanding Social Insurances, Yi Gao Tech will be liable for the outstanding Social Insurances of the Processing Factory since Yi Gao Tech was transformed from the Processing Factory and the Processing Factory has already been deregistered. However, the PRC Legal Adviser are of the view that the possibility of Yi Gao Tech being held liable for the outstanding payment to the Social insurances of the Processing Factory related to the period before 1 July 2011 is basically not existent, since, as aforementioned, the possibility of the Processing Factory being penalised for the unpaid contribution to the Social Insurances related to the period before 1 July 2011 is basically not existent. Yi Gao Tech is exempt from any possibilities of being responsible for any outstanding payment to the Social Insurances related to the period before 1 April 2012 according to the confirmations received from the Shenzhen City Administration of Social Insurance Fund and Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund dated 23 May 2012 and 11 June 2012 respectively.

In the event that the Group is required to pay the outstanding Social Insurances, the Controlling Shareholder has agreed to indemnify the Group against all losses suffered or incurred by the Group as a result of or in connection with the failure of the Processing Factory and/or Yi Gao Tech to make contribution in respect of the Social Insurances fund due to the relevant governmental authorities in the PRC prior to the Listing.

As advised by the PRC Legal Adviser,《深圳市住房公積金管理暫行辦法》(Provisional Measures for Management of Shenzhen Housing Provident Fund*) ("Shenzhen Housing Fund Measures") came into force on 20 December 2010. Pursuant to the 《深圳市住房公積金繳存管理暫行規定》(Provisional Measures for Payment Management of Shenzhen Housing Provident Fund*), business units which were established before the Shenzhen Housing Measures became effective shall register with 深圳市住房公積金管理中心 (Shenzhen Housing Fund Management Centre*) within six months from the date of the Shenzhen Housing Measures became effective, which is before 30 June 2011.

As the Processing Factory and Yi Gao Tech have applied for registration of housing provident fund on 9 May 2011 and 27 June 2011 respectively, which were within the prescribed period, the PRC Legal Adviser advised that the relevant penalty arising from registration of housing provident fund is not applicable to the Group. In addition, the Company confirmed that the Group has settled all the outstanding contributions of housing provident fund amounted to approximately RMB21,000 in June 2012 and such outstanding housing provident fund was incurred by Yi Gao Tech. According to a letter dated 1 April 2013 issued by 深圳市住房公積金管理中心 (Shenzhen Housing Provident Fund

Management Center*), which confirmed that, during the period from July 2011 to March 2013, Yi Gao Tech had not violated any laws or regulations of the housing provident fund and has not been penalised.

As advised by the PRC Legal Adviser, Yi Gao Tech has made full contributions of the Social Insurances and the housing provident funds for its eligible staff in the PRC since July 2011 and up to the Latest Practicable Date.

As at the Latest Practicable Date, rectification actions have been taken and measures have been duly put in place by the Group to prevent recurrence of non-compliance incidents in the future.

Non-compliance incidents	Reasons of the non-compliances	Potential legal penalties and any potential operational and financial impacts	Potential Rectifications actions taken	Personnel in charge of the rectification
The Group not providing the Social Insurances for certain employees	Due to different levels of acceptance of the social security system by the employees, the Processing Factory has not made full contributions in respect of pension insurance, unemployment insurance and housing provident fund for its employees in the PRC. In particular, some employees were not willing to make corresponding contributions, because they declined the Group's payment of pension insurance and unemployment insurance and housing provident fund contributions on their behalf, as such payment might reduce their disposable income. As a result, the Processing Factory was not able to set up payment accounts for them at the relevant local social security insurance and housing provident fund administration centre. Thus, the Group has not been able to make its respective portion of contributions to the pension insurance and unemployment insurance and housing provident fund.	The Processing Factory and/or YI Gao Tech may be ordered to pay such outstanding Social Insurances within a prescribed time limit by the relevant PRC authorities and might subject to an additional late payment fine of 0.2% per day computed from the date when the amount becomes overdue according to《社會保險費徵繳暫行條例》(the Interim Regulation on the Collection and Payment ofSocial Security Insurance Premiums*). Effective on 1 July 2011, the relevant regulation is amended pursuant to Articles 86 of《中華人民共和國社會保險法》(the Social Insurance Law of the PRC*). Accordingly, the relevant PRC authorities may order the Processing Factory and/or Yi Gao Tech to pay the outstanding contribution of the Social Insurances together with an additional payment at the daily rate of 0.05% of such outstanding contribution within a prescribed time limit. If the payment is not settled by the prescribed time limit, the Processing Factory and/or Yi Gao Tech will be subject to a penalty starting from one time and up to three times of the total outstanding contribution of the pension insurance and unemployment insurance.	The Group has adopted additional administrative efforts and procedures by appointing three designated officers in September 2011 for the management of the Social Insurances and housing provident fund contributions. The three designated officers are responsible for consolidating the list of eligible employees for participation in the relevant social insurance funds and housing provident funds. The Group has also provided briefings to the existing employees and future employees as to the national and local legal requirements on the Social Insurances and housing provident fund to assist them in understanding the requirements and procedures involved. Yi Gao Tech has applied for registration of the payment of housing provident fund on 27 June 2011, respectively, within the prescribed period. In addition, the Group has settled all the outstanding contributions of housing provident fund amounted to approximately RMB21,000 in June 2012 and such outstanding housing provident fund was incurred by the Yi Gao Tech.	Mr. Tang Yi Ping, head of administration for Yi Gao Tech. Ms. Deng Fu Mei, head of accounting for Yi Gao Tech. Ms. Luo Xue Yun, accounting clerk for Yi Gao Tech. Ms. Luo Xue Yun is responsible for updating and reviewing the registers of the employees on the respective websites of the Social Insurances and housing provident funds at least twice a month. Ms. Deng Fu Mei is responsible for reviewing the breakdowns which include the number of eligible employees and the total amount of payments. With the approval of Mr. Tang Yi Ping, Ms. Deng Fu Mei prepares and submits the payments to the relevant authorities.
The Group not providing the housing provident funds for certain employees	During the Track Record Period, the Processing Factory had not registered for the housing provident fund and not paid the housing provident fund contribution for its employees because (i) the relevant authorities allowed to have a grace period of six months for the units established before the implementation of the measures to register before 30 June 2011; (ii) differences in local regulations and inconsistent implementation or interpretation by local authorities in the PRC; and (iii) the housing provident fund contribution requirements have not been made mandatory through enforcement by the local authority.	Pursuant to《住房公積金管理條例》(the Regulations on Management of Housing Provident Funds*), if the Group fails to rectify the non-compliance within the prescribed time limit as ordered by the relevant PRC authorities and might subject to a fine of between RMB10,000 and RMB50,000. As Yi Gao Tech has applied for registration of the payment of housing provident fund on 27 June 2011 within the prescribed period, the PRC Legal Adviser advised that the relevant penalty arising from housing provident fund is not applicable to the Group.		

On the basis that, (i) the new measures and procedures have been in place for the administration and payment of the Social Insurances and housing provident fund; and (ii) as at the Latest Practicable Date, the Group was not aware of any recent employee's complaints on demands for payment of the Social Insurances and housing provident fund, nor the Group received complaints from the employees being received by the relevant PRC authorities, the Directors and the Sole Sponsor consider that these procedures are effective to prevent reoccurrence of the non-compliance in respect of the Social Insurances and housing provident fund in the future.

MEASURES ADOPTED TO PREVENT FUTURE NON-COMPLIANCE

In order to improve the Group's corporate governance and to prevent future non-compliance, the Group has adopted the following measures in the PRC and Hong Kong:

(i) The Group engaged GDT CPA Limited to review the Group's internal control system in January 2011. GDT CPA Limited conducted two follow-up reviews in July 2011 and February 2012. Based on GDT CPA Limited's review and recommendations, the Group adopted the measures and policies to improve its internal control system and to ensure its compliance with the GEM Listing Rules and the relevant PRC and Hong Kong laws. For details of the Group's implementation of the recommendations by GDT CPA Limited, please refer to the sub-headed "Internal Control" under this section.

(ii) The Group has adopted additional administrative efforts and procedures by appointing three designated officers in September 2011 for the management of the Social Insurances and housing provident fund contributions.

(iii) The Group has engaged and will continue to appoint external professional advisers, including auditors, legal advisers or other advisers to render professional advice as to compliance with the statutory requirements as applicable to the Group from time to time. As at the Latest Practicable Date, the Group have engaged:

(a) HLB Hodgson Impey Cheng as the Group's auditors and reporting accountants;

(b) Patrick Mak & Tse as the Group's legal advisers as to Hong Kong law for the Listing, and to be appointed for one year after Listing as confirmed by the Directors; and

(c) Tanrich Capital as the Company's compliance adviser to provide advice to the Directors and senior management on matters relating to the GEM Listing Rules. The term of appointment of the compliance adviser of the Company shall commence on the Listing Date and end on the date of despatch of the annual report of the Company in respect of its financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

(iv) Regular trainings will be provided to all Directors and senior management by our external professional advisers on compliance with the GEM Listing Rules and all relevant laws and regulations, including timely preparation and publishing of accounts.

(a) The Directors, Mr. Lo Yan Yee, Madam Cheng, Mr. Cheng Kwing Sang, Raymond, Mr. Lam Wai Yuen, Mr. Ang Chuk Pai, attended a seminar organized by the Company's legal advisers, Patrick Mak & Tse in June 2011 regarding the duties of directors of companies listed in Hong Kong.

(b) The Directors, Mr. Lo Yan Yee, Madam Cheng, Mr. Cheng Kwing Sang, Raymond, Mr. Lo Ding To, Mr. Lam Wai Yuen, Mr. Ang Chuk Pai, attended a seminar "Role of Company Director I: Overview of Legal & Regulatory Framework" organized by The Hong Kong Institute of Directors in June 2012.

(c) The Directors, Mr. Lo Yan Yee, Madam Cheng, Mr. Cheng Kwing Sang, Raymond, Mr. Lo Ding To, Mr. Lam Wai Yuen, Mr. Ang Chuk Pai, received training updates and/or attended a seminar organized by the Company's legal advisers, Patrick Mak & Tse in July 2012 regarding corporate governance and relevant amendments to the GEM Listing Rules and Securities and Futures Ordinance.

(d) The Directors, Mr. Lo Yan Yee, Madam Cheng, Mr. Cheng Kwing Sang, Raymond, Mr. Lo Ding To, Mr. Lam Wai Yuen, Mr. Ang Chuk Pai, Mr. Chan Chung Yin, Victor, attended a seminar organized by the Company's legal advisers, Patrick Mak & Tse in April 2013 regarding (1) the duties of directors of companies listed in Hong Kong; and (2) corporate governance and relevant amendments to the GEM Listing Rules and Securities and Futures Ordinance.

Based on the abovementioned, the Directors consider that the Group has effective internal control system in place to avoid future recurrence of the non-compliance incidents.

CONNECTED TRANSACTIONS

Continuing connected transaction and historical related party transaction

The following transaction has been entered into by the Group during the Track Record Period, which will continue upon the Listing and will constitute continuing connected transaction under the GEM Listing Rules.

1. Continuing connected transactions

Tenancy Agreement entered between Echo Electronics and Progress International Holdings Limited

Progress is a company beneficially owned by Madam Cheng and Mr. Lo Yan Yee as to 70% and 30% respectively. Madam Cheng and Mr. Lo Yan Yee are executive Directors and will become connected persons of the Company upon Listing. Pursuant to a tenancy agreement dated 1 June 2010 (the "**2010 Tenancy Agreement**"), Progress agreed to lease the premises located at Room 5, 22/F, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong (being property numbered 1 referred to in the section headed "Summary of valuations" as set out in Appendix III to this prospectus), to Echo Electronics for a term of 2 years commencing from 1 June 2010 and expiring on 31 May 2012 at a monthly rental of HK$18,000, inclusive of rates and exclusive of management fee, resulting in a total annual rent of HK$216,000. On 31 May 2012, the 2010 Tenancy Agreement was renewed by Echo Electronics and Progress under a tenancy agreement (the "**2012 Tenancy Agreement**") for a further term of 2 years from 1 June 2012 to 31 May 2014 at a monthly rent of HK$20,000, inclusive of rates and exclusive of management fee, resulting in a total annual rent of HK$240,000. The 2012 Tenancy Agreement can be terminated during the second year by Echo Electronics through at least one-month written notice served to Progress in advance.

The Directors consider that the terms of the 2010 Tenancy Agreement and the 2012 Tenancy Agreement (collectively, "**Tenancy Agreements**") are on normal commercial terms, determined on an arm's length basis with reference to prevailing market rental at that time and are fair and reasonable so far as the Shareholders are concerned. DTZ Debenham Tie Leung Limited ("**DTZ**"), an independent property valuer, has reviewed the terms of the Tenancy Agreements and confirmed that the terms and conditions (including the annual rent payable by Echo Electronics) under this transaction are fair and reasonable as compared to market rental.

In addition, the amount of total annual rent payable by Echo Electronics to Progress under the 2012 Tenancy Agreement is less than HK$1,000,000 and less than 5% of the applicable percentage ratio(s) under Rule 19.07 of the GEM Listing Rules. Therefore, the transaction under the 2012 Tenancy Agreement fall under the *de minimis* provision set forth in Rule 20.33(3) of the GEM Listing Rules and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions under the GEM Listing Rules.

2. *Historical related party transactions*

During the Track Record Period, the Group had the following transaction with related party.

Transactions between Echo Electronics and Treasury International Electronics Limited

Treasury was a Hong Kong company principally engaged in the trading of electronic products. It ceased the business on 31 March 2012 and was deregistered on 28 March 2013. Immediately before its cessation of business, it was beneficially owned by Madam Cheng and Mr. Lo Yan Yee as to 70% and 30% respectively. Madam Cheng and Mr. Lo Yan Yee are executive Directors and will become connected persons of the Company upon Listing. During the Track Record Period, Echo Electronics had supplied products of security alarms to Treasury at a price which is no less favorable to Echo Electronics than the prevailing rates charged by Echo Electronics against other customers of Echo Electronics at that time. An aggregate of HK$539,000 was paid by Treasury to Echo Electronics for the purchases of security alarms for the year ended 31 March 2011. Security alarms were supplied to Treasury because of the intention of the customer to order security alarms from Treasury instead of Echo Electronics due to its company policy. The Directors confirmed that there was no supply agreement which has been entered between Echo Electronics and Treasury and the Group ceased to supply any products to Treasury since December 2010 and it is expected that these transactions will not continue after the Listing.

The Directors consider that the above related party transactions were conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of those related party transactions were determined on an arm's length basis with reference to market price for the same or similar products and were fair and reasonable so far as the Shareholders are concerned.

BUSINESS OBJECTIVE

The Group intends to develop on its recurring business in providing EMS to international customers while targeting further expansion in its established market, particularly to explore the EMS for consumer electronic products in the PRC market where the Directors consider the PRC market has a promising potential. While the European Countries and the United States will still be the principal markets of the Group in the near future, the Group has no current intention to sell its products in the PRC.

By raising funds from the capital markets, the Group is able to upgrade and strengthen its production facilities in order to enhance its vertically integrated manufacturing facilities and to position itself for business growth in the competitive marketplace. The intended increase in manpower is variable cost and it will only increase when it is needed. The Directors are of the view that the expansion and upgrade of the production facilities will not only increase production capacity but will prepare the Group for future business growth from the increasing efforts on marketing. The Group will fully automate PCBA by acquiring the necessary equipment so as to increase production efficiency and quality whilst reducing production costs.

To further enhance its vertically integrated production and to reduce reliance on subcontractors for the plastic consumptions, the Directors plan to set up production facilities for plastic parts. The Group will acquire machineries and equipments for the manufacture of plastic parts. Moreover, the Group intends to solicit its existing customers for the production of plastic parts which will create another stream of income to the Group.

Over the years of operations, the Group has established strong and close working relationships with its key customers and as at the Latest Practicable Date, the Group's business relationships with its top five largest customers ranged from 1 to 15 years. Such long standing relationships stem from the recognition of the Group's quality service and timely completion of customers' order under delivery schedules and short production lead time. The Directors believe that such close relationships help preserve the loyalty of its customers and reinforce commitment from its long-term customers to continue supporting the Group. Despite the current sluggish economic market in the European Countries and the United States, the Group fully intends to attain business growth with expanding client base. The Directors prudently see opportunities in the future years to be stabilizing and that the newly acquired customers of the Group will continue to grow and may start to be substantial contributors of revenue to the Group. The Group's strategy is to increase its market share and to develop new customers to enlarge its client base through increasing its promotional and marketing activities; and it will more frequently attend and participate in exhibitions and trade fairs in Hong Kong, the PRC and overseas, as well as to place advertisements on electronic magazines and websites to solicit potential customers.

Given the fact that (i) the Directors consider that the expansion and upgrade of the production facilities not only will increase production capacity but also will enhance the production efficiency and quality in order to save production costs; (ii) Mr. Lo Yan Yee has substantial experience for PRC's factory management in the past 20 years which enabled him to understand the needs of the expansion and upgrade of the Group's production facilities; and (iii) Madam Cheng has substantial experience in the marketing and price management in the electronics industry which enabled her to understand the current market trend of the EMS markets, the Sole Sponsor reviewed the implementation plans and concurs with the view of the Directors that the future plan is reasonable and the working capital is sufficient for the implementation of such future plans.

FUTURE PLANS

To achieve its business objective, the Group intends to adopt the following strategies in the future:

1. Expand and upgrade the production facilities

In view of the increasing demand and further expansion of the business operation of the Group, the Group intends to expand its production facilities and upgrade its equipments in order to increase its production efficiency and product quality. The Directors believe that such expansion and upgrade will lower the cost of production and enable the Group to maintain its competitiveness. The Directors' future plan of upgrading and expansion of production facilities are determined on the bases of, among other factors, (i) the Directors' ongoing discussions with its key customers with regard to their upcoming increases in the purchase orders; and (ii) potential demand from new customers, in respect of which the Directors expect that the future increase in demand for the Group's products will exceed its current level of free production capacity. On such basis, the Directors believe that the Group will be able to maintain its current level of sales revenue following its planned upgrading and expansion of production facilities.

Given the expansion of the existing factory, much space is required for storing raw materials and installing new machines. The Group intends to hire an additional of 600 PRC staffs of which 200 and 160 new PRC staffs in the production facilities of electronic products and plastic parts respectively. The Group will hire new PRC staffs in, including but not limited to, production department, quality control department and administrative department. The additional staff cost will be fully satisfied by the internally generated cashflow of the Group. As a result, a new dormitory will be leased and renovated for additional employees to be employed. The completion of the renovation of the factory building and the renovation of a dormitory are expected to be completed by March 2014 and September 2014 respectively. As at the Latest Practicable Date, the Group has a 6-storey dormitory with a total gross floor area of 2,845 sq.m., which can accommodate up to 400 staffs. The Group intends to lease a 4-storey premises with a total gross floor area of approximately 7,000 sq.m. and it is estimated that the new staff dormitory will have a capacity of 700 staffs. As confirmed by the Directors, there is no specific approval or permit requirement for the expansion and upgrade of the existing factory. Nevertheless, the Group will be aware of its compliance with environmental and safety regulations in the PRC regarding its expansion plan.

As at the Latest Practicable Date, the Group carries out its entire production in its manufacturing plant in Da He Industrial Zone, Guanlan Town, Baoan District with an annual production capacity of approximately 3.40 million units of electronic products for the year ended 31 March 2013. Upon completion of the expansion and upgrade of the existing factory, the number of production lines for electronic products will be increased from 13 to 17 with the purchase of 4 SMT machines of which 2 new SMT machines will be purchased by 31 March 2014 and 30 September 2015 respectively. It is estimated that the annual production capacity of electronic products will be increased by approximately 30.77% to approximately 1.07 million units upon full expansion and upgrade of the production facilities.

2. Set up production facilities for plastic parts

As at the Latest Practicable Date, the Group has only two plastic injection machines which were acquired in September 2012 and May 2013 with minimal production. The Group has procured plastic production from its suppliers throughout the business history of the Group. The Group intends to set up its own production facility for the manufacture plastic parts in the Group's manufacturing operation. As most of the products manufactured and assembled by the Group consist of at least certain quantity of plastic components, the Directors believe that the set up of plastic production facilities will lower the cost of raw materials and enable the Group to enhance its production efficiency and production lead time management. The cost of raw materials consumed would be lowered by approximately HK$1.93 million, HK$1.60 million and HK$0.25 million, respectively, for the years ended 31 March 2011, 2012 and 2013 if the plastic production facilities were set up and applied for production during the Track Record Period. In addition, the Group intends to purchase one motor vehicle for the use of the plastic manufacturing facilities. The use of the motor vehicle to be purchased is to transfer raw materials for the production of plastic parts and completed plastic parts to the production facilities for electronic products.

Instead of constructing a new production plant for plastic parts, the Group intends to lease a two-storey factory premises with a total gross floor area of approximately 4,000 sq.m. Such premises will be renovated for the Group's plastic parts production. As at the Latest Practicable Date, the Group is in the process of searching for suitable factory premises in the nearby area of the existing Processing Factory for the setup of plastic parts division. During the period from the Latest Practicable Date to 31 March 2014, the Group will be finalizing the location of new production facility for plastic parts which requires no capital expenditure. As a result, no net proceeds will be utilised for the set up of production facilities for plastic parts during such period. The Directors expect that the location of the factory premises for plastic parts production will be determined by 31 March 2014 and its renovation will be completed by September 2015. As confirmed by the Directors, there is no specific approval or permit requirement for the setting up of production facilities for plastic parts.

Upon completion of the setting up of production facilities for plastic parts, the plastic division will be equipped with a total of 8 additional production lines with an estimated annual production capacity of approximately 2 million units of plastic parts per each production line. The plastic parts to be produced by the Group will mainly satisfy the demand of plastic parts for the Group's products. If there is an excess production capacity for the plastic parts, the Group will explore opportunities to develop sales channel to market the manufacturing of plastic parts. As at the Latest Practicable Date, the Group has only two employees working under the plastic division and the Company has already identified two suitable candidates to be employed by the Group as technical consultants of the plastic division, namely Mr. Yeung Ming and Mr. Lau Kam Chiu, who have more than 30 years of experience in plastic injection industry. Together with the extensive factory management experience of Mr. Lo Yan Yee and other key staffs of the Group's manufacturing operation, the Directors believe that the Group will have the sufficient expertise to operate the planned plastic parts division.

3. Strengthen the Group's position in its established markets and expand its customer base

The European Countries and the United States markets played a major role in the Group's success during the past years. For each of the years ended 31 March 2011, 2012 and 2013, the Group's sales to these two markets accounted for 77.30%, 72.74% and 71.34% respectively, of its total sales. Based on the Group's understanding of the market preferences of these two markets, the Group plans to leverage its relationship with existing customers to further expand the Group's market shares in these established markets. The Group has on-going sales and marketing budget for maintaining existing customers and expanding its sales network in the ordinary course of business. The Group plans to participate in electronic exhibitions for enhancing communications with customers and obtaining first hand market information and requisition of new customers. The Group is also interested in expanding its sales team by the employment of 2 additional marketing staffs for plastic production and its related products.

Note: Under the future plans, the Group will start to purchase new property, plant and equipments with the net proceeds from the Placing in September 2013. Accordingly, no depreciation charges were incurred from such additions for the year ended 31 March 2013, while the additional depreciation charges are estimated to be approximately HK$0.30 million and HK$1.07 million for the year ending 31 March 2014 and 2015 respectively.

IMPLEMENTATION PLANS

The Group will endeavour to achieve the following milestone events during the period from the Latest Practicable Date to 31 March 2016, and their respective scheduled completion times are based on certain bases and assumptions as set out in paragraph headed "Bases and key assumptions of future plans" in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out under the section headed "Risk factors" in this prospectus. Therefore, there is no assurance that the Group's business plans will materialise in accordance with the estimated time frame and that the Group's future plans will be accomplished at all.

For the period from the Latest Practicable Date to 31 March 2014:

Expand and upgrade the production facilities	**Set up production facilities for plastic parts**	**Strengthen the Group's position in its established markets and expand its customer base**
— Renovation of the factory building for storing raw materials and installing 2 new SMT machines — Purchase 2 new SMT machines — Finalise location of new dormitory	— Finalise location of new production facility for plastic parts	— Expansion of sales department for plastic products — Place advertisements in trading magazines and website
Amount to be invested from the net proceeds:		
HK$3.50 million	—	HK$0.50 million

For the period from 1 April 2014 to 30 September 2014:

Expand and upgrade the production facilities	**Set up production facilities for plastic parts**	**Strengthen the Group's position in its established markets and expand its customer base**
— Lease and renovate a four-storey dormitory for the new employees	— Lease and renovate a two-storey factory premise for setting up production facilities for plastic parts — Reconstruct a water well to improve environmental protection — Leasehold improvement for environmental protection regarding the treatment of plastic waste	— Participate in trade fairs and exhibitions — Place advertisements in trading magazines and website

Amount to be invested from the net proceeds:

HK$3.00 million	HK$3.70 million	HK$1.40 million

For the period from 1 October 2014 to 31 March 2015:

Expand and upgrade the production facilities	**Set up production facilities for plastic parts**	**Strengthen the Group's position in its established markets and expand its customer base**
— Reconstruct the front gate of the factory	— Reconstruct the electric supply system to support the new production facility — Purchase 1 new motor vehicle — Purchase 4 new machines for producing plastic parts	— Place advertisements in trading magazines and website

Amount to be invested from the net proceeds:

HK$0.35 million	HK$4.02 million	HK$0.30 million

For the period from 1 April 2015 to 30 September 2015:

Expand and upgrade the production facilities	**Set up production facilities for plastic parts**	**Strengthen the Group's position in its established markets and expand its customer base**
— Purchase 2 new SMT machines	— Purchase additional 2 machines for producing plastic parts	— Participate in trade fairs and exhibitions — Place advertisements in trading magazines and website

Amount to be invested from the net proceeds:

HK$2.00 million	HK$1.24 million	HK$1.40 million

For the period from 1 October 2015 to 31 March 2016:

Expand and upgrade the production facilities	**Set up production facilities for plastic parts**	**Strengthen the Group's position in its established markets and expand its customer base**
	— Purchase additional 2 machines for producing plastic parts	— Advertising in trading magazines and website

Amount to be invested from the net proceeds:

—	HK$1.24 million	HK$0.30 million

BASES AND KEY ASSUMPTIONS

The business objectives set out by the Directors are based on the following bases and assumptions:

- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate that will adversely affect the business of the Group;
- the Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the existing laws (whether in the PRC, Hong Kong or any part of the world), policies or industry or regulatory treatment relating to the Group, or in the political, economic or market conditions in which the Group operates;
- there will be no material changes in the bases or rates of taxation applicable to the Group;
- there be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its property or facilities;
- there will be no significant changes in the business relationship with the major customers and suppliers of the Group;
- there will be no change in the effectiveness of the licenses and permits obtained by the Group; and
- the Group will not be materially affected by the risk factors as set out under the section headed "Risk Factors" in this prospectus.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that the listing of the Shares on GEM could enhance the Group's capital base and the net proceeds from the Placing will strengthen the Group's financial position and enable the Group to implement its business objectives set out in this section. Furthermore, a public listing status on GEM will offer the Group to access to capital market for future corporate finance exercises to assist in future business development and strengthen its competitiveness.

Based on the Placing Price of HK$0.60 per Share, the Group will receive gross proceeds of HK$36 million. All expenses and the underwriting fees in connection with the Listing are approximately HK$10.88 million. Consequently, the Group should receive net proceeds, after deducting related expenses, of approximately HK$25.12 million from the Placing. The Directors intend to apply such net proceeds as follows:

	For the six months ending						
	From the Latest Practicable Date to 31 March 2014	**30 September 2014**	**31 March 2015**	**30 September 2015**	**31 March 2016**	**Total**	**Approximate % of the total net proceeds**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	
Expand and upgrade the production facilities	3.50	3.00	0.35	2.00	—	8.85	35.23
Set up production facilities for plastic parts	—	3.70	4.02	1.24	1.24	10.20	40.61
Strengthen the Group's position in its established markets and expand its customer base	0.50	1.40	0.30	1.40	0.30	3.90	15.52
	4.00	8.10	4.67	4.64	1.54	22.95	91.36

The net proceeds from the issue of the Placing Shares will be approximately 91.36% utilised by the end of the fiscal year of 2016 and approximately HK$2.17 million will be used as working capital and funding for other general corporate purposes according to the current business plans of the Group. The Directors consider that the net proceeds from the issue of the Placing Shares of approximately HK$25.12 million and the Group's internal resources will be sufficient to finance its business plans as schedule up to the three years ending 31 March 2016. In the event that the Group would require additional financing apart from the net proceeds from the issue of the Placing Shares for its future plans, the shortfall will be financed by the internal resources of the Group.

To the extent that the net proceeds from the Placing are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term interest-bearing deposits with authorised financial institutions.

DIRECTORS

The Board consists of four executive Directors and three independent non-executive Directors. The following table sets forth certain information in respect of the Directors:

Name	Age	Position	Date of Appointment	Role
Mr. Lo Yan Yee	61	Executive Director, Chairman and Factory General Manager	27 September 2013	Managing and supervising the production teams and engineering teams in the Group's factory operation
Madam Cheng Yeuk Hung	56	Executive Director and Chief Operation Officer	21 December 2010	Overseeing the operation of the Hong Kong office, formulating the product pricing management, marketing and business development
Mr. Cheng Kwing Sang, Raymond	63	Executive Director, Chief Executive Officer and Marketing Director	27 September 2013	Formulating product development strategies and marketing plan of the Group
Mr. Lo Ding To	26	Executive Director and Production Manager	27 September 2013	Overseeing the implementation of day-to-day manufacturing operations
Mr. Lam Wai Yuen	47	Independent non-executive Director	27 September 2013	Giving independent advice to the Board
Mr. Ang Chuk Pai	50	Independent non-executive Director	27 September 2013	Giving independent advice to the Board
Mr. Chan Chung Yin, Victor	52	Independent non-executive Director	27 September 2013	Giving independent advice to the Board

Executive Directors

Mr. Lo Yan Yee (勞炘儀), aged 61, is the chairman of the Board as well as the factory general manager of the Group. Mr. Lo was appointed as an executive Director on 27 September 2013. He is the founder of the Group and has approximately 35 years of experience in the electronics industry of which he has spent over 23 years in managing his own business. He is responsible for managing and supervising the production teams and engineering teams in the Group's factory operation to ensure that all the environmental, quality, cost, delivery, budget and administration objectives are well achieved. Mr. Lo is also responsible for providing training to the staffs in the factory to enhance their effectiveness and knowledge so as to maximise production efficiency and utilise the labour force effectively. Mr. Lo commenced the work in the electronics industry in 1978, and prior to establishing Echo Co in 1989, he worked in the production department in various electronics companies in Hong Kong and acquired extensive experience in production and management. Mr. Lo finished Form One in 1966. Mr. Lo is the spouse of Madam Cheng.

Madam Cheng Yeuk Hung (鄭若雄), aged 56, is an executive Director and the chief operation officer of the Group. Madam Cheng was appointed as an executive Director on 21 December 2010. She is the founder of the Company and has approximately 34 years of experience in the electronics industry of which she has spent over 23 years in managing her own business. She principally oversees the operation of the Hong Kong office. She also regularly communicates with the senior staffs in the factory as well as the suppliers of the Group to understand the trend of procurement. Madam Cheng is responsible for resource allocation in relation to the customers in different market segments. She is also responsible for product pricing management, marketing and business development to manage the profitability of each product manufactured by the Group. Prior to establishing Echo Co in 1989, Madam Cheng had worked in EDAX Industrial Company Limited from 1979 to 1988 as an operation manager whereby she became skilled at business promotion, procurement of raw materials, and resource management in the electronics industry. Madam Cheng finished her secondary education in 1975. Madam Cheng is the spouse of Mr. Lo Yan Yee and the sister of Mr. Cheng Kwing Sang, Raymond and Ms. Cheng.

Mr. Cheng Kwing Sang, Raymond (鄭烱生), aged 63, was appointed as an executive Director on 27 September 2013. Mr. Cheng is currently the chief executive officer as well as the marketing director of the Group. Mr. Cheng is responsible to conduct market research, deliver product development strategies and implement marketing plan of the Group. Mr. Cheng is also responsible for analysing market data, technology trends and competitors' pricing to establish pricing strategies. Mr. Cheng joined the Group in 1993 as the CEO and sales director of Echo Co and has approximately 20 years of experience in the electronics industry. Prior to joining the Group, Mr. Cheng worked as a boarding officer in the operation department of Hong Kong Maritime Company Limited from 1967 to 1978, run two restaurants in Belize, Central America from 1978 to 1984, and run a gas station and a restaurant in Youngstown, Alberta, Canada from 1984 to 1990. Mr. Cheng Kwing Sang finished his secondary education in 1966. Mr. Cheng Kwing Sang is the elder brother of Madam Cheng and Ms. Cheng.

Mr. Lo Ding To (勞碇淘), aged 26, was appointed as an executive Director on 27 September 2013. Mr. Lo Ding To, the son of Mr. Lo Yan Yee and Madam Cheng, has had ample opportunity and is able to gain first hand knowledge and insight into the management and operation of the Group ever since his childhood through observing how the Group has been and is managed under his parents. While learning from his parents the skill and technique of managing and operating the Group's business operation, he also enjoys the benefit of their guidance and advice. Hence, even before Mr. Lo Ding To joins the Group, he is already well versed in the Group's day-to-day management and business operations. He therefore has an extensive understanding of the Group's overall business needs and compliance requirements. When Mr. Lo Ding To joined the Group in 2009 after his graduation from the University of East Anglia, United Kingdom, on the basis of his early learning and experience as aforesaid, he brought in new ideas about business strategy and operational functions, which help to enhance the production and quality assurance systems of the Group. Mr. Lo Ding To supervised a staff team in the then Processing Factory and Yi Gao Tech and has been responsible for product development, quality control, production planning, logistics, shipping, warehouse and inventory management, as well as vendor management activities. Mr. Lo Ding To is currently the production manager of the Group and is responsible for overseeing the implementation of the day-to-day manufacturing operations. Mr. Lo Ding To obtained a Bachelor of Science in business management form the University of East Anglia, United Kingdom in 2009.

Independent Non-executive Directors

Mr. Lam Wai Yuen (林偉源), aged 47, was appointed as an independent non-executive Director on 27 September 2013. He has over 25 years of experience in the fields of assurance, corporate restructuring and internal control review. In 1986, he commenced to work as an audit assistant to the audit supervisor in the audit department of Ting Ho Kwan & Chan, an accounting firm in Hong Kong. In April 1995, he became a member of Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants). In 1996, Mr. Lam was promoted to the audit manager of Ting Ho Kwan & Chan. In 2010, he set up his own accounting firm "Eric W.Y. Lam & Company" in Hong Kong. Currently, he is the managing partner of Eric W.Y. Lam & Company as well as the consultant of Tingho Nominees Limited. Mr. Lam finished his secondary education in 1983.

Mr. Ang Chuk Pai (洪竹派), aged 50, was appointed as an independent non-executive Director on 27 September 2013. He has been working as a system and network specialist in CN Group Limited which is an independent local media business based in Carlisle since 2007. He is responsible for (i) supporting the accounting department in both Hong Kong and the PRC office for backup management and file management (ii) procuring the information technology equipment and overseeing the cost on purchasing office equipment and (iii) managing the company server and maintaining the SAP (System Application Programing) system. Prior to joining CN Group Limited, he worked in HKNet Company Limited from March 2000 to January 2007 during which he worked as a system engineer in its technical department for approximately 1 year and as a data centre administrator and a senior engineer in its network operations department for approximately 4 years and 2 years respectively. From 1989 to 2000, he worked in Hutchison Telephone Company Limited, the mobile unit of Hutchison Telecom in Hong Kong, and was promoted from the post of

Technician I to that of Engineer II. During such period, he was responsible for overall cell site activities involving coordination, cell site database, configuration & monitoring operation, site performance inspection and defect checking. From 1981 to 1988, he worked for three companies where he was responsible for the maintenance of sound and video equipment, intercom phone, fire system and other electrical appliance. He was awarded a General Course Certificate by Vocational Training Council and a Certificate in Electronics by Vocational Training Council in 1988 and in 1991 respectively. He was awarded a Craft Certificate in Advanced Electronic Servicing by Vocational Training Council in 1985. In 1981, he was awarded a Craft Certificate for Radio Mechanics by the Education Department of Hong Kong. In 1980, he finished his secondary education. Mr. Ang has over 20 years of experience in the electronics industry.

Mr. Chan Chung Yin, Victor (陳仲然), aged 52, has been appointed as an independent non-executive director of the Company on 27 September 2013. He obtained a Bachelor of Arts degree from the University of Hong Kong in 1984. He has been admitted as a Solicitor of the High Court of Hong Kong since 1991 and has approximately 21 years of experience in commercial law, and civil and criminal litigations. He has been admitted to the partnership of Messrs. Tang, Wong & Cheung until 30 June 2013. He is currently a consultant of Messrs. Tang, Wong & Cheung and a consultant of Messrs. Liu Alvan & Partners. Mr. Chan was an independent non-executive director of China Boon Holdings Limited (Stock Code: 922, a company listed on the Main Board of the Stock Exchange and formerly known as Vision Tech International Holdings Limited) from 6 March 2008 to 10 June 2009. He was also an alternate director to a non-executive director of the same company from 22 July 2011 to 5 August 2011. Mr. Chan was a non-executive director of New Times Energy Corporation Limited (Stock Code: 166, a company listed on the Main Board of the Stock Exchange and formerly known as New Times Group Holdings Limited), from 25 October 2006 to 5 February 2008, and an independent non-executive director of Cypress Jade Agricultural Holdings Limited (Stock Code: 875, a company listed on the Main Board of the Stock Exchange and formerly known as Ever Fortune International Holdings Limited and First Dragoncom Agro-Strategy Holdings Ltd.) from 14 July 2005 to 6 September 2005.

The three independent non-executive Directors have extensive experience in different areas or professions and one of the independent non-executive Directors has appropriate professional qualifications and accounting experience as required under Rule 5.05(2) of the GEM Listing Rules. All the three independent non-executive Directors have been appointed pursuant to the requirements under the GEM Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. On such basis, the Sole Sponsor is of the view that Mr. Ang Chuk Pai, Mr. Lam Wai Yuen and Mr. Chan Chung Yin, Victor are suitable to act as independent non-executive Directors.

Save as disclosed above, each of our Directors had not been a director of any public companies the securities of which are listed on any securities market in Hong Kong and overseas during the last three years preceding the Latest Practicable Date.

Save as disclosed above, there are no other matters concerning any of the Directors' appointment that need to be brought to the attention of the Shareholders and the Stock Exchange and there are no other matters which should be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

SENIOR MANAGEMENT

Name	Age	Position	Date of joining	Role
Ms. Li Fung Shan	30	Chief Financial Officer and Company Secretary	4 April 2011	Review and supervise the Group's overall internal control systems and accountancy function
Mr. Mo Zhaohe	43	Factory Foreman	Joined the Processing Factory and the Group on 1 November 2007 and 23 July 2011, respectively	Oversee the production and administration of the Group's manufacturing operations
Ms. Tai Shan Yu, Yoko	37	Purchasing Manager	1 April 1995	Procurement and sourcing management
Mr. Ng Po Lung	36	Logistics Manager	13 March 2006	Logistics management

Ms. Li Fung Shan (李鳳珊), aged 30, is the company secretary and the chief financial officer of the Company and she joined the Group in April 2011. She is responsible for the company secretarial function, the review and supervision of the Group's overall internal control systems and accountancy function. Ms. Li has over 5 years of experience in audit, accounting and finance and Ms. Li is currently a practicing member of the Hong Kong Institute of Certified Public Accountants. Ms. Li received a Bachelor of Commerce with a major in accounting from Macquarie University in Sydney, Australia in 2004. Prior to joining the Group, Ms. Li worked for various international accounting firms and specialized in auditing and accounting.

Mr. Mo Zhaohe (莫兆和), aged 42, is the factory foreman of the Processing Factory. He is responsible for monitoring the factory production process and the plant operations flow and overseeing production and administration of the Processing Factory. Prior to joining the Group in April 1997, he worked as a workshop director in a company providing integrated manufacturing services from February 1994 to April 1997 and a production manager in a company manufacturing printers from September 1990 to December 1993. He has accumulated over 22 years of experience in factory administration and production management. Mr. Mo obtained the Diploma in Computer Science from the College of Continuing Education, Beijing Normal University in 1996.

Ms. Tai Shan Yu, Yoko (戴珊瑜), aged 37, is the purchasing manager of the Group. She has over 15 years of procurement and material control experience. She joined the Group in 1996 as the procurement and material control executive and was promoted to the purchasing manager of the Group in January 2011. She currently leads a team of staff to coordinate the customer quotation and the sourcing of raw materials. She is responsible for (i) developing strategies for reducing the cost of raw materials; (ii) handling supply chain issues and maintaining good relationship with suppliers; (iii) preparing reports on the trend of cost of raw materials; and (iv) monitoring the trends of EMS industry and keeping abreast of the technology changes. Prior to joining the Group, Ms. Tai had worked as a senior clerk in a company engaged in production of chemical products from 1993 to 1995 and was responsible for the procurement of chemical materials. Ms. Tai finished Form Four in 1992.

Mr. Ng Po Lung (吳寶龍), aged 36, is the logistics manager of the Group. Mr. Ng Po Lung joined the Group as logistics manager assistant of the Group on 13 March 2006. He has assumed the duties of the logistics manager since 12 October 2010 and was promoted to logistics manager of the Group on 1 April 2012. Mr. Ng Po Lung was appointed as an executive Director on 21 December 2010. With the intended and likely expansion of the Group's business and operation after the Listing, the workload of the logistics manager will have to be substantially increased such that Mr. Ng Po Lung may not have sufficient time to act as an executive Director simultaneously and it may be in the best interest of the Company for him to cease to act as a Director and concentrate on his work as logistics manager. Therefore, Mr. Ng Po Lung resigned as an executive Director on 24 September 2013. As a logistic manager, Mr. Ng Po Lung is in charge of daily operation of the logistics department, including logistics, transportation and customer service, and is responsible for overseeing the inventory management process and making strategies for appropriate inventory levels. He is also responsible for developing and maintaining transportation system on domestic and international freight, monitoring shipment updates and identifying shipment risk. In addition, he liaises with customers on delivery schedule, and collects feedback from the customers for formulating marketing plans and conducting market research with senior marketing management staff to determine sales cycle and strategy and to provide updated and efficient sales tools. During 2010 and 2011, Mr. Ng Po Lung successfully initiated and implemented a new enterprise resource planning system for the Group, which provides the senior management of the Group with critical decision making information and greatly improves the efficiency of the Group's business. Prior to joining the Group, Mr. Ng Po Lung worked as a contract senior clerk from 1998 to 2004 in Zung Fu Company Limited, which is the exclusive retailer of Mercedes-Benz automobiles in Hong Kong and Macau, whereby he was responsible for the preparation of car sales contract, the application for vehicle licence and the customs contracts for the importation of vehicles. Mr. Ng Po Lung finished his junior secondary education in 1995 and completed a two-year course at Morrison Hill Technical Institute and was awarded an Advance Certificate in Business Management in 1997.

Mr. Ng Po Lung was involved in the following three small claims tribunal cases:

(1) Small Claims Tribunal Case Number: SCTC024110/00

Pursuant to the award dated 10 July 2000, it was adjudged by the Small Claims Tribunal that Mr. Ng Po Lung with others all trading as Pass Trading Company (established in form of partnership) do pay City Telecom (H.K.) Ltd the sum of HK$5,392.67 with costs of HK$360 as Pass Trading Company failed to pay the outstanding balance for the service rendered by City Telecom (H.K.) Ltd.

(2) Small Claims Tribunal Case Number: SCTC049816/00

Pursuant to the award dated 15 March 2001, it was adjudged by the Small Claims Tribunal that Mr. Ng Po Lung with others trading as Pass Trading Company do pay Tradelink Electronic Commerce Limited the sum of HK$5,768 with costs of HK$225 and interest as stated in the award since Pass Trading Company failed to pay the outstanding instalments for the purchase of a set of computer equipment and annual fee to Tradelink Electronic Commerce Limited.

(3) Small Claims Tribunal Case Number: SCTC040730/09

Pursuant to the award dated 21 September 2009, it was adjudged by the Small Claims Tribunal that Mr. Ng Po Lung do pay In Express Recreation Management Limited trading as Grand Waterfall ("**Grand Waterfall**") the sum of HK$2,590 with costs of HK$60 and interest as stated in the award since Mr. Ng Po Lung failed to pay to Grand Waterfall the charges for gym services provided by the same.

Mr. Ng Po Lung alleged that he had never received any documents (including but not limited to the forms of claim and order/award) in relation to the above cases from the Small Claims Tribunal or any of the claimants in the above cases and he only became aware of the existence of such cases and the details thereof through the litigation search conducted on 30 June 2011 and the retrieval of the relevant documents through the search in the Small Claims Tribunal on 21 September 2011. For the documents in respect of three cases, Mr. Ng Po Lung has no idea whether the said documents have ever been delivered to his residential address or were just mislaid by his family members before he could read any of them. As Mr. Ng Po Lung was not aware of the said cases, he did not attend any hearings in respect of such cases. After knowing the existence of the said cases, Mr. Ng Po Lung had contacted the claimant in each case for the settlement of the said sum in the award, but none of them had ever informed Mr. Ng Po Lung of the payment method. On 31 January 2012, Mr. Ng Po Lung took his initiative and arranged to send separately a letter with one of three cheques in the sum of HK$5,752.67, HK$5,993 and HK$2,650, to each of City Telecom (H.K.) Ltd, Tradelink Electronic Commerce Limited and Grand Waterfall (the "**Claimants**") at their registered offices respectively, under which an offer was made to the Claimants that the payment through the enclosed cheque shall be in full and final settlement of their claims under the above cases. All cheques were presented and cleared in February 2012, and accordingly all of the said cases have been fully and finally settled.

Mr. Ng Po Lung was working in Zung Fu Company Limited on full-time basis at the material time when he was claimed as one of the defendants under the first two Small Claims Tribunal cases. Meanwhile, Mr. Ng Po Lung was also a passive partner of Pass Trading Company and did not participate in the day-to-day management and operations of Pass Trading Company. Therefore, the claims for insignificant amount were not brought into his attention. In addition, he had never been informed by any person (including other partners of Pass Trading Company) of the existence or details of two Small Claims Tribunal cases against all the partners of Pass Trading Company before the said litigation search.

As soon as Mr. Ng Po Lung became aware of the aforesaid two Small Claims Tribunal cases, he contacted the other partners and agreed with them that all the partners should repay the judgment debt equally. However, Mr. Ng Po Lung was later informed by other partners that they did not have sufficient fund to settle the said amount as agreed. Therefore, Mr. Ng Po Lung contacted each of the claimants in the said cases and settled the judgment sum himself.

For the last Small Claims Tribunal case, Mr. Ng Po Lung refused to pay the gym service charges to Grand Waterfall as its gym service was not as good as described by its salesman at the time when Mr. Ng Po Lung signed the contract with Grand Waterfall. However, not known to Mr. Ng Po Lung, a claim was made against him for the said service charges. After Mr. Ng Po Lung became aware of this case, he consulted a lawyer and was advised that he was not entitled to terminate the contract without the consent of Grand Waterfall under such circumstance. After considering this advice, Mr. Ng Po Lung decided to settle the judgment sum for such case.

Mr. Ng Po Lung was held liable under the first two cases in the Small Claims Tribunal vicariously because he was one of the partners of Pass Trading Company and the subject matters of the claims were not deemed to be referable to nor give rise to any query as to the integrity and competence of Mr. Ng Po Lung. Pass Trading Company was dissolved in 2000 as it could not procure sufficient business in trading of clothes to maintain its operation. In addition, Mr. Ng Po Lung has made his best effort to settle the above cases after he became aware of the existence of those cases, and the above cases have been fully and finally settled. Therefore, the Sole Sponsor is of the view that the above cases will not affect Mr. Ng Po Lung's integrity or suitability as a senior management of the Company.

Each of our senior management members had not been a director of any public companies the securities of which are listed on any securities market in Hong Kong and overseas during the last three years preceding the Latest Practicable Date.

COMPLIANCE OFFICER

Mr. Lo Ding To (勞碇淘), aged 26, an executive Director, is also the compliance officer of the Company. His biographical details are set out in the sub-section headed "Executive Directors" in this section.

Mr. Lo Ding To has attended training sessions conducted by the Company's Hong Kong legal advisers, Patrick Mak & Tse, on the on-going obligations and duties of directors of a publicly listed company, including sessions on connected transactions, the corporate governance code, dealing in securities, disclosure of inside information, notifiable transactions and dissemination of information. Mr. Lo Ding To has also completed a course on "Role of Company Director I: Overview of Legal & Regulatory Framework" organized by The Hong Kong Institute of Directors in June 2012. In addition, the Company has appointed Tanrich Capital as its compliance adviser to advise on compliance matters in accordance with the GEM Listing Rules. Based on the aforementioned, the Directors consider Mr. Lo Ding To has the knowledge as well as the necessary support and is able to act as the Company's compliance officer pursuant to Rule 5.19 of the GEM Listing Rules.

COMPANY SECRETARY

Ms. Li Fung Shan (李鳳珊), aged 30, has been the company secretary of the Company since April 2011. Her biographical details are set out in the sub-section headed "Senior Management" in this section.

AUDIT COMMITTEE

The Company has established an audit committee on 27 September 2013 with written terms of reference in compliance with the GEM Listing Rules.

The duties of the audit committee include reviewing, in draft form, the Company's annual report and accounts, half-year report and quarterly report and providing advice and comments to the Board. In this regard, members of the audit committee will liaise with the Board, senior management of the Company, the Company's reporting accountants and auditors. The audit committee will also consider any significant or usual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by the Company's accounting staff, compliance officers or auditors. Members of the audit committee are also responsible for reviewing the Company's financial reporting process and internal control system.

The audit committee comprises three independent non-executive Directors, namely, Mr. Chan Chung Yin, Victor, Mr. Ang Chuk Pai and Mr. Lam Wai Yuen. Mr. Lam is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 27 September 2013 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The remuneration committee comprises one executive Director, namely, Madam Cheng and two independent non-executive Directors, namely Mr. Chan Chung Yin, Victor and Mr. Ang Chuk Pai, with Mr. Ang Chuk Pai being appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

NOMINATION COMMITTEE

The Company has established a nomination committee on 27 September 2013 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The nomination committee comprises one executive Director namely, Mr. Lo Ding To and two independent non-executive Directors namely Mr. Chan Chung Yin, Victor and Mr. Ang Chuk Pai. Mr. Ang Chuk Pai has been appointed as the chairman of the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and succession planning for the Directors.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Tanrich Capital to be the compliance adviser, who will have access to the Company's authorized representatives, Directors and other officers at all times. The compliance adviser will advise the company on on-going compliance requirements and other issues under the GEM Listing Rules and other applicable laws and regulations in Hong Kong after the listing of the Company. The material terms of the compliance adviser's agreement entered into between the Company and the compliance adviser are as follows:

(i) The compliance adviser's appointment for a period commencing on the date of listing or the Shares and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, i.e. 31 March 2016, or until the agreement is terminated, whichever is earlier;

(ii) The compliance adviser shall provide the Company with guidance and advice as to compliance with the requirements under the GEM Listing Rules and applicable laws, rules, codes and guidelines;

(iii) The Company agrees to indemnify the Compliance Adviser against all actions, claims, demands and proceedings from time to time made against, and all losses and damages suffered and all payments, losses costs, expenses and legal fees made or incurred by, the Compliance Adviser which relate to the appointment of the Compliance Adviser pursuant to the Compliance Adviser Agreement, provided that this indemnity shall not apply to any claims or losses that are arisen due to the wilful default, fraud or gross negligence on the part of the Compliance Adviser;

(iv) The Company shall have the right, without compensation to terminate the appointment of the compliance adviser under the compliance adviser's agreement only if the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within thirty (30) days) over fees payable by the Company to the compliance adviser as permitted by Rule 6A.26 of the GEM Listing Rules. The compliance adviser shall have the right to resign or terminate its appointment as a compliance adviser under the compliance adviser's agreement at any time without compensation being payable to the Company giving not less than one (1) month's written notice to the Company.

DIRECTORS' REMUNERATION

Each of the executive Directors and the non-executive Director has entered into a service agreement with the Company for an initial fixed term of one year commencing from the Listing Date, renewable automatically for successive terms of one year until terminated by one party giving not less than three months' written notice to the other party. Each of these executive Directors is entitled to the annual remuneration of HK$90,000. Each executive Director will also be entitled to a discretionary bonus based on the Group's performance and his/her individual performance and to be paid at such time at the discretion of the Board. An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him/her. Further details of which are set out in the paragraph headed "Further information about Directors, management and staff" in Appendix V to this prospectus.

The aggregate amounts of the emoluments paid to the Directors for the Track Record Period in respect of their services provided to the Group are set out below:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Executive Directors			
Mr. Lo Yan Yee	272	252	252
Madam Cheng	272	252	252
Mr. Cheng Kwing Sang, Raymond	272	252	252
Mr. Lo Ding To	204	314	321
Independent non-executive Directors			
Mr. Ang Chuk Pai	—	—	—
Mr. Chan Chung Yin, Victor	—	—	—
Mr. Lam Wai Yuen	—	—	—
Total	**1,020**	**1,070**	**1,077**

All the Directors receive reimbursements from the Company for expenses that are necessarily and reasonably incurred for providing services to the Group or in the execution of matters in relation to the Group's operations. The executive Directors are also the employees of the Group and receive, in their capacity as employees, compensation in the form of salaries and contributions to the pension scheme according to Hong Kong laws.

Prior to the Listing, the remuneration policy of the Group to reward its employees and directors is based on their performance, qualifications, competence displayed and market comparables. Remuneration package typically comprises salary, contribution to pension schemes and discretionary bonuses relating to the profit of the relevant company.

Upon and after the Listing, the remuneration package of the executive Directors and the senior management will be linked more to the performance of the Group and the return to its Shareholders. The remuneration committee will review annually the remuneration of all the Directors to ensure that it is attractive enough to attract and retain a competent team of executive members.

As confirmed by the Directors, having made careful consideration with due regard to the business environment in the context of the global economy, the economic conditions and consumption trends in the jurisdictions where the Group operates, conducts business and/or has business dealings, they do not intend to increase the Directors' annual remuneration after the financial year ending 31 March 2013.

Save as disclosed above, no other payments have been made or are payable by the Company to the Directors, in respect of the Track Record Period.

The Directors estimate that under the current proposed arrangement, the aggregate basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by the Group to Directors will be approximately HK$2.20 million.

STAFF

As at the Latest Practicable Date, the Group had a total of 269 full-time employees. The following table sets forth the breakdown of our employees by functions:

	Total	
	HK	**PRC**
Management	3	10
Sales and marketing	2	—
Engineering	1	7
Finance and accounting	2	6
Production	—	146
Plastic	—	2
Procurement and material control	2	15
Logistics	3	—
Quality control	—	52
Administrative	3	3
Others	—	12
Total	**16**	**253**

RELATIONSHIP WITH STAFF

The Directors recognize the importance of good relationships with the employees of the Group. The Group maintains proper employment records and its staffs were made aware of their job duties and responsibilities by way of providing them with the staff hand book and their reading and acknowledging their understanding of the staff handbook so provided by the Group. The remuneration payable to the Group's employees includes salaries, allowance and bonus. The allowance provided by the Group includes education, housing and night shift allowance. The Group also provides training to the Group's staff to enhance their knowledge of operation and production. The management of the Group is responsible for setting the bonus scheme and reviewing the salary budget of the staff of the Group.

The Group has not experienced any significant problems with the employees of the Group and any disruption to the operation of the Group, nor has it experienced any difficulties in the recruitment and retention of experienced staff. As confirmed by the Directors, having made reasonable enquiries and reviewed the Company's employment and payroll records, there was no under-payment to the Group's staff during the Track Record Period and up to the Latest Practicable Date. In addition, the Group has not experienced any material disruption of its normal business operations as a result of labour disputes or strikes or had any dispute with its employees during the Track Record Period. The Directors believe that the Group has good working relationships with the employees.

MANDATORY PROVIDENT FUND SCHEME

The Group complies in all material aspects with all statutory requirements on retirement contribution in the jurisdictions where the Group operates. In Hong Kong, the Group has adopted a mandatory provident fund (the "**MPF**") contribution for all the Group's eligible staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Contributions are made based on a percentage of the employees' basic salaries and are charged to our profit and loss account as they become payable in accordance with the rules of the MPF scheme. Our contributions as employer vest fully with the employees when we contribute to the scheme in accordance with the rules of the MPF scheme. We contribute the lower of HK$1,250 or 5% of the relevant monthly salary to the MPF scheme, a contribution matched by employees.

SHARE OPTION SCHEMES

The Company has conditionally adopted the Pre-IPO Share Option Scheme on 27 September 2013 under which certain selected classes of participants (including, among other, full-time employees) have been granted options to subscribe for the new Shares. As at the date of this prospectus, options to subscribe for 20,000,000 Shares under the Pre-IPO Share Option Scheme have been granted to the Directors except for the independent non-executive Directors. The Company has also conditionally adopted the Share Option Scheme. No option has been granted under the Share Option Scheme. Each of the principal terms of the Share Option Schemes are summarized in the sections headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix V to this prospectus, respectively.

To quantify the effect of the options granted under the Pre-IPO Share Option Scheme, the Company has engaged an independent external valuer, Roma Appraisals Limited ("**Roma**") to compute the fair value of the granted options.

Background, experience and qualification of the independent valuer

Roma is a well-established valuation and consulting firm, which has a wide client base in Hong Kong and worldwide. Roma has been engaged by various listed companies to conduct a range of valuation projects for different purposes (such as public documentation, accounting reference and internal reference purpose).

Roma has performed more than 80 valuation and advisory assignments related to share options for both listed and private companies in accordance with appropriate accounting standards. The director of Roma is member of the International Association of Consultants, Valuators and Analysts ("**IACVA**") and has over eight years of experience in valuation and consultation including share options valuation for both listed and private companies.

Details and assumptions of the adopted valuation model

The fair value of the options granted under the Pre-IPO Share Options Scheme is determined using Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on the Directors' best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral consideration. Expected volatility is based on the average historical volatilities of the comparable over the expected option periods of 6.5 years. Risk free rate is based on the period average yields of the Exchange Fund Notes of comparable terms issued by the Hong Kong Monetary Authority.

The variables and assumptions used in computation the fair value of Pre-IPO Share Options Scheme are based on the Directors' best estimate. The value of an option varies with different variables of certain objective assumptions.

Inputs into the valuation model

Grant date share price	HK$0.36
Exercise price	HK$0.600
Expected volatility	50.08%
Expected option period	6.5 years
Risk free rate	1.60%
Expected dividend yield	0.00%

In the view of the Sole Sponsor, the assumptions used in computation of the fair value of Pre-IPO Share Option Scheme by Roma are reasonable.

Accounting policy and expense recognition in connection with the Pre-IPO Share Option Scheme

Under Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards, for grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

The fair value of the share options granted under the Pre-IPO Share Option Scheme calculated by Roma is approximately HK$2.67 million, which will be charged to the consolidated statements of comprehensive income of the Group over the vesting period by reference to the fair value at the date on which the share options are granted. Accordingly, it is expected that approximately HK$0.89 million will be charged to the consolidated statements of comprehensive income of the Group for the year ending 31 March 2014.

CONTROLLING SHAREHOLDER

The Directors confirm that, immediately following completion of the Placing and the Capitalisation Issue but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option that may be granted under the Share Option Schemes, the following person is entitled to exercise or control the exercise of 30% or more of the voting power at the general meeting of the Company and is able, as a practical matter, to control the composition of a majority of the board of Directors and are therefore regarded as Controlling Shareholder under the GEM Listing Rules:

Name	Capacity and nature of interest	Number of Shares held	Approximate percentage of the Shares in issue effectively held
Madam Cheng	Personal	140,000,000	70%

Note: Madam Cheng is the owner of the 5,700,000 options to subscribe for 5,700,000 shares granted under the Pre-IPO Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, save for the person disclosed under the paragraph headed "Controlling Shareholder" in this section above, there are no other persons who will immediately, following completion of the Placing and the Capitalisation Issue, but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option that may be granted under the Share Option Schemes, have interests and/or short positions in the Shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO, or, will be directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, save for the persons disclosed under the paragraph headed "Controlling Shareholder" in this section above, there are no other persons who will immediately following completion of the Placing and the Capitalisation Issue (but without taking into account any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) be directly or indirectly interested in 5% or more of the voting power at the general meetings of the company and are therefore regarded as significant shareholders of the Company under the GEM Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

After considered the following factors, the Directors are satisfied that the Group is capable of carrying out its business independently of the Controlling Shareholder and after the Listing.

Management Independence

Although the Controlling Shareholder will remain controlling interests in the Company upon completion of the Placing and she is also the executive Director and the chief operation officer of the Group, the day-to-day management and operation of the business of the Group will be the responsibility of all the executive Directors and senior management of the Company. The Board has 7 Directors comprising 4 executive Directors and 3 independent non-executive Directors. It is the Board as a whole, and not any individual Director, which make decisions for the Company.

Each of the Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit of and in the best interests of the Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and the Directors or their respective associates, the interested Director(s) will abstain from voting at the relevant board meetings of the Company in respect of such transactions and will not be counted in the quorum. In addition, the day-to-day management and operation of the Group is not only managed by the executive Directors but also by the senior management personnel, all of whom make business decisions of the Group independently.

Having considered the above factors, each of the Directors is satisfied that he or she is able to perform his or her role as a director independently, and the Directors are of the view that the Company is capable of managing the Group's business independently from the Controlling Shareholder after the Listing, notwithstanding that the Controlling Shareholder is also an executive Director and the chief operation officer of the Group.

Operational Independence

The Group has established its own organizational structure made up of functional departments, each with specific areas of responsibility, and it has also established a set of internal controls to facilitate the effective operation of its business. The Group has independent access to sources of raw materials and independent production and operation capabilities, and is operationally dependent on the Controlling Shareholder.

The Group had entered into the following transactions with its connected persons:

- sale of security alarms to Treasury; and
- lease of the office premises from Progress.

The details of the said transactions are specified under the section headed "Connected Transactions" of this prospectus.

The Directors consider that despite the sale of security alarms to Treasury relates to certain aspects of the Group's operations, its does not affect the operational independence of the Group for the following reasons:

- security alarms were supplied to Treasury because of the intention of the customer to order security alarms from Treasury instead of the Group due to its company policy;
- there was no supply agreement which has been entered between the Group and Treasury and the Group ceased to supply any products to Treasury since December 2010;
- Treasury ceased its business on 31 March 2012 and was deregistered on 28 March 2013; and
- it is expected that these transactions will not continue after the Listing.

Moreover, the Directors consider that the leasing of the office premises by the Group from Progress on normal commercial terms shall not be considered or deemed as the Group's undue reliance on the Controlling Shareholder for the following reasons:

- there will not be any significant difficulties in terms of timing and costs in identifying alternative or comparable premises, which are owned by Independent Third Parties, for relocation of its principal place of business in Hong Kong;
- the cost for the relocation mainly includes the potential lease hold improvements and the transportation fees to be incurred and is not significant; and
- the time required for the relocation will not cause any significant interruption to the business of the Group as there will not be any significant difficulties in such relocation.

Based on the aforesaid, the Directors are satisfied that the Group can operate independently of the Controlling Shareholder despite the aforesaid transactions.

Financial Independence

During the Track Record Period, the Group had obtained bank loans and finance lease secured by personal guarantee of the Controlling Shareholder and/or charge over a property owned by Progress which is owned by the Controlling Shareholder as to 70%. Furthermore, as at 30 June 2013, the Group have an amount due to the Controlling Shareholder of approximately HK$5.66 million.

The Directors confirmed that the abovementioned guarantees and charge over property will be released or replaced upon the Listing. Pursuant to the Deed of Mutual Set-off, the Controlling Shareholder has conditionally agreed to bear total listing expenses amounting to HK$5.77 million. As such, the remaining balance due to the Controlling Shareholder will be fully settled pursuant to the Deed of Mutual Set-off prior to the Listing.

Notwithstanding the above, the Group has independent financial and accounting systems, independent treasury function for receiving cash and making payments and independent access to third party financing. The Group makes financial decisions according to its own business needs.

In view of the Group's internal resources and the estimated net proceeds from the Placing, the Directors believe that the Group will have sufficient capital for its financial needs without dependence on the Controlling Shareholder. The Directors further believe that, upon the Listing, the Group is capable of obtaining financing from external sources independently without the support of the Controlling Shareholder.

NON-DISPOSAL UNDERTAKING

Pursuant to Rule 13.16A of the GEM Listing Rules, the Controlling Shareholder has undertaken to the Stock Exchange that she shall not and shall procure that the relevant registered holder(s) shall not:

(a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which she is shown by this prospectus to be the beneficial owner; or

(b) in the period of six months commencing on the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances the Controlling Shareholder would cease to be the Controlling Shareholder.

The Controlling Shareholder has also undertaken to the Stock Exchange and the Company to comply with the following requirements:

(i) in the event that the Controlling Shareholder pledges or charges any direct or indirect interest in the relevant Shares in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the Listing Rules, at any time during the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, she must inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and

(ii) having pledged or charged any interest in Shares under (i) above, she must inform the Company immediately in the event that she becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

The Company will inform the Stock Exchange as soon as it has been informed of such matters and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

DEED OF NON-COMPETITION

As at the Latest Practicable Date, none of the Directors are engaged in or interested in any business which, directly or indirectly, competes or may compete with the Group's business. Subject to the terms therein, the Controlling Shareholder as covenantor entered into a Deed of Non-competition in favour of the Company, pursuant to which the Controlling Shareholder has confirmed that other than her interest in the Group, she is not engaged in, or interested in any business which, directly or indirectly, competes or may compete with the business. The Controlling Shareholder has undertaken to the Company (for itself and on behalf of its subsidiaries) that during the period commencing from the Listing Date and ending on the occurrence of the earliest of (i) the day on which the Shares cease to be listed on the Stock Exchange or other recognized stock exchange; (ii) the day on which the Controlling Shareholder ceases to be interested in at least 30% of the entire issued share capital of the Company; or (iii) the day on which the Controlling Shareholder beneficially owns or is interested in the entire issued share capital of the Company:

- she will not and will procure that none of her associates (for the purpose of this paragraph headed "Deed of Non-competition", unless otherwise specified, "associates" has the meaning ascribed to it in Rule 1.01 of the GEM Listing Rules and, in relation to an individual, includes any person cohabiting as a spouse, any child or step-child over the age of 18 years, parent, step-parent, brother, sister and step sister of such individual) will, except through her/his/its interests in the Company, whether as principal or agent and whether undertaken directly or indirectly through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate in, acquire or hold any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with the business as described in this prospectus including, but not limited to, business as an EMS provider in Hong Kong or other places and any other business from time to time conducted by any member of the Group or in which any member of the Group is engaged or has invested or which the Group has otherwise publicly announced its intention to enter into, engage in or invest in, within any of the territories where the Group carries on business from time to time ("**Restricted Business**").

- if any business opportunity, which would cause the Controlling Shareholder and/or any of her associates to be directly or indirectly engaged or interested in any Restricted Business, has come to her attention, she:

  (a) will promptly notify the Company in writing and refer such business opportunity to the Company for consideration and provide such information as may be reasonably required by the Company in order to make an informed assessment of such business opportunity; and

  (b) will not, and procure that her associates will not, invest or participate in any such project or business opportunity unless such project or business opportunity has been rejected by the Company and the principal terms of which the Controlling Shareholder or her associates invest or participate are no more favorable than those made available to the Company.

The Controlling Shareholder further undertakes to the Company that she will not and will procure that none of her associates will:

(a) at any time induce or attempt to induce any director, manager, employee or consultant of any member of the Group to terminate his or her employment or consultancy (as appropriate) with the Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as appropriate);

(b) at any time employ any person who has been a director, manager, employee of or consultant to any member of the Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or

(c) alone or jointly with any other person, or as manager, advisor, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of the Group, canvass, or solicit or accept orders from or do business with any person with whom any member of the Group has done business or solicit or persuade any person who has dealt with the Group or is in the process of negotiating with the Group in relation to the Restricted Business to cease to deal with the Group or reduce the amount of business which the person would normally do with the Group or seek to improve their terms of trade with any member of the Group.

The decision-making process in relation to the Deed of Non-competition will be governed and monitored as follows:

- The independent non-executive Directors will be responsible for deciding, without attendance by any executive Director (except as invited by the independent non-executive Directors to assist them or provide any relevant information but in no circumstances shall the executive Director(s) participating in such meeting be counted towards the quorum or allowed to vote on such meeting), whether or not to take up a new business opportunity referred to us under the terms of the Deed of non-competition.

- The independent non-executive Directors may employ an independent financial advisor as they consider necessary to advise them on the terms of any such new business opportunity or the options at the Company's expenses.

- The Controlling Shareholder will undertake to keep the Company informed of new business opportunities and to provide all information reasonably required by the independent non-executive Directors to assist them in their consideration of any new business opportunity.

- The independent non-executive Directors will also review, on an annual basis, any decisions in relation to new business opportunities referred to us, and state their views with basis and reasons in the annual report.

In the event that the Company decides not to proceed with any particular projects or business opportunities and the Controlling Shareholder or her associates decides to proceed with such a project or business opportunity, the Company will announce such decision by way of an announcement setting out therein the basis for not taking the project or the business opportunity.

The Company will adopt the following measures to ensure good corporate governance practices and to improve transparency after the Listing:

(i) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertakings under the Deed of Non-competition by the Controlling Shareholder, the options, pre-emptive rights or first rights of refusals provided by the Controlling Shareholder on her existing or future competing businesses;

(ii) the Controlling Shareholder undertakes to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertakings under the Deed of Non-competition;

(iii) the Company will disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the non-competition undertakings under the Deed of Non-competition in the annual reports; and

(iv) the Controlling Shareholder will make an annual confirmation on her compliance with the non-competition undertakings under the Deed of Non-competition in the annual reports.

DEED OF MUTUAL SET-OFF

Subject to the conditions set forth in the section headed "Structure and conditions of the Placing" in this prospectus being fulfilled, the Controlling Shareholder as covenantor entered into a Deed of Mutual Set-off in favour of the Company, pursuant to which the Controlling Shareholder has agreed to bear the expenses incurred by the Company in connection with the Listing to the extent of HK$5.77 million by setting off the amount against the debt owed to the Controlling Shareholder by the Company in the same amount prior to the Listing Date. If the debt is less than HK$5.77 million, the difference will be settled by cash payment made by the Controlling Shareholder to the Company.

SHARE CAPITAL

Authorised:

		HK$
1,000,000,000	Shares of HK$0.01 each	10,000,000

Issued and to be issued, fully paid or credited as fully paid:

		HK$
10,000,000	Shares in issue as at the date of this prospectus	100,000
130,000,000	Shares to be issued pursuant to the Capitalisation Issue	1,300,000
60,000,000	Placing Shares to be issued pursuant to the Placing	600,000
200,000,000	Shares	2,000,000

Assumptions

The above table assumes that the Placing has become unconditional and the issue of Shares pursuant to the Placing and Capitalisation Issue are made. It takes into no account of any Shares which may be allotted and issued under the Share Option Schemes or of any Shares which may be allotted and issued or repurchased by the Company underthe general mandate to allot, issue and deal with Shares, or which may be purchased by the Company pursuant to the general mandate to repurchase securities 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, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

Ranking

The Placing Shares will rank pari passu in all respects with all Shares in issue or to be issued as mentioned in the prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE OPTION SCHEMES

The Company has conditionally adopted the Pre-IPO Share Option Scheme on 27 September 2013 under which certain selected classes of participants (including, among other, full-time employees) have been granted options to subscribe for the new Shares. As at the date of this prospectus, options to subscribe for 20,000,000 Shares under the Pre-IPO Share Option Scheme have been granted to the Directors except for the independent non-executive Directors. The Company has also conditionally adopted the Share Option Scheme. No option has been granted under the Share Option Scheme. Each of the principal terms of the Share Option Schemes are summarized in the sections headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix V to this prospectus, respectively.

Under the Share Option Scheme, options to subscribe for Shares may be granted to the Directors, full-time or part-time employees, consultant and adviser of the Group provided that the aggregate nominal value of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed, when aggregated with any Shares subject to any other share options scheme of the Company, 30% of the aggregate nominal value of all the issued Shares from time to time (excluding Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme).

General mandate to issue Shares

Subject to the conditions set forth in the section headed "Structure and conditions of the Placing" in this prospectus being fulfilled, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to allot, issue and deal with the Shares or securities convertible into Shares and to make an offer or agreement or to grant an option which would or might require such Shares to be allotted and issued subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than by way of rights issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by the Company from time to time or an allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles), shall not exceed:

(a) 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Placing and the Capitalisation Issue; and

(b) the aggregate nominal value of the share capital of the Company purchased by the Company (if any) pursuant to the general mandate to repurchase Shares as described below.

The Directors may, in addition to the Shares which they are authorized to issue under the general mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of the subscription rights attaching to any warrants of the 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.

This general mandate will remain in effect until:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the Company's next annual general meeting is required to be held by the Articles; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting,

whichever occurs earliest.

Further information on this general mandate is set forth under the section headed "Further information about the Company" in Appendix V to this prospectus.

General mandate to repurchase Shares

Subject to the conditions set forth in the section headed "Structure and conditions of the Placing" being fulfilled, the Directors have been granted a general mandate to exercise all the powers of the Company to purchase its own Shares on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of our Shares in issue immediately following completion of the Placing and the Capitalisation Issue.

This mandate only relates to purchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and requirements of the Listing Rules. An explanatory statement related to the general mandate to purchase Shares is set forth in the section headed "Repurchase of the Company of its own securities" in the section headed "Further information about the Company" in Appendix V to this prospectus.

This general mandate to purchase Shares will remain in effect until:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the Company's next annual general meeting is required to be held by the Articles; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting,

whichever occurs earliest.

Further information on this general mandates set forth under the paragraph headed "Repurchase by the Company of its own securities" under the section headed "Further information about the Company" in Appendix V to this prospectus.

You should read the following discussion and analysis of the Group's financial condition and results of operations together with its consolidated financial statements for the two years ended 31 March 2012 together with the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this prospectus.

OVERVIEW

The Company is a Hong Kong EMS company, headquartered in Hong Kong, with its manufacturing operation located in the PRC. During the Track Record Period, the Group's production and product development activities are carried out in the PRC whereas the sales activities are carried out in Hong Kong. EMS stands for electronics manufacturing services of which an EMS provider's product offering is focused on PCBA and complete unit assembly and tests, product design support services, and possibly after market support and delivery services. The Group's principal business is providing integrated manufacturing services which include design verification, sourcing and procurement, manufacturing, assembling, testing and inspection, packaging and after-sales services to its branded customers. The Group has its own product engineering team which has been providing design verification and enhanced software support to the Group's customers since its setup in 2000.

The Group's products mainly include hair remover, starter, control board, charger board and other miscellaneous electronic products which are PCB assemblies used in beauty related products, fishing related products, security related products and other electronic related products. In addition, the Group also provides one-stop complete electronic products manufacturing and assembly services and such complete products include security alarm, buzzer, fire alarm, massage toner, fishing indicator and communicator. Moreover, the Group derives income from providing subcontracting services on PCB assemblies and manufacture of complete products on a consignment basis. Under this arrangement, the Group only provides manufacturing services while raw materials and components used in production are supplied by the customers.

The Group's manufacturing operations had been conducted at the Processing Factory located in Shenzhen, the PRC pursuant to the Processing Agreement entered into between the Echo Co, the Processing Factory and the Processing Party on 29 November 1991. On 5 May 2011, Echo Electronics, a wholly-owned subsidiary of the Company, made an application to seek the transformation and upgrade of the Processing Factory into a WFOE, namely Yi Gao Tech, without relocating or suspending production. As advised by the PRC Legal Adviser, Yi Gao Tech has been set up in accordance with the relevant PRC laws and regulations and has obtained all the approvals from competent authorities as well as has performed all necessary legal procedures which are legal and valid. The Group completed the transfer of the production equipments, raw materials and factory workers from the Processing Factory to Yi Gao Tech, which has undertaken and has been conducting all the production activities of the Group since September 2011 and the Processing Factory was deregistered in February 2012.

The following table sets out the breakdown of the Group's turnover by the two main categories, namely, PCB assemblies and complete products during the Track Record Period:

	For the year ended 31 March					
	2011		2012		2013	
		Approximate		*Approximate*		*Approximate*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PCB assemblies						
Hair remover	21,607	26.19	8,129	13.33	11,622	16.21
Starter	4,482	5.43	966	1.58	836	1.17
Control board	5,791	7.02	6,142	10.07	11,781	16.43
Charger board	1,705	2.07	1,185	1.94	2,019	2.82
Others *(Note 1)*	4,476	5.43	4,595	7.55	4,582	6.40
Sub-total	38,061	46.14	21,017	34.47	30,840	43.03
Complete products						
Security alarm	8,970	10.87	4,302	7.05	2,992	4.17
Fishing indicator	10,404	12.61	8,797	14.42	8,880	12.38
Massage toner	6,819	8.27	7,295	11.96	14,653	20.43
Buzzer	5,789	7.02	6,603	10.83	5,215	7.27
Fire alarm	3,292	3.99	3,088	5.06	4,743	6.61
Communicator	3,245	3.93	5,759	9.44	3,135	4.37
Sub-total	38,519	46.69	35,844	58.76	39,618	55.23
Total sales of electronic products	76,580	92.83	56,861	93.23	70,458	98.26
Subcontracting income *(Note 2)*	5,918	7.17	4,129	6.77	1,249	1.74
Total revenue	82,498	100.00	60,990	100.00	71,707	100.00

Note:

1. Other electronic products assembled by the Group during the Track Record Period include power adaptors, LED assemblies, alarms, receivers, keypads and headphones.

2. Electronic products produced by the Group under subcontracting services mainly include power supply, nail polisher, panel meter, control board, remote control, electronic lock, motor controller module and other miscellaneous components.

For the years ended 31 March 2011, 2012 and 2013, the Group produced and assembled a total number of approximately 4,147,513, 3,798,140 and 3,367,581 PCBs and complete electronic products respectively and in the volume range of approximately 1 to 50,000 units, 1 to 100,000 units and 1 to 150,000 units respectively. For the years ended 31 March 2011, 2012 and 2013, the Group had orders for manufacturing one unit as trial product and such aggregate sales were approximately 0.69%, 0.32% and 0.31% of total sales of the Group respectively. The Group does not normally sell one unit of its products to its customers and the Group's customers order one unit of the product normally due to their urgent needs or treating it as a prototype for their testing.

For the three years ended 31 March 2011, 2012 and 2013, the Group recorded revenues of approximately HK$82.50 million, HK$60.99 million and HK$71.71 million respectively. For the three years ended 31 March 2011, 2012 and 2013, the profit attributable to the owners of the Company was approximately HK$11.23 million, HK$12.28 million and HK$9.35 million respectively.

BASIS OF PRESENTATION

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period have been prepared and included the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position of the Group as at 31 March 2011, 2012 and 2013 have been prepared to present the assets and liabilities of the Group as at those dates as if the current group structure had been in existence at those dates.

All intra-group transactions and balances have been eliminated on consolidation.

FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE GROUP

Market demand for consumer electronic products

The Group's customer mainly comes from the European Countries and the United States are the key drivers of the Group's current profitability and future prospects. The magnitudes of the consumer demand in the European Countries and the United States are largely depending on a number of factors including, but not limited to, general economic conditions in those regions, the growth in annual disposable income per capita of the consumers in the area, their consumption patterns as well as their consumer expenditure on consumer electronic products in the respective markets.

Product mix

The Group's revenues are also affected by the selling prices of the products and the mixture of product types. The profit margin of each type of products produced by the Group is different. Although the Directors believe that the production lines will continue to be readjusted according to customers' orders, the Group is committed to maximise its revenues and gross profits by optimising its product lines. As the Group adjusts the products lines, the revenue, gross profit margin and gross profit will be affected correspondingly.

Price fluctuation of raw materials

The major raw materials used in the Group's products are integrated circuits and PCBs, diodes, electric wires, plastic moulding and other materials. The total costs of raw materials accounted for approximately 69.63%, 65.76% and 71.83% respectively of the total cost of sales of the Group for the three years ended 31 March 2011, 2012 and 2013. The prices of the raw materials may be subject to fluctuations a result of various factors beyond the Group's control, such as global economic and financial conditions. In addition, since the Group has no long-term supply contracts with its suppliers, prices of raw materials are subject to market fluctuations from time to time and to the extent that the Group unable to pass on the price increases in these raw materials to its customers, the Group's business operations and financial performance could be adversely affected.

Cost of labour

The operations of the Group are labour-intensive. The Group relies on a stable and low cost labour supply in the PRC. For the three years ended 31 March 2011, 2012 and 2013, the cost of direct labour accounted for approximately 19.86%, 21.67% and 16.29% respectively of the Group's total cost of sales. As at 31 March 2011, 2012 and 2013, the number of PRC employees was 359, 304 and 299 respectively. The labour costs in the PRC has increased in recent years and may continue to increase in future. If the Group is unable to identify and employ other appropriate means to reduce costs of its labour costs, or pass on such increase in the cost of labour to its customers, the results of the Group's operations profitability and financial may be adversely affected.

Distribution and logistics costs

For the three years ended 31 March 2011, 2012 and 2013, distribution and logistics costs reported approximately 1.93%, 1.09% and Nil respectively to cost of sales. The distribution and logistics costs to cost of sales remained relatively stable throughout the Track Record Period. The fuel price in the PRC has been increasing during the Track Record Period. There is no assurance that the distribution and logistics cost will remain stable in the future. If the distribution and logistics costs fluctuated, the profitability of the Group could be affected. The Group seeks to reduce these costs by improving the on-time production and managing the inventories efficiently.

Management of inventories

In order to manage the inventories efficiently, The Group generally plans the purchase of raw materials and components after the receipt of the customers' confirmed orders, except for materials which the Group purchases in bulk procurement or purchases based on prevailing and forecast material price. The Group only places orders for buying production materials when sales orders have been confirmed with customers. The purchase orders for production materials would not exceed the required quantity for production for more than approximately 3% after taking into account of the wastage and surplus of production. Since there are a lot of production materials suppliers in the market and the required production materials are products that can easily be obtained from the market, the Group tries to minimise accumulating stocks in the warehouse.

Competition

The Group operates in a highly competitive market. The Directors consider that the Group faces potential competition from various EMS providers with production base in the PRC and overseas. Should the Group fail to either compete with other EMS providers, maintain its competitive advantages or keep pace with technological changes, the Group's operations could be adversely affected. Any increase in competition can adversely affect the Group's market share, which may lead to price reductions and an increase in the Group's spending on business promotion activities. Any of these events could have a material adverse effect on the Group's financial condition, results of operations and prospects.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of the financial position and results of operations of the Group as included in this prospectus is based on the consolidated financial information prepared using the significant accounting policies set out in Note 3 to the accountant's report in Appendix I to this prospectus. The preparation of the Group's financial statements requires the Group to make judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in the Group's financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting estimates, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's financial information. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on, among other things, the Group's experience, the Group's observance of trends in the industry, and information available from outside sources, as appropriate. There can be no assurance that the Group's judgments will prove correct or that actual results reported in future periods will not differ from the Group's expectations reflected in the Group's accounting treatment of certain items. The critical accounting estimates and judgments are set out in details in Note 4 to the accountants' report in Appendix I to this prospectus. The Group reviews its estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Below is a summary of certain significant accounting policies that are considered by the Group to be critical to the presentation of the Group's financial results and positions. The Group has also adopted other accounting policies that it considers to be significant, the details of which are set out in Note 3 to the accountants' report in Appendix I to this prospectus.

Revenue recognition

Sale of goods are recognised when goods are recognised on the transfer of and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed. Revenue is recognized after deduction of any trade discounts.

Revenue from the provision of subcontracting service is recognised when the service are provided.

Interest income from bank deposits is accrued on a timing basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipments

Property, plant and equipments are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised in the consolidated statements of financial position so as to write off the cost of assets less their residual values over residual values, using the straight-line method.

An item of property, plant and equipments is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Office equipment	3–4 years
Computer equipment	3–4 years
Motor vehicles	3–4 years
Mould	3–4 years
Plant and machinery	3–4 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Impairment of trade receivables

The Company estimates impairment losses for bad and doubtful debts resulting from inability of the customers to make the require payments. The estimate is based on the aging of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial conditions of the customers were to deteriorate, actual write-offs would be higher than estimated.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average basis and, in the case of work in progress and finished goods, including expenditure in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price for inventories less the estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the Track Record Period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the Track Record Period in which the reversal occurs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, amounts due from related companies and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Revenue represents the sale of electronic products and the subcontracting income. Sale of electronic products comprise sales of PCB assemblies and complete products on a turnkey basis of various consumer electronic products which include hair remover, massage toner, fishing indicator, starter, charger board, communicator, buzzer, security alarm and other consumer electronic products. As a provider of turnkey services, the Group is responsible for sourcing all required components for the product as well as the subsequent manufacturing processes. Subcontracting income comprises providing services of electronic products produced by the Group under subcontracting services that mainly include power supply, nail polisher, panel meter, control board, remote control, electronic lock, motor controller module and other miscellaneous components. Under this arrangement, the Group provides manufacturing services with raw materials and components that are supplied by the customers.

The Group's total revenue was approximately HK$82.50 million and HK$60.99 million for the two years ended 31 March 2011 and 2012 respectively, representing a decrease of approximately 26.07% or HK$21.51 million. The decrease in the revenue was mainly attributable to the drop in revenue derived from European customers. The total quantity of products sold decreased by approximately 8.42% from 4,147,513 units for the year ended 31 March 2011 to 3,798,140 units for the year ended 31 March 2012.

In addition, the decrease in the average selling price of the Group's products, from approximately HK$19.89 per unit for the year ended 31 March 2011 to approximately HK$16.06 per unit for the year ended 31 March 2012, by 19.26%, would also have a negative impact on the revenue. Such a decrease of average selling price was a result of the decrease in the average unit selling price of hair remover, fishing indicator, charger board and fire alarm for the year ended 31 March 2012..

For the year ended 31 March 2013, the Group's total revenue was approximately HK$71.71 million, representing an increase of approximately 17.57% or HK$10.72 million. The increase in the revenue was mainly attributable to increase in sales to the European Countries and contributions from the new customers acquired during the year. The total quantity of products sold decreased by approximately 11.34% from 3,798,140 units for the year ended 31 March 2012 to 3,367,581 units for the year ended 31 March 2013.

In addition, the increase in the average selling price of the Group's products, from approximately HK$16.06 per unit for the year ended 31 March 2012 to approximately HK$21.29 per unit for the year ended 31 March 2013, by 32.57%, would also have a positive impact on the revenue. Such an increase of average selling price was a result of the increase in the average unit selling price of massage toner, fishing indicator, starter, communicator, control board, charger board and fire alarm for the year ended 31 March 2013.

Sale of hair remover, fishing indicator, buzzer, control board and massage toner are the major segments of the Group in terms of sales accounting for 13.33%, 14.42%, 10.83%, 10.07% and 11.96% respectively for the year ended 31 March 2012 and 16.21%, 12.38%, 7.27%, 16.43% and 20.43% respectively for the year ended 31 March 2013.

Revenue by geography

The following table sets out the breakdown of the Group's revenue by geography during the Track Record Period:

During the Track Record Period, the European Countries were the largest market of the Group, accounting for over 50% of the turnover of the Group. Set out below is the breakdown of the Group's turnover during the Track Record Period with respect to geographical areas:

	For the year ended 31 March					
	2011		2012		2013	
		Approximate		*Approximate*		*Approximate*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
European Countries						
United Kingdom	43,770	53.06	25,056	41.08	29,722	41.45
Belgium	138	0.17	5,052	8.28	5,308	7.40
Other European countries *(Note 1)*	2,653	3.22	2,501	4.10	2,619	3.65
	46,561	56.45	32,609	53.46	37,649	52.50
United States	17,198	20.85	11,760	19.28	13,508	18.84
Hong Kong	11,173	13.54	11,137	18.26	12,213	17.03
Asian Countries other than Hong Kong *(Note 2)*	4,856	5.87	2,941	4.82	5,623	7.84
Others *(Note 3)*	2,710	3.29	2,543	4.18	2,714	3.79
Total	**82,498**	**100.00**	**60,990**	**100.00**	**71,707**	**100.00**

Note:

1 Other European Countries include Bulgaria, Denmark, Finland, France, Germany, Italy, Netherlands, Poland, Portugal, Slovakia Spain, Sweden, Switzerland and Ukraine.

2 Asian Countries include the PRC, India, Israel, Malaysia, Singapore and Taiwan.

3 Other countries include Argentina, Australia, Brazil, Canada, Columbia, New Zealand, Russia and South Africa.

The Group's customers were mainly located in Hong Kong, the European countries and the United States and their aggregate sales accounted for approximately 90.84%, 91.00% and 88.37%, respectively, for the three years ended 31 March 2011, 2012 and 2013, respectively, of the Group's total revenue. For the customers in Hong Kong, they may include buying agents of international electronic manufactures and overseas customers referred by the Hong Kong sales agents, whereas the international electronic manufacturers and distributors with their own designed products could be located in the European Countries and the United States. The Group has established long-term relationships with its customers, particular with those located in the European Countries and the United States. The Group has relationships with its five largest customers ranging from 1 to 15 years.

Cost of sales

Cost of sales of the Group primarily consists of raw materials, direct labour and overhead for its own manufacturing operations. For the years ended 31 March 2011, 2012 and 2013, the aggregate of the direct labour costs and overhead costs incurred for the production activities amounted to approximately HK$18.34 million, HK$13.90 million and HK$12.60 million respectively, of which approximately HK$18.34 million, HK$8.58 million and Nil respectively were processing fees paid by the Group for reimbursing the production costs incurred by the Processing Factory. Overhead costs represent water, electricity, depreciation of plant and machinery, rent and rates and other miscellaneous production costs.

Accounting recognition of direct labour and overhead

Prior to the Transformation

Direct labour and factory overhead costs (including manufacturing costs and expenses related to administrative purpose) of the Processing Factory were reimbursed through the payments of processing fees by the Group. Since the processing fees were paid for conversion of raw materials into finished goods, the Reporting Accountants are of the view that the whole amounts are classified as cost of sales according to Hong Kong Accounting Standard 2 ("**HKAS 2**") Inventories paragraph 6.

Subsequent to the Transformation

The factory expenses incurred by the WFOE have been recognised as cost of sales or administrative expenses according to the nature of the expenses. The Reporting Accountants are of the view that the administrative expenses are the costs excluded in costs of sales according to HKAS 2 paragraph 16(c).

In the view of the Reporting Accountants, the recognition of direct labour and overhead has been consistently presented and HKAS 2 has been consistently applied.

The following table sets out the breakdown of the components of the Group's cost of sales and each item as a percentage of the total cost of sales during the Track Record Period:

	For the year ended 31 March					
	2011		**2012**		**2013**	
		Approximate		*Approximate*		*Approximate*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Raw materials	42,052	69.63	26,687	65.76	32,117	71.83
Direct Labour	11,995	19.86	8,792	21.67	7,282	16.29
Overhead	6,344	10.51	5,103	12.57	5,313	11.88
Total cost of sales	60,391	100.00	40,582	100.00	44,712	100.00
Payments through processing fees	18,339	30.37	8,584	21.15	—	—
Costs directly borne by the Group	42,052	69.63	31,998	78.85	44,712	100.00
	60,391	100.00	40,582	100.00	44,712	100.00

Raw materials costs accounted for the majority of the Group's cost of sales for the three years ended 31 March 2011, 2012 and 2013 of approximately 69.63%, 65.76% and 71.83% respectively. The principal raw materials used in the Group's production mainly comprised ICs, PCBs, semiconductors, connectors, switches, transmitters, receivers, plastic and metal parts and packaging materials. The cost of raw materials decreased by 36.54% from approximately HK$42.05 million for the year ended 31 March 2011 to HK$26.69 million for the year ended 31 March 2012 mainly due to the decrease in the volume of production and sales of the Group which consumed less raw materials. The cost of raw materials increased by 20.35% from approximately HK$26.69 million for the year ended 31 March 2012 to HK$32.12 million for the year ended 31 March 2013 mainly due to the increase in the price of major production materials used for producing more advanced products.

Despite the increase in the PRC labour costs, the direct labour cost also decreased by approximately 26.70% from approximately HK$12.00 million for the year ended 31 March 2011 to HK$8.79 million for the year ended 31 March 2012, which was mainly attributable to (i) the decrease in production activities as fewer sales orders were received from customers during the year; and (ii) the transformation of the Processing Factory into the

WFOE and as such approximately HK$0.66 million of the PRC staff salaries, paid as processing fees and included in cost of sales prior to the Transformation, were recognised as administrative and other expenses according to their nature since September 2011. For the year ended 31 March 2013, the direct labour cost decreased by approximately 17.17% from approximately HK$8.79 million for the year ended 31 March 2012 to HK$7.28 million for the year ended 31 March 2013, due mainly to the full reflection of the change in cost structure arising from the Transformation.

Gross profit and gross profit margin

The following table set out the breakdown of the Group's total gross profit and gross profit margin by each category during the Track Record Period:

	For the year ended 31 March					
	2011		2012		2013	
		Approximate		*Approximate*		*Approximate*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Gross profit						
Sales of electronic products						
Hair Remover	6,403	29.63	2,063	25.38	3,942	33.92
Massage Toner	2,018	29.59	2,326	31.88	8,248	56.29
Fishing Indicator	1,736	16.68	2,130	24.21	1,020	11.49
Security Alarm	1,935	21.57	1,090	25.34	1,025	34.28
Starter	887	19.79	111	11.49	124	14.80
Communicator	1,041	32.08	2,461	42.73	1,528	48.75
Buzzer	2,258	39.01	3,128	47.37	2,544	48.78
Control Board	1,740	30.05	1,847	30.07	3,032	25.73
Charger Board	307	18.01	389	32.82	803	39.76
Fire Alarm	928	28.22	1,319	42.70	2,314	48.79
Other	1,254	27.99	1,628	35.46	2,005	43.76
Subcontracting income	1,600	27.04	1,916	46.40	410	32.80
Total gross profit	22,107	26.80	20,408	33.46	26,995	37.65

The Group's gross profit, which represents the revenue less cost of sales, was approximately HK$22.11 million, HK$20.41 million and HK$27.00 million respectively for the three years ended 31 March 2011, 2012 and 2013. During the Track Record Period, the Group's gross profit margin was relatively high at approximately 26.80%, 33.46% and 37.65% respectively. The Directors are of the view that this was mainly attributable to:

(i) the Group's retail electronic products offer higher gross profit margins than the products offered by the Comparables because of differences in product type, product mix and cost of production;

(ii) the Group's customers are willing to offer higher prices for separate purchases each in small quantity, which is one of the characteristics of the high-mix low volume industry; and

(iii) the lesser impact on the Group of the rising labour costs in the PRC in recent years owing to the Group's smaller manufacturing plant size.

The increase in the Group's gross profit margin for the year ended 31 March 2012 was primarily due to the Group's effort to proactively control the costs of materials, by means of (i) the use of alternative raw materials with comparable quality at lower costs; (ii) the shift of burden of increase of costs of materials to customers by adjusting the selling prices of its products; and (iii) maintaining good communications with suppliers who have long-term business relationships with the Group and continuously negotiating with them for more competitive pricing of materials by the procurement and material control team of the Group. Consistent with the industry practice, the customers of the Group were not informed about the types of raw materials being adopted in production for their orders, and, therefore, written consent from its customers for using alternative raw materials was not necessary. To ensure product quality and customers' satisfaction, before making a sales quote for customer orders, the Group would agree product specifications and technical issues with its customers and deliver prototypes to them for approval.

For the year ended 31 March 2013, the gross profit margin of the Group increased to approximately 37.65% as compared to gross profit margin of approximately 26.80% and 33.46% for the years ended 31 March 2011 and 2012. The increase was mainly due to the combined effect of the following: (i) the financial effect of the change in cost structure has been fully reflected in that the direct labour, factory overhead expenses and rental fee previously allocated in the cost of sales as processing fee were allocated to administrative expenses after the Transformation; and (ii) higher margin sales transaction whereby on average approximately 72.91% of the gross profit margin were charged to one new customer for certain sale transaction(s) up to HK$3.11 million during the year ended 31 March 2013 as part of the product development fee was embedded in the sales price. The mark-up margin is negotiated with customer in respect of any charge as to production development fee on a case-by-case basis but the Group will normally charge such customer a normal margin if a single purchase order of the same product reaches 10,000 units. As advised by the Directors, it is usual for the Group to charge higher margins for new customers and/or the engagements to produce new products by the existing customers as there is product development fee embedded in the sales price. There is no assurance that the Group can maintain similar level of gross profit margin in light of the fluctuations in the sales mix of the Group and as the engagements to produce new products from new customers and/or existing customers are not recurring in nature.

Besides, the gross profit margin of an electronic product of the Group varies largely in accordance with the style, model and specification of that product. The Group operates its business as an EMS provider and participates intensively in the product and design development. The more the complexity of a product, the higher the margin the Group charges its customers, due to (i) the increased complexity of the processing procedures involved; and (ii) part of the product development fee embedded in the sales price for those features. As such, the increase in gross profit margin was a result of the sales of higher margin products to new customers for the years ended 31 March 2012 and 2013. Moreover, the margin improved as the Processing Factory was transformed into the WFOE and part of the factory expenses previously paid as processing fees and included cost of sales were recognised as administrative and other expenses subsequent to the Transformation.

In order to control the cost of sales, the Group has formulated strategies to maintain its gross profit margin in the future by (i) setting up its own production facilities for plastic parts which would enable the Group to control a portion of the cost of raw materials; (ii) expanding and upgrading the production facilities which would enhance the level of automation in production process to achieve an improvement in production efficiency; and (iii) closely monitor the allocation of resources in the product mix by concentrating on higher margin products.

During the Track Record Period, the Group has made efforts in acquiring new customers in order to reduce its reliance on the major customers. For the years ended 31 March 2011, 2012 and 2013, the Company acquired 1, 6 and 10 new customers. The following table set out the revenue contributed from and gross profit charged for the Group's new customers during the Track Record Period.

	For the year ended 31 March		
	2011	**2012**	**2013**
Number of new customers	1	6	10
Total turnover from new customers *(HK$'000)*	9	2,858	11,948
% of turnover contributed by the new customers	0.01%	4.69%	16.66%
Range of gross profit margin	22.01%	9.09%–51.48%	18.22%–70.69%
Current gross profit for the new customers acquired during the Track Record Period	No subsequent sales afterwards	38.04%–72.91%	27.50%–62.89%

The following table set out the comparison of the gross profit margin of the existing customers and new customers by products types during the Track Record Period.

	For the year ended 31 March					
	2011		**2012**		**2013**	
Products	**New Customers**	**Existing Customers**	**New Customers**	**Existing Customers**	**New Customers**	**Existing Customers**
Hair Remover	—	29.63%	—	25.38%	—	33.92%
Massage Toner	—	29.59%	9.09%	32.77%	70.69%	51.06%
Fishing Indicator	—	16.68%	—	24.21%	—	11.49%
Security Alarm	—	21.57%	—	25.34%	—	34.28%
Starter	—	19.79%	—	11.49%	—	14.80%
Communicator	—	32.08%	—	42.73%	—	48.75%
Buzzer	—	39.01%	51.48%	47.38%	53.69%	48.59%
Control Board	—	30.05%	32.74%	28.49%	18.22%	37.37%
Charger Board	—	18.01%	—	32.82%	—	39.76%
Fire Alarm	—	28.22%	—	42.70%	—	48.79%
Others	22.01%	28.03%	13.45%	37.00%	38.11%	44.76%

During the Track Record Period, as the new customers' engagements for the production for the other electronic products and control board were less complicated, there was no production development fee charged to such customers. As result, the gross profit margin for new customers was lower than that for existing customers in respect of such products. For the year ended 31 March 2012, the new customer's gross profit margin of approximately 9.09% was lower than the gross profit margin of the existing customer in relation to massage toner because the Group was only provided the tooling services for such customer, which involved in the design and making of the plastic parts of a massage toner, rather than the engagement for the production of a massage toner.

During the Track Record Period, the Group's new customers and existing customers has made requests for the production of 7, 4 and 8 new products respectively. The following table set out the revenue contributed from and gross profit charged for the Group's new product orders during the Track Record Period.

	For the year ended 31 March		
	2011	**2012**	**2013**
Number of new products	7	4	8
Total turnover from the engagements to produce new products *(HK$'000)*	12,957	5,944	13,108
% of turnover contributed by the engagements to produce new products	15.71%	9.75%	18.28%
Range of gross profit margin	10.04%–25.81%	19.31%–34.21%	9.09%–72.91%

The following table set out the comparison of the gross profit margin of the existing products and new products during the Track Record Period.

	For the year ended 31 March					
	2011		**2012**		**2013**	
Products	**New Products**	**Existing Products**	**New Product**	**Existing Products**	**New Products**	**Existing Products**
Hair Remover	16.97%	30.09%	33.36%	28.28%	26.92%	37.93%
Massage Toner	14.84%	31.21%	29.45%	33.19%	68.60%	42.88%
Fishing Indicator	21.86%	16.18%	34.21%	20.08%	—	—
Security Alarm	—	—	19.31%	21.53%	43.65%	30.81%
Starter	—	—	—	—	—	—
Communicator	25.81%	33.43%	—	—	—	—
Buzzer	—	—	—	—	—	—
Control Board	10.23%	30.86%	—	—	58.83%	25.36%
Charger Board	10.04%	22.47%	—	—	—	—
Fire Alarm	—	—	—	—	—	—
Others	—	—	—	—	50.79%	42.75%

During the Track Record Period, as the customer's engagements for the production of new products might involve slight alternations to the existing model instead of the development of a new product and the mark-up margins are subject to the complexity, style, model and specification of a product together with the relationship of the customers. As a result, the engagements for the production of new products might not have a positive impact and direct relationship with the gross profit margin.

The Group usually charges higher gross profit margin for new customers and/or the engagements to produce new products by the existing customers as there might be a product development fee embedded in the sales price. The mark-up margin is negotiated with the customers in respect of any charge to production development fee on a case-by-case basis, but the Group will normally charge such customers a normal margin if a single purchase order of the same products exceeds 10,000 units on their subsequent purchase orders. The normal margin usually has a 12%-15% discount to the mark-up margin since the latter includes the production development fee. During the Track Record Period, the Directors are of the view that there was no adverse impact on the Group's overall gross profit margin in relation to the new customers' subsequent purchase orders and the existing customers' subsequent purchase orders for their new products because not all the orders from the new customers were included with product development fee and the turnover contributed by the new customers only accounted for a small proportion of the Group's turnover.

Other revenues and gains

Other revenues and gains mainly comprise bank interest income, reversal of provision of Social Insurance, gain from disposal of property, plant and equipment, income from design and development fee and sundry income. The table below sets out the Group's other revenues and gains for the Track Record Period:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	3	2	2
Reversal of provision of Social Insurances	—	6,433	—
Gain from disposal of property, plant and equipment	—	87	—
Income from design and development fee	35	340	—
Sundry income	2	117	116
	40	6,979	118

The other revenues and gains accounted for approximately HK$0.04 million, HK$6.98 million and HK$0.12 million respectively for the three years ended 31 March 2011, 2012 and 2013. The increase for the year ended 31 March 2012 was mainly due to the reversal of provision of the Social Insurances, amounted to approximately HK$6.43 million. Such gain is non-recurring in nature and will not be recognised in the financial results of the Group in the future.

Such provision was made in prior years in respect of the outstanding contributions of Social Insurances for the Group's PRC employees. According to the confirmation obtained from 深圳市社會保險基金管理局觀瀾管理站 (Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund*) dated 11 June 2012, the Group did not have any outstanding payment in relation to the required contribution to the Social

Insurances and no penalty will be incurred in relation to violation of the regulation and laws of Social Insurances (if any). Also, in the view of the PRC Legal Adviser, the possibility of the Processing Factory being penalised for the unpaid contribution to the Social Insurances related to the period before 1 July 2011 is basically not existent, and, therefore, the possibility of Yi Gao Tech being held liable for the outstanding payment to the Social insurances of the Processing Factory related to the period before 1 July 2011 is also basically not existent. Yi Gao Tech is exempted from any liabilities for the outstanding payments to the Social Insurances related to the period before 1 April 2012 according to the confirmations received from 深圳市社會保險基金管理局 (Administration of Social Insurance Fund of Shenzhen*) and Guanlan Management Station of Shenzhen City Administration of Social Insurance Fund dated 23 May 2012 and 11 June 2012 respectively. Based on the above evidences, the Reporting Accountants consider that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation and hence the provision should be reversed according to HKAS 37.

Selling and distribution expenses

Selling and distribution expenses comprise advertising and promotion expense, commission paid, freight charges and other selling expenses. The table below sets out the Group's selling and distribution expenses for the Track Record Period:

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Advertising and promotion	160	190	93
Commission paid	172	610	156
Freight charges	405	347	330
Others	274	124	129
	1,011	1,271	708

The selling and distribution expenses increased from approximately HK$1.01 million for the year ended 31 March 2011 to approximately HK$1.27 million for the year ended 31 March 2012 mainly due to the increase of sales commission payable to sales agents and advertising and promotion costs, which were offset by other costs. The sales commission was payable to the sales agents for the introduction and referral of customers to the Group. The sales commission ranged from 7%–19% of the sales amount of the transaction during the Track Record Period. Approximately HK$0.26 million of the commission expenses for the year ended 31 March 2012 was related to the sales for the year ended 31 March 2011 since the amount and the terms of the commission payable to one sales agent had been under negotiation and only came to a compromise during the latter year.

The selling and distribution expenses decreased from approximately HK$1.27 million for the year ended 31 March 2012 to approximately HK$0.71 million for the year ended 31 March 2013 mainly due to decrease of sales commission payable to sales agents. The last transaction with the sales agent was completed in April 2012 and the relevant commission was paid in May 2012. Since then and up to the Latest Practicable Date, the Group has not engaged any sales agents for the introduction and referred of customers to the Group. The Directors confirm that all the commission expenses related to the sales during the Track Record Period were fully recognised in the financial statements as of 31 March 2013.

Administrative and other expenses

Administrative and other expenses mainly include staff costs, depreciation, director's remuneration and other general office expenses. The table below sets out the Group's administrative and other expenses for the Track Record Period:

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Auditors' remuneration	250	150	250
Staff salary	3,021	4,370	5,095
Director's fees and salaries	975	1,022	1,026
Contribution to retirement scheme	208	539	798
Expenses in relation to the Listing	1,087	1,538	993
Rent and rates	257	798	864
Depreciation	1,159	610	476
Exchange differences	240	156	417
Motor vehicles expenses	88	83	187
Courier and delivery	168	189	163
Others	1,268	2,109	3,414
	8,721	11,564	13,683

Administrative and other expenses increased from approximately HK$8.72 million for the year ended 31 March 2011 to approximately HK$11.56 million for the year ended 31 March 2012 and further increased to approximately HK$13.68 million for the year ended 31 March 2013. This was primarily due to the transformation of the Processing Factory into the WFOE and as a result part of the factory expenses, previously paid as processing fees and included in cost of sales, were recognised as administrative and other expenses. The increase in the others expenses amounted to approximately HK$3.41 million for the year ended 31 March 2013 was due mainly to the inclusion of the staff messing expenses, electricity fee, water fee, telephone charges, PRC staff training costs and other factory expenses of Yi Gao Tech as a result of the transformation of the Processing Factory into the WFOE.

Expenses in relation to the Listing

The estimated expenses (excluding underwriting commission of approximately HK$1.08 million that will be charged to the equity after the Listing) in relation to the Listing total approximately HK$9.80 million, of which approximately HK$2.94 million is directly attributable to the issue of the Placing Shares and is expected to be accounted for as a deduction from the equity for the year ending 31 March 2014. The remaining estimated listing expenses of approximately HK$1.09 million, HK$1.54 million and HK$0.99 million have been charged to the consolidated statements of comprehensive income for the years ended 31 March 2011, 2012 and 2013 respectively, while approximately HK$3.24 million are expected to be charged to the consolidated statements of comprehensive income for the year ending 31 March 2014 respectively.

Pursuant to the Deed of Mutual Set-off, conditional and upon the Listing, Madam Cheng has agreed to bear the expenses incurred by the Company in connection with the Listing to the extent of approximately HK$5.77 million (or cap of 60% of the total costs incurred for the Listing) by offsetting against the debt of the Company owing to Madam Cheng. According to Conceptual Framework for Financial Reporting 2010 and Hong Kong Accounting Standard 1 (revised) Presentation of Financial Statements, this set-off represents a transaction between the Company and the Controlling Shareholder, and the amount will be recognised in equity rather than consolidated statements of comprehensive income prior to the Listing.

As at 31 March 2013, the balance due to Madam Cheng was approximately HK$6.07 million, which will be offset against the listing expenses borne by Madam Cheng, i.e. approximately HK$5.77 million upon the Listing. Such amount of set-off will be debited from the amount due to Madam Cheng and credited to reserves of the Company. Set out below are the details of accounting entries to be recognised prior to the Listing.

			HK$'000	*HK$'000*
Dr.		Amount due to a director	5,770	
	Cr.	Equity		5,770

Being the set-off against the debt of the Company owing to Madam Cheng

In the event that the balance due to Madam Cheng is lower than HK$5.77 million upon the Listing, Madam Cheng will reimburse the difference to the Company and the amount will be debited from cash and bank balances and credited to reserves of the Company. Set out below are the details of accounting entries to be recognised prior to the Listing.

In the event that the balance due to Madam Cheng is lower than HK$5.77 million upon the Listing,

			HK$'000	*HK$'000*
Dr.		Amount due to a director	X	
Dr.		Cash and bank balances	Y	
	Cr.	Equity		5,770

Being the set-off against the debt of the Company owing to Madam Cheng and the recognition of shareholder contribution, where X represents the amount due to a director upon the Listing and Y represents the difference between the amount due to a director and HK$5.77 million

Set out below is a table illustrating the amounts of the estimated listing expenses which have been recognised during the Track Record Period and will be recognised upon the Listing.

	For the year ended 31 March 2011 Recognised	For the year ended 31 March 2012 Recognised	For the year ended 31 March 2013 Recognised	For the year ending 31 March 2014 Estimated	Total Estimated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Recognised in consolidated statements of comprehensive income	1,087	1,538	993	3,242	6,860
Recognised in equity *(Note)*	—	—	—	2,940	2,940
Total expenses in relation to the Listing	1,087	1,538	993	6,182	9,800

Note: The listing expenses borne by Madam Cheng pursuant to the Deed of Mutual Set-off amounted to approximately HK$5.77 million and will be credited to the equity upon the Listing. As a result, the Listing, taking into account the listing expenses of HK$2.94 million to be recognised as a deduction in the equity, is estimated to bring a net credit of HK$2.83 million into the equity for the year ending 31 March 2014.

Expenses in relation to the listing of existing shares and those directly attributable to the listing of new shares account for approximately 70% and 30% of the total listing expenses respectively. Accordingly, approximately HK$6.86 million in total (being approximately 70% of HK$9.80 million) is charged to the consolidated statements of comprehensive income when the expenses are incurred, while approximately HK$2.94 million (being approximately 30% of HK$9.80 million) is expected to be accounted for a deduction of equity upon the completion of the Listing. In the view of the Reporting Accountants, the Group has fulfilled the requirement of Hong Kong Accounting Standard 32 to allocate the listing expenses between the consolidated statements of comprehensive income and consolidated statements of changes in equity.

The Directors are of the view that such amount of expenses is non-recurring and a current estimate for reference only. The final amount to be recognised to the consolidated statements of comprehensive income for the year ending 31 March 2014 is subject to adjustment based on audit and the then changes in variables and assumptions.

As at 31 March 2013, the Group has paid approximately HK$9.24 million for the expenses in relation to the Listing, of which approximately HK$6.39 million are the deposits and prepayments to Vashion Asset Management Limited ("**Vashion Asset**") and other professional parties. The expenses to be borne by Madam Cheng amounting to approximately HK$5.77 million will be offset against the amount due to Madam Cheng, which mainly consists of dividend payable, upon the Listing.

The Group and Vashion Asset entered into an agreement for provision of introduction of intermediaries and assistance and co-ordination services dated 2 July 2010 (the "**IAC Services Agreement**") for reasons of cost-efficiency and effectiveness in achieving the

Listing. When the Company and its directors first considered fund-raising by way of listing in Hong Kong, they were neither familiar with the applicable laws and regulations as well as the legal requirements for listing nor with any intermediary bodies including sponsors and professional parties that are experienced in the application for listing in Hong Kong. Hence, the Group decided to enlist the assistance of Vashion Asset in providing the essential services of introduction and co-ordination of the efforts of the professional parties as set out in the IAC Services Agreement. As for its provision of services to the Company in the overall context of the listing exercise, Vashion Asset helped to bring about the application for listing of the Company through its determination and persistence in liaising and arranging for different professional parties to meet the Company for its consideration. Vashion Asset also helped and enabled the Company to select and appoint certain experienced professional parties who were willing to thwart their competitors by charging a lower fee in order to obtain the Company's appointment as a party involved in the listing exercise. In this respect, the Company has estimated a substantial saving of up to approximately HK$2.50 million for the Group at that time. After the Company had made the listing application to the Stock Exchange, considerable time has lapsed. Nevertheless, Vashion Asset, having spent considerable time and effort in negotiating with the professional parties, is able to keep the professional parties together and continue with their work on the Company's listing application without any substantial increase to their fees. As such, the introduction and co-ordination services provided by Vashion Asset do help to reduce the costs of the Company throughout the listing exercise. Thus, the Directors reasonably deem the IAC Services Agreement and the services provided by Vashion Asset thereunder to be cost-saving arrangements for the Group.

According to the IAC Services Agreement, Vashion Asset will recommend to and assist the Company in appointing professional parties and will provide suitable personnel to assist and co-ordinate the work of the professional parties. The Company has to facilitate the work of Vashion Asset through providing assistance and communicating with the relevant parties, but is entitled to demand Vashion Asset to raise the quality of its work and assign suitable personnel to assist the Company. Vashion Asset is entitled to charge a fee in the total amount of HK$0.53 million for the provision of such services.

In terms of co-ordinating the due diligence review and relevant work of the professional parties (which still persists as required by the Company), Vashion Asset has enabled the Company to work effectively with the professional parties and meet their needs and requirements efficiently. Vashion Asset also monitors the progress of the project and makes suggestions to the Company on improving such progress. In order to facilitate the co-ordinating and monitoring work of Vashion Asset, the Company chooses to pay the professional parties through Vashion Asset so that Vashion Asset can discuss the progress with the professional parties and make suggestions to them with regard to the co-ordination and improvement of their respective efforts in the listing exercise. In the light of such service provision and payment arrangement on the basis of the IAC Services Agreement, Vashion Asset entered into engagement contracts with the relevant professional parties on behalf of the Company. According to the IAC Services Agreement, Vashion Asset is to be given an aggregate amount of HK$9.80 million, of which the sum of HK$9.27 million is for payment of service fees by Vashion Asset (on behalf of the Company) to the intermediary bodies (such as the sponsor, the legal advisers to the Company and the sponsor, the reporting accountants) and the sum of HK$0.53 million is the service fee for Vashion Asset. In the event that the Listing of the Company is not successful, all the monies that had already been paid out by Vashion Asset by that time cannot be refunded, but the balance of the amount already paid by the Company to Vashion Asset but not yet paid out by Vashion Asset at that material time will be refunded to the Company. As at the Latest Practicable Date, the Company had paid Vashion Asset the amount of HK$8 million, since according to the IAC Services Agreement, a sum of HK$1.80 million will only be paid to Vashion Asset within a month after successful Listing. Vashion Asset had in turn paid a total sum of HK$1,616,380 to various professional parties. Henceforth, the total amount of HK$2,146,380 (comprising the aforesaid sum of HK$1,616,380 and Vashion Asset's service fee of HK$530,000) will not be refundable to the Company as at the Latest Practicable Date.

As at 31 March 2011, 2012 and 2013, the remaining balance of deposit paid to Vashion Assets Management Limited was approximately HK$7.13 million and HK$5.49 million and HK$4.84 million. In accordance with the aforementioned accounting treatment of the listing expenses, approximately 70% and 30% of the deposits paid to Vashion Asset Management Limited will be charged to consolidated statements of comprehensive income and consolidated statements of changes in equity respectively. Set out below is the breakdown of the deposits and prepayments related to the listing expenses.

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Deposits paid to Vashion Asset Management Limited *(note 1)*	7,134	5,488	4,839
Prepayments to other professional parties *(note 2)*	307	1,125	1,551
Total	7,441	6,613	6,390

Notes:

1. The deposits paid to Vashion Assets Management Limited will be settled to pay the professional expenses incurred for the Listing upon the issue of the Prospectus but prior to the Listing.

2. The prepayments to other professional parties will be charged to the consolidated statement of changes in equity upon the Listing.

Total staff costs

The Group's staff costs are allocated into (i) cost of sales as direct labour; (ii) administrative and other expenses as staff salary; and (iii) recognised in work-in-progress. The table below sets forth the Group's total staff costs for the Track Record Period.

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Staff costs recognised in cost of sales			
— Staff salary	10,082	8,486	6,563
— Contribution to retirement scheme	1,913	306	720
Staff costs recognised in administrative and other expenses (include directors' remuneration)			
— Staff salary	3,021	4,370	5,095
— Directors' fees and salaries	975	1,022	1,026
— Contribution to retirement scheme	208	539	798
	16,199	14,723	14,202
Staff costs capitalised in work-in-progress during the Track Record Period	98	384	612
Total staff costs	16,297	15,107	14,814

Finance costs

The Group's finance expenses represent interest expenses on the Group's bank borrowings wholly repayable within five years and obligation under finance leases. For the three years ended 31 March 2011, 2012 and 2013, the Group's total finance costs were approximately HK$0.05 million, HK$0.03 million and HK$0.04 million respectively, representing approximately 0.06%, 0.04% and 0.05% respectively, of the Group's revenue.

Taxation

The following table sets out the breakdown of the Group's income tax in the consolidated statements of comprehensive income during the Track Record Period:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
— Hong Kong	1,140	1,728	2,419
— PRC	—	515	918
	1,140	2,243	3,337

Pursuant to the Hong Kong Profit Tax, the Group is liable to Hong Kong Profit Tax rate of 16.5% for the three years ended 31 March 2011 and 2012 and 2013. As a result of the tax exemption on 50% assessable profits of the Group attributable to offshore activities, the effective tax rates of our Group for the years ended 31 March 2011, 2012 and 2013 were approximately 9.22%, 15.44% and 26.30% respectively. The increase in effective tax rate for the years ended 31 March 2012 and 2013 was mainly due to the loss of tax redemption on 50% assessable profit of the Group under Hong Kong Profits Tax since the manufacturing operation has been undertaken by the WFOE, Yi Gao Tech, in September 2011 and the charge of PRC Enterprise Income Tax on Yi Gao Tech at 25%.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Company operates, based on existing legislation, interpretations and practices in respect thereof.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Profit before taxation	12,365	14,527	12,687
Tax at the applicable tax rate	2,040	2,397	2,093
Tax effect of non-deductible expenses for tax purpose	180	278	443
Tax effect of temporary difference not recognised	60	573	741
Effect of different tax rate of group entities operating in jurisdictions other than Hong Kong	—	44	60
Deduction from offshore activities *(note)*	(1,140)	(1,049)	—
	1,140	2,243	3,337

Note: Echo Electronics, a wholly-owned subsidiary of the Company entered into the Processing Agreement to begin its manufacturing business of electronics products in the PRC. Echo Electronics was entitled to tax concessions under the Processing Agreement before the Transformation.

RESULTS OF OPERATIONS

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Revenue	82,498	60,990	71,707
Cost of sales	(60,391)	(40,582)	(44,712)
Gross profit	22,107	20,408	26,995
Other revenue and gains *(Note)*	40	6,979	118
Selling and distribution expenses	(1,011)	(1,271)	(708)
Administrative and other expenses	(8,721)	(11,564)	(13,683)
Finance costs	(50)	(25)	(35)
Profit before taxation	12,365	14,527	12,687
Taxation	(1,140)	(2,243)	(3,337)
Profit for the year	11,225	12,284	9,350
Other comprehensive income for the year, net of tax:			
Exchange differences on translation of foreign operation	—	144	177
Total comprehensive income for the year	11,225	12,428	9,527
Profit for the year attributable to the owners of the Company	11,225	12,284	9,350
Total comprehensive income attributable to the owners of the Company	11,225	12,428	9,527
Dividends	—	7,000	9,000
Earnings per share			
Basic and diluted	HK8.0 cents	HK8.8 cents	HK6.7 cents

Note: Other revenue and gains for the year ended 31 March 2012 included a non-recurring gain amounted to approximately HK$6.43 million as a result of a reversal of provision of social insurance, details of which are set out in note 7 to the Accountants' report in Appendix I to this prospectus.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 March 2013 compared with year ended 31 March 2012

Revenue

The total revenue of the Group increased by approximately 17.57% from approximately HK$60.99 million for the year ended 31 March 2012 to approximately HK$71.71 million for the year ended 31 March 2013. The increase was primarily due to increase in sales to United Kingdom and the increase in sales of hair remover, control board and massage toner by approximately 42.97%, 91.81% and 100.86% respectively from HK$8.13 million, HK$6.14 million and HK$7.30 million for the year ended 31 March 2012 to approximately HK$11.62 million, HK$11.78 million and HK$14.65 million for the year ended 31 March 2013.

Revenue from sales of electronic products increased by approximately 23.91% from approximately HK$56.86 million for the year ended 31 March 2012 to approximately HK$70.46 million for the year ended 31 March 2013. The increase was primarily due to (i) an increase in volume of hair remover, fire alarm and other electronic products as a result of an increase in customers' orders; and (ii) an increase in average selling price of massage toner, fishing indicator, security alarm, starter, communicator, control board, charger board and fire alarm by approximately 101.58%, 125.08%, 20.47%, 30.12%, 26.30%, 58.85%, 66.23% and 34.51% respectively for the year ended 31 March 2013 as compared to the same corresponding period last year, resulting from changes in product specifications, styles and functions of such electronic products which the Group has been engaged to manufacture.

Revenue from subcontracting income decreased by approximately 69.75% from approximately HK$4.13 million for the year ended 31 March 2012 to approximately HK$1.25 million for the year ended 31 March 2013. The decrease was primarily due to decrease in orders of brush power supply in subcontracting services.

Overall, the Group's revenue recorded an increase for the year ended 31 March 2013 as compared to the year ended 31 March 2012.

Cost of sales

Cost of sales of the Group increased by approximately 10.18% from approximately HK$40.58 million for the year ended 31 March 2012 to approximately HK$44.71 million for the year ended 31 March 2013. The increase in cost of sales was primarily due to the increase in costs of materials, offset by the effect of the change of accounting recognition of direct labour and overhead brought about by the Transformation in September 2011. Prior to the Transformation, the whole amounts of the processing fees for conversion of raw materials into finished goods were recognized as cost of sales. Subsequent to the Transformation, the factory expenses incurred by the WFOE have been recognized as cost of sales or administrative expenses according to the nature of the expenses. Accordingly, approximately HK$2.48 million and HK$5.29 million of the factory expenses incurred by the WFOE were recognized as administrative expenses for the year ended 31 March 2012 and 2013 respectively. Without such change in accounting recognition, the cost of sales of the Group would increase by approximately 16.12% from approximately HK$43.06 million for the year ended 31 March 2012 to approximately HK$50.00 million for the year ended 31 March 2013, which would be more in line with the percentage increase of the total revenue of the Group. As a percentage of total revenue, the cost of sales of the Group decreased from approximately 66.54% for the year ended 31 March 2012 to approximately 62.35% for the year ended 31 March 2013.

The direct raw materials costs increased by 20.35% from approximately HK$26.69 million for the year ended 31 March 2012 to approximately HK$32.12 million for the year ended 31 March 2013, and increased as a percentage of total cost of sales from approximately 65.76% for the year ended 31 March 2012 to approximately 71.83% for the year ended 31 March 2013. The increase in direct raw materials cost as a percentage of total cost of sales were primarily due to the increase in the price of major production materials.

The direct labour cost decreased by 17.17% from approximately HK$8.79 million for the year ended 31 March 2012 to approximately HK$7.28 million for the year ended 31 March 2013, and decreased as a percentage of total cost of sales from approximately 21.67% for the year ended 31 March 2012 to approximately 16.29% for the year ended 31 March 2013. The decrease in direct labour costs as a percentage of total cost of sales were primarily due to effect of the transformation of the Processing Factory into WFOE, leading to the fact that part of the direct labour cost and the overhead cost previously included in cost of sales were recognized as administrative and other expenses.

The overhead cost increased by 4.12% from approximately HK$5.10 million for the year ended 31 March 2012 to approximately HK$5.31 million for the year ended 31 March 2013, and decreased as a percentage of total cost of sales from approximately 12.57% for the year ended 31 March 2012 to approximately 11.88% for the year ended 31 March 2013. The increase in overhead cost as a percentage of total cost of sales was mainly due to increase the total revenue and total cost of sales during the year.

Gross profit and gross profit margin

Gross profit of the Group increased by approximately 32.28% from approximately HK$20.41 million for the year ended 31 March 2012 to approximately HK$27.00 million for the year ended 31 March 2013.

The gross profit from rendering subcontracting services decreased from approximately HK$1.92 million for the year ended 31 March 2012 to approximately HK$0.41 million for the year ended 31 March 2013.

The overall gross profit margin of the Group increased from approximately 33.46% for the year ended 31 March 2012 to approximately 37.65% for the year ended 31 March 2013. The increase in the Group's gross profit margin for the year ended 31 March 2013 was primarily due to the aforementioned charge in recognition of expenses to the administrative and other expenses.

Other revenue and gains

The other revenue and gains of the Group decreased by approximately 98.31% from approximately HK$6.98 million for the year ended 31 March 2012 to approximately HK$0.12 million for the year ended 31 March 2013. The decrease was primarily due to inclusion of reversal of provision of social insurance of approximately HK$6.43 million for the year ended 31 March 2012.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately 44.30% from approximately HK$1.27 million for the year ended 31 March 2012 to approximately HK$0.71 million for the year ended 31 March 2013. The decrease was primarily due to decrease in commission paid to sales agents. Decrease in use of sales agents as the Group engage in more direct sales for the year ended 31 March 2013.

Administrative and other expenses

The administrative and other expenses of the Group increased by approximately 18.32% from approximately HK$11.56 million for the year ended 31 March 2012 to approximately HK$13.68 million for the year ended 31 March 2013. The increase was primarily due to the transformation of the Processing Factory into the WFOE and as a result part of the factory expenses, previously paid as processing fees and included in cost of sales, were recognized as administrative and other expenses according to their nature.

Finance costs

The finance costs of the Group increased by approximately 40% from approximately HK$0.03 million for the year ended 31 March 2012 to approximately HK$0.04 million for the year ended 31 March 2013. The increase was primarily due to an increase in interest expenses in relation to hire purchase granted during the year ended 31 March 2013.

Taxation

The income tax of the Group increased by approximately 48.77% from approximately HK$2.24 million for the year ended 31 March 2012 to approximately HK$3.34 million for the year ended 31 March 2013. The increase was primarily attributable to the increase in effective tax rate for the year ended 31 March 2013 as a result of the full impact of the transformation after which the Group has been subject to PRC enterprise income tax of 25% and no tax redemption in 50% assessable profit of the Group under the Hong Kong profit tax.

Profit for the year

Profit of the Group decreased by approximately 23.88% from approximately HK$12.28 million for the year ended 31 March 2012 to approximately HK$9.35 million for the year ended 31 March 2013. This was mainly as a result of decrease in other revenue and gains which was primarily due to inclusion of reversal of provision of social insurance of approximately HK$6.43 million for the year ended 31 March 2012.

Without taking into account the reversal of provision of social insurance of approximately HK$6.43 million for the year ended 31 March 2012, the net profit increased by 59.83% from approximately HK$5.85 million for the year ended 31 March 2012 to approximately HK$9.35 million for the year ended 31 March 2013. The increase was mainly due to (i) the increase in the Group's gross profit margin due to the Group's effort to proactively control costs of materials and sales of higher margin products to new customers; and (ii) the decrease in selling and distribution expenses mainly due to decrease in commission paid to sales agents.

Year ended 31 March 2012 compared with year ended 31 March 2011

Revenue

The total revenue of the Group decreased by approximately 26.07% from approximately HK$82.50 million for the year ended 31 March 2011 to approximately HK$60.99 million for the year ended 31 March 2012. The decrease was primarily due to

(i) decrease in sales of hair remover by approximately 62.38% from approximately 21.61 million for the year ended 31 March 2011 to approximately HK$8.13 million for the year ended 31 March 2012. The reason for the decrease was mainly due to one customer was in the process of developing a new model for hair removers and production had not yet commenced by the end of the financial year of 2012 thereby reducing its purchase orders with the Group;

(ii) decrease in sales of starter by approximately 78.45% from approximately HK$4.48 million for the year ended 31 March 2011 to approximately HK$0.97 million for the year ended 31 March 2012. The reason for the decrease was mainly due to one customer was in the process of relocating its PRC factory thereby postponing and reducing its purchase orders with the Group. The customer completed the relocation of its PRC factory in March 2013; and

(iii) decrease in sales of fishing indicator by approximately 15.45% from approximately HK$10.40 million to approximately HK$8.80 million for the year ended 31 March 2012.

Revenue from the sales of electronic products decreased by approximately 25.75% from approximately HK$76.58 million for the year ended 31 March 2011 to approximately HK$56.86 million for the year ended 31 March 2012. The decrease was primarily due to (i) a decrease in volume of sales of hair remover, starter, buzzer, control board and other electronic products as a result of decrease in customers' orders; and (ii) a decrease in average selling prices of hair remover, massage toner, fishing indicator, security alarm, charger board and fire alarm by approximately 49.23%, 19.68%, 28.79%, 64.89%, 42.80% and 52.46% respectively for the year ended 31 March 2012 as compared to the same corresponding period last year, due to the changes in product specifications, styles and functions of the said products which resulted in the Group has been engaged to manufacture lower value products for the year.

Revenue from rendering subcontracting services decreased by approximately 30.23% from approximately HK$5.92 million for the year ended 31 March 2011 to approximately HK$4.13 million for the year ended 31 March 2012. The decrease was primarily because of the decrease in orders of power supply unit, nail polisher and control board for subcontracting services.

Overall, the Group's revenue recorded a decrease for the year ended 31 March 2012 as compared to the year ended 31 March 2011.

Cost of sales

Cost of sales of the Group decreased by approximately 32.80% from HK$60.39 million for the year ended 31 March 2011 to HK$40.58 million for the year ended 31 March 2012. The decrease in cost of sales was primarily due to a decrease in the total sales volume of products. As a percentage of total revenue, the cost of sales of the Group decreased from approximately 73.20% for the year ended 31 March 2011 to approximately 66.54% for the year ended 31 March 2012.

The direct raw materials cost decreased by approximately 36.54% from approximately HK$42.05 million for the year ended 31 March 2011 to approximately HK$26.69 million for the year ended 31 March 2012, and decreased as a percentage of total cost of sales from approximately 69.63% for the year ended 31 March 2011 to approximately 65.76% for the year ended 31 March 2012. The decrease in direct raw materials cost as a percentage of total cost of sales were primarily due to the sales of products with additional features and higher gross profit margin, partially offset by the effect of the transformation of the Processing Factory into the WFOE, leading to the fact that part of the direct labour cost and the overhead cost previously included in cost of sales were recognised as administrative and other expenses.

The direct labour cost decreased by approximately 26.70% from HK$12.00 million for the year ended 31 March 2011 to HK$8.79 million for the year ended 31 March 2012, and increased as a percentage of total cost of sales from approximately 19.86% for the year ended 31 March 2011 to approximately 21.67% for the year ended 31 March 2012. The increase in direct labour cost as a percentage of total cost of sales was mainly due to the increase in the PRC labour costs, which was partially offset by the aforementioned charge in recognition of expenses, amounting to approximately HK$0.66 million, to the administrative and other expenses.

The overhead cost decreased by 19.56% from HK$6.34 million for the year ended 31 March 2011 to HK$5.10 million for the year ended 31 March 2012, and increased as a percentage of total cost of sales from 10.51% for the year ended 31 March 2011 to 12.57% for the year ended 31 March 2012. The increase in overhead cost as a percentage of total cost of sales was mainly attributable to an increase in rent and rates as a result of the renewal of rental agreement of PRC factory during the year ended 31 March 2012, partially offset by the aforementioned charge in recognition of expenses, amounting to approximately HK$1.81 million, to the administrative and other expenses.

Gross profit and gross profit margin

Gross profit of the Group decreased by approximately 7.69% from approximately HK$22.11 million for the year ended 31 March 2011 to approximately HK$20.41 million for the year ended 31 March 2012. The gross profit from the sales of electronic products decreased from HK$20.51 million for the year ended 31 March 2011 to approximately HK$18.49 million for the year ended 31 March 2012.

The gross profit from rendering subcontracting services increased from approximately HK$1.60 million for the year ended 31 March 2011 to approximately HK$1.92 million for the year ended 31 March 2012. The subcontracting process of the Group was streamlined to improve efficiency, such as shortening the processing time required for production of power supply and nail polisher. The average labour time involved in the production of power supply and nail polisher was shortened by approximately 24.46%–52.29% and 33.39% respectively from the year ended 31 March 2011 to the year ended 31 March 2012. As a result, the costs including direct labour decreased and led to the increase in the gross profit from rendering subcontracting services for the year ended 31 March 2012.

The overall gross profit margin of the Group increased from approximately 26.80% for the year ended 31 March 2011 to approximately 33.46% for the year ended 31 March 2012. The increase in the Group's gross profit margin for the year ended 31 March 2012 was primarily due to the Group's effort to proactively reduce the costs of materials, by means of (i) the use of alternative raw materials with comparable quality at lower costs; and (ii) the shift of burden of increase of costs of materials to customers by adjusting the selling prices of its products; The customers of the Group were not informed about the types of raw materials being adopted in production for their orders, and, therefore, written consent from its customers for using alternative raw materials was not necessary. To ensure product quality and customers' satisfaction, before making a sales quote for customer orders, the Group would agree on product specifications and technical issues with its customers and deliver prototypes to them for approval.

Besides, the gross profit margin of an electronic product of the Group varies largely in accordance with the style, model and specification of that product. The Group operates its business as an EMS provider and participates intensively in the product and design development. The more the complexity of a product, the higher the margin the Group charges its customers, due to (i) the increased complexity of the processing involved; and (ii) part of the product development fee embedded in the sales price for those features. In addition, the aforementioned change in recognition of the factory expenses of the WFOE to administrative expenses also had a positive impact i.e. approximately 4.06% on the gross profit margin.

Other revenue and gains

The other revenue and gains of the Group increased by approximately 17,347.50% from approximately HK$0.04 million for the year ended 31 March 2011 to approximately HK$6.98 million for the year ended 31 March 2012. The increase was primarily as a result of reversal of the provision of the Social Insurances made in prior years amounting to approximately HK$6.43 million.

Such provision was made in prior years in respect of the outstanding contributions of Social Insurances for the Group's PRC employees. The whole amount of the provision was reversed during the year since the PRC Legal Adviser are of the opinion that the possibility of the Group being penalised for the unpaid Social Insurances basically does not exist. Please refer to the paragraph headed "Social insurances and housing provident fund" in the section headed "Directors, senior management and staff" for the opinion of the PRC Legal Adviser.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately 25.72% from approximately HK$1.01 million for the year ended 31 March 2011 to approximately HK$1.27 million for the year ended 31 March 2012. The increase was primarily due to increase in commission paid to sales agents. Approximately HK$0.26 million of the commission expenses for the year ended 31 March 2012 was related to the sales for the year ended 31 March 2011 since the amount and the terms of the commission payable to one sales agent had been under negotiation and only came to a compromise during the latter year. The Directors confirm that all the commission expenses related to the sales during the Track Record Period were fully recognised in the financial statements as of 31 March 2012.

Administrative and other expenses

The administrative and other expenses of the Group increased by approximately 32.60% from approximately HK$8.72 million for the year ended 31 March 2011 to approximately HK$11.56 million for the year ended 31 March 2012. The increase was primarily due to the transformation of the Processing Factory into the WFOE and as a result part of the factory expenses, previously paid as processing fees and included in cost of sales, were recognised as administrative and other expenses according to their nature.

Finance costs

The finance costs of the Group decreased by approximately 50.00% from approximately HK$0.05 million for the year ended 31 March 2011 to approximately HK$0.03 million for the year ended 31 March 2012. The decrease was primarily due to a decrease in interest expenses in relation to hire purchase as a result of repayments during the year.

Taxation

The income tax of the Group increased by approximately 96.75% from approximately HK$1.14 million for the year ended 31 March 2011 to approximately HK$2.24 million for the year ended 31 March 2012. The increase was primarily attributable to the increase in effective tax rate for the year ended 31 March 2012 as a result of the PRC enterprise income tax rate of 25% and no tax redemption in 50% assessable profit of the Group under Hong Kong profit tax since the set-up of Yi Gao Tech.

Profit for the year

Profit of the Group increased by 9.43% from approximately HK$11.23 million for the year ended 31 March 2011 to approximately HK$12.28 million for the year ended 31 March 2012. This was mainly a result of the other revenue derived from the reversal of provision of the Social Insurances made in prior years, partially offset by the decrease in sales revenue and the increase in administrative and other expenses during the year.

Financial impact of the Transformation

The WFOE, namely Yi Gao Tech, was established in May 2011 and has undertaken and has been conducting the production activities of the Processing Factory (which was deregistered in February 2012) since September 2011. Set out below is a table illustrating the impact of such Transformation on the financial results of the Group.

	Prior to the Transformation	Subsequent to the Transformation	Description of the impact	Relevant financial information	For the twelve months ended 31 August 2011	2012
Cost structure	The cost of sales directly borne by the Group comprises costs of materials only. Direct labour and overhead costs were reimbursed through the payments of processing fees.	Costs of materials, direct labour and overhead costs were all directly borne by the Group and no processing fee was paid.	The Transformation decreased the processing fees from approximately HK$17.44 million for the twelve months ended 31 August 2011 to approximately HK$1.29 million for the twelve months ended 31 August 2012. The processing fee as a percentage of cost of sales decreased from approximately 31.63% for the twelve months ended 31 August 2011 to approximately 2.91% for the twelve months ended 31 August 2012.	Processing fee Processing fee as a percentage of cost of sales	HK$17.44 million 31.63%	HK$1.29 million 2.91%
Gross profit	The Group paid the processing fees to reimburse the production costs incurred by the Processing Factory. The whole amount of the processing fees was recognised as cost of sales.	Yi Gao Tech has undertaken the operation of the Processing Factory. The factory expenses incurred have been recognised as cost of sales or administrative expenses according to the nature of the expenses.	Part of the factory expenses previously recognised as processing fees included in cost of sales now recognised as administrative and other expenses, including staff salaries and other administrative expenses amounted to approximately HK$1.18 million and HK$3.53 million respectively. Accordingly, such recognition decreased the cost of sales by approximately HK$4.71 million and increased the gross profit by the same amount for the twelve months ended 31 August 2012. The estimated impact on the gross profit margin was an increase of approximately 6.60%. In other words, without such allocation, the gross profit margin would be approximately 31.27% for the twelve months ended 31 August 2012, assuming all other variables remained unchanged. The change in recognition increased the administrative and other expenses by approximately HK$4.71 million for the twelve months ended 31 August 2012.	Cost of sales Gross profit Gross profit margin Administrative and other expenses	HK$55.13 million HK$27.56 million 33.33% HK$6.80 million	HK$44.36 million HK$27.04 million 37.87% HK$13.60 million
Income taxation	The Group enjoyed the tax exemption on 50% assessable profits under Hong Kong profits tax and no PRC enterprise income tax was charged.	The tax exemption on 50% assessable profits under Hong Kong profits tax was no longer applicable, and PRC enterprise income tax was charged at 25%.	The combination of the loss of tax exemption on 50% assessable profits under Hong Kong profits tax and the charge of the PRC enterprise income tax at 25% increased the income tax amount and hence the effective tax rate of the Group for the twelve months ended 31 August 2012.	Taxation Effective tax rate	HK$1.22 million 6.07%	HK$3.54 million 19.05%
Net profit	Please refer to the impact on income taxation as mentioned above.	Please refer to the impact on income taxation as mentioned above.	The increase in the effective tax rate had a negative impact on the net profit and the net profit margin.	Net profit Net profit margin Net profit margin excluding reversal of provision of Social Insurances	HK$19.00 million 22.98% 22.98%	HK$15.06 million 21.09% 12.83%

Note:

No direct impact on the consolidated statements of financial position

Pursuant to the terms of the Processing Agreement, Echo Electronics was engaged in a processing business in which the manufacturing and processing procedures were undertaken by the Processing Factory while Echo Electronics was responsible for the supply of the necessary production materials, packaging materials, machineries and equipments. Echo Electronics was responsible for paying corresponding processing fees and other production related expenses incurred by the Processing Factory for its manufacturing operations. Accordingly, the assets and the liabilities in relation to the processing arrangement have always stayed with the Group and therefore the Transformation did not involve any transfer of assets or liabilities from the Processing Factory to the Group.

The following table sets forth the analysis on the cost structure together with the financial performance of the Group before and after the Transformation during the Track Record Period.

Cost structure

	Prior to the Transformation			
	For the period from 1 April 2010 to 30 September 2010 *HK$'000*	*Approximately %*	**For the period from 1 April 2011 to 30 September 2011** *HK$'000*	*Approximately %*
Raw materials	20,750	70.67%	14,645	61.69%
Direct labour	5,734	19.53%	6,242	26.30%
Overhead	2,879	9.80%	2,852	12.01%
	29,363	100.00%	23,739	100.00%
Payments through processing fees	8,613	29.33%	6,936	29.22%
Payments directly borne by the Group	20,750	70.67%	16,803	70.78%
	29,363	100.00%	23,739	100.00%

	Prior to the Transformation		**Subsequent to the Transformation**	
	For the period from 1 October 2010 to 31 March 2011 *HK$'000*	*Approximately %*	**For the period from 1 October 2011 to 31 March 2012** *HK$'000*	*Approximately %*
Raw materials	21,302	68.65%	12,042	71.50%
Direct labour	6,261	20.18%	2,550	15.14%
Overhead	3,465	11.17%	2,251	13.36%
	31,028	100.00%	16,843	100.00%
Payments through processing fees	9,726	31.35%	1,648	9.78%
Payments directly borne by the Group	21,302	68.65%	15,195	90.22%
	31,028	100.00%	16,843	100.00%

Analysis of impact of the Transformation on the net profit

Among the financial impacts of the Transformation illustrated in the sub-section headed "Financial impact of the Transformation" of this section, the increase in the effective tax rate has a negative effect on the net profit. The following table lists out some key financial data of the Track Record Period for further analysis.

	Actual results for the year ended 31 March 2011 *HK$'000*	Actual results for the year ended 31 March 2012 *HK$'000*	For reference only (excluding the reversal of provision of Social Insurances) For the year ended 31 March 2012 *HK$'000*	Actual results for the year ended 31 March 2013 *HK$'000*
Profit before taxation	12,365	14,527	8,094	12,687
Pretax profit margin	14.99%	23.82%	13.27%	17.69%
Taxation	1,140	2,243	1,712	3,337
Effective tax rate	9.22%	15.44%	21.15%	26.30%
Taxation as a percentage of sales	1.38%	3.68%	2.81%	4.65%
Profit for the year	11,225	12,284	6,382	9,350
Net profit margin	13.61%	20.14%	10.46%	13.04%

Compared year ended 31 March 2013 with year ended 31 March 2012

As a result of the Transformation in September 2011, the effective tax rate of the Group increased by approximately 70.3% from approximately 15.44% for the year ended 31 March 2012 to approximately 26.30% for the year ended 31 March 2013, which incurred additional tax expenses of approximately HK$1.09 million. Despite these additional tax expenses, without taking the reversal of provision of Social Insurances into account, the net profit rose from approximately HK$6.38 million for the year ended 31 March 2012 to approximately HK$9.35 million for the year ended 31 March 2013, by HK$2.97 million, mainly resulted from the increase of the profits generated from its business operations amounting to approximately HK$5.30 million due to the increase in customers' orders and partially offset by increase in administrative and other expenses.

Compared year ended 31 March 2012 with year ended 31 March 2011

Excluding the non-recurring gain derived from the reversal of provision of Social Insurances amounting to approximately HK$6.43 million, the pretax profit margins for the two years were comparable, only recording a slight decrease from 14.99% for the year ended 31 March 2011 to 13.27% for the year ended 31 March 2012. Therefore, the decrease in profit before taxation amounting to approximately HK$4.27 million was mainly attributable to the drop in sales as a result of the deterioration of the Group's business performance. Unlike the comparable pretax profit margins, without taking the non-recurring gain into account, the increase in the effective tax rate brought about by the Transformation decreased the net profit margin from 13.61% for the year ended 31 March 2011 to 10.46% for the year ended 31 March 2012 by 3.15%.

In summary, the increase in the net profit from HK$11.23 million for the year ended 31 March 2011 to HK$12.28 million for the year ended 31 March 2012, by HK$1.05 million, mainly resulted from (i) the other revenue derived from the reversal of provision of Social Insurances amounting to approximately HK$6.43 million; (ii) the decrease of the profits generated from the sales amounting to approximately HK$4.28 million due to the deterioration of the Group's business performance; and (iii) the increase in the tax expenses amounting to approximately HK$1.10 million mainly due to the Transformation.

The impact of the Transformation on the net profit going forward will depend on the extent of the increase in the effective tax rate and the limit of the extent of such increase. However, from the year ended 31 March 2013 onwards, the impact on the net profit and the net profit margin will be larger as the financial results will reflect the full effect of the Transformation. The Group will be subject to the Hong Kong profits tax at 16.5%, without tax exemption on 50% assessable profits, and the PRC enterprise income tax at 25% for the whole year.

LIQUIDITY AND CAPITAL RESOURCES

The Group has historically funded its operations primarily from cash flows from operating activities and borrowings from banks. In order to strengthen the Group's working capital for its operation, the Group has obtained an unutilised banking facility amounting to HK$5 million and there are no restrictions to the drawdown of the banking facility as well as no financial covenants attached. This banking facility has an interest rate of 1.5% per annum below Hong Kong dollar besting lending rate with no fixed term but subject to periodic review and will mainly be used for the Group's working capital. This banking facility amounting to HK$5 million was guaranteed by the Director, Madam Cheng and secured by a property owned by Progress International Holdings Limited. Progress International Holdings Limited is beneficially owned by Madam Cheng and Mr. Lo Yan Yee as to 70% and 30% respectively. Madam Cheng's personal guarantee and charge over asset for the said banking facility will be released prior to the Listing which are subject to certain conditions, including the Listing becoming successful and the Company having provided corporate guarantee. The Group is still able to maintain this banking facility at the same terms following the release of the guarantee and security as the Company will provide a corporate guarantee as a replacement prior to the Listing.

The following table is a summary of the Group's cash flow data for the years indicated:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Net cash generated from operating activities	5,538	4,687	7,406
Net cash used in investing activities	(649)	(747)	(127)
Net cash used in financing activities	(5,411)	(7,227)	(8,030)
Net decrease in cash and cash equivalents	(522)	(3,287)	(751)
Effect of foreign currency exchange rate changes	—	144	169
Cash and cash equivalents at the beginning of the year	5,462	4,940	1,797
Cash and cash equivalents at the end of the year	4,940	1,797	1,215

Net cash generated from operating activities

The Group derives its cash inflows from operating activities principally from the receipt of payments for the sale of its products. The Group's cash used in operating activities is mainly used to pay for costs and expenses relating to operating activities.

The net cash generated from operating activities was approximately HK$7.41 million for the year ended 31 March 2013, while the operating cash flows before movements in working capital was approximately HK$13.34 million. The cash outflow of working capital changes of approximately HK$3.12 million mainly reflected a decrease in inventories of approximately HK$3.07 million, an increase in trade receivables of approximately HK$5.59 million, a decrease in deposits and prepayments of approximately HK$0.11 million, a decrease in trade payables of approximately HK$2.50 million, an increase in accrued liabilities and other payables of approximately HK$0.83 million and an increase in trade deposits received of approximately HK$0.96 million.

The decrease in inventories as at 31 March 2013 was primarily attributable to the use of previously purchased raw materials from the Group. Trade receivables increase mainly due to the increase in revenue generated from sales to customers before the period end. The decrease in trade payables mainly resulted from the payments to major suppliers on time in order to maintain better relationship.

The net cash generated from operating activities was approximately HK$4.69 million for the year ended 31 March 2012, while the operating cash flows before movements in working capital was approximately HK$8.72 million. The cash outflow of working capital changes of approximately HK$3.00 million mainly reflected an increase in inventories of approximately HK$6.46 million, a decrease in trade receivables of approximately HK$0.66

million, a decrease in deposits and prepayments of approximately HK$1.09 million, an increase in amounts due from related companies of approximately HK$0.03 million, an increase in trade payables of approximately HK$1.53 million, an increase in accrued liabilities and other payables (excluding the reversal of provision of Social Insurances) of approximately HK$0.55 million and a decrease in trade deposits received of approximately HK$0.34 million.

The increase in inventories as at 31 March 2012 was primarily attributable to the larger amount of purchases of raw materials from the Group, resulting from the increase in the sales of the Group during the first quarter ended 30 June 2012. Despite the fact that certain customers slightly slow down in settlement of trade debts, trade receivables decreased mainly due to the drop in sales revenue around the year end compared to the same corresponding period last year. The increase in trade payables mainly resulted from the larger amount of purchases around the year end as aforementioned. The increase in accrued liabilities and other payables was primarily attributable to the increase in the provision for PRC staff salaries.

The net cash generated from operating activities was approximately HK$5.54 million for the year ended 31 March 2011, while the operating cash flows before movements in working capital was approximately HK$13.57 million. The cash outflow of working capital changes of approximately HK$6.90 million mainly reflected an increase in inventories of approximately HK$2.20 million, an increase in trade receivables of approximately HK$0.61 million, an increase in deposits and prepayments of approximately HK$7.35 million, a decrease in amount due from a related company of HK$1.00 million, a decrease in amount due to a related party of approximately HK$0.32 million, an increase in trade payables of approximately HK$0.10 million and an increase in accrued charges of approximately HK$2.17 million and an increase in trade deposits received of approximately HK$0.32 million.

The increase in inventories was primarily attributable to our effort to maintain sufficient inventory level in anticipation of the increased sales in 2012. The increase in trade receivables was mainly because of increased sales reported during the year. The increase in deposits and prepayments was mainly due to prepaid listing expenses incurred during the year. The decrease in amount due to a related party was primarily due to the repayment of outstanding balance during 2011. The increase in amount due to a related company was mainly due to receipt of outstanding balance during the year. Increase in trade payables mainly resulted from more purchases made in the year ended 31 March 2011. The increase in accrued charges mainly resulted from provision of social security and insurance expense in relation to factory staffs during the year ended 31 March 2011.

Net cash used in investing activities

The Group's cash from investing activities primarily consists of bank interest income and proceeds from disposal of property, plant and equipments. The Group's cash used in investing activities primarily consists of capital expenditures for the purchase of property, plant and equipments.

For the year ended 31 March 2013, the Group had net cash used in investing activities of approximately HK$0.13 million, primarily as of result of purchase of property, plant and equipment including computer equipments and motor vehicles.

For the year ended 31 March 2012, the Group had net cash used in investing activities of approximately HK$0.75 million, primarily as a result of the purchases of property, plant and equipments, including computer equipments, office equipments, motor vehicles and plant and machinery, partially offset by the bank interest income and the proceeds from disposal of property, plant and equipments.

For the year ended 31 March 2011, the Group had net cash used in investing activities of approximately HK$0.65 million, primarily as a result of the purchases of machines in the Processing Factory and partially offset by the bank interest income.

Net cash used in financing activities

For the year ended 31 March 2013, the Group had net cash used in financing activities of approximately HK$8.03 million, primarily as a result of the repayment of amount due to a director and repayments of bank borrowings.

For the year ended 31 March 2012, the Group had net cash used in financing activities of approximately HK$7.23 million, primarily as a result of the repayments of bank borrowings and obligation under finance lease and repayment of amount due to a director.

For the year ended 31 March 2011, the Group had net cash used in financing activities of approximately HK$5.41 million, primarily as a result of the repayments of bank borrowings and obligation under finance lease and repayment of amount due to a director.

CAPITAL EXPENDITURE

The following table sets out the historical capital expenditure of the Group during the Track Record Period:

	Year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Historical capital expenditures			
Property, plant and equipments	652	836	759
Total capital expenditures	652	836	759

The Group has historically funded its capital expenditures through cash generated from operations. The Group's capital expenditures primarily comprised expenditures for property, plant and equipments. The capital expenditures were approximately HK$0.65 million, HK$0.84 million and HK$0.76 million for the years ended 31 March 2011, 2012 and 2013. The Group may adjust its capital expenditures for any given periods according to its capital management policy, business plans and other factors the Directors believe to be appropriate.

NET CURRENT ASSETS

The following table sets out details of the Group's current assets and current liabilities as at the dates indicated:

	As at 31 March			As at 31 July
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current assets				
Inventories	11,864	18,320	15,252	19,774
Trade receivables	9,732	9,074	14,664	7,724
Amounts due from related companies	80	113	113	36
Deposits and prepayments	8,650	7,560	7,449	8,021
Cash and bank balances	4,940	1,797	1,215	2,118
	35,266	36,864	38,693	37,673
Current liabilities				
Trade payables	4,576	6,105	3,604	5,413
Accrued charges	7,082	1,201	2,033	1,416
Trade deposits received	512	171	1,133	632
Amount due to a director	6,146	6,500	6,065	3,787
Bank borrowings	947	588	2,144	1,356
Obligation under finance leases	198	—	126	126
Current tax liabilities	147	1,363	1,891	2,315
	19,608	15,928	16,996	15,045
Net current assets	15,658	20,936	21,697	22,628

As at 31 July 2013, the Group had net current assets of approximately HK$22.63 million. The components of the Group's current assets as at such date included inventories of approximately HK$19.77 million, amounts due from related companies of approximately HK$0.04 million, trade receivables of approximately HK$7.72 million, deposits and prepayments of approximately HK$8.02 million and cash and bank balances of approximately HK$2.12 million. The components of the Group's current liabilities included trade payables of approximately HK$5.41 million, accrued charges of approximately HK$1.42 million, trade deposit received of approximately HK$0.63 million, amount due to a director of approximately HK$3.79 million, bank borrowings of approximately HK$1.36 million, obligation under finance leases of approximately HK$0.13 million and current tax liabilities of approximately HK$2.32 million.

As at 31 March 2013, the Group had net current assets of approximately HK$21.70 million. The components of the Group's current assets as at such date included inventories of approximately HK$15.25 million, amounts due from related companies of approximately HK$0.11 million, trade receivables of approximately HK$14.66 million, deposits and prepayments of approximately HK$7.45 million and cash and bank balances of approximately HK$1.22 million. The components of the Group's current liabilities included trade payables of approximately HK$3.60 million, accrued charges of approximately HK$2.03 million, trade deposit received of approximately HK$1.13 million, amount due to a director of approximately HK$6.07 million, bank borrowings of approximately HK$2.14 million, obligation under finance leases of approximately HK$0.13 million and current tax liabilities of approximately HK$1.89 million.

As at 31 March 2012, the Group had net current assets of approximately HK$20.94 million. The components of the Group's current assets as at such date included inventories of approximately HK$18.32 million, amounts due from related companies of approximately HK$0.11 million, trade receivables of approximately HK$9.07 million, deposits and prepayments of approximately HK$7.56 million and cash and bank balances of approximately HK$1.80 million. The components of the Group's current liabilities included trade payables of approximately HK$6.11 million, accrued charges of approximately HK$1.20 million, trade deposit received of approximately HK$0.17 million, amount due to a director of approximately HK$6.50 million, bank borrowings of approximately HK$0.59 million and current tax liabilities of approximately HK$1.36 million.

As at 31 March 2011, the Group had net current assets of approximately HK$15.66 million. The components of the Group's current assets as at such date included inventories of HK$11.86 million, trade receivables of approximately HK$9.73 million, deposits and prepayments of HK$8.65 million, amounts due from related companies of approximately HK$0.08 million, and cash and bank balances of approximately HK$4.94 million. The components of the Group's current liabilities included trade payables of approximately HK$4.58 million, accrued charges of approximately HK$7.08 million, trade deposits received of approximately HK$0.51 million, amount due to a director of approximately HK$6.15 million, bank borrowings of approximately HK$0.95 million, obligation under finance leases of approximately HK$0.20 million and current tax liabilities of approximately HK$0.15 million.

INVENTORY ANALYSIS

The balances of inventories as at the respective years represented the raw materials, work-in-progress and finished goods of the Group. The Group monitors its inventories on a regular basis. The following table sets out a summary of the Group's inventory balances as at the dates indicated, as well as the turnover of average inventory for the periods indicated.

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	6,980	12,206	11,572
Work-in-progress	4,196	5,036	3,642
Finished goods	688	1,078	38
Total	11,864	18,320	15,252

	For the year ended 31 March		
	2011	**2012**	**2013**
Average inventory turnover days *(Note)*	65.05	135.74	137.03

Note:

Average inventory turnover days equals to the average inventory divided by cost of sales and multiplied by 365 days. Average inventory equals inventory at the beginning of the year plus inventory at the end of the year and divided by two.

The inventories of the Group decreased from approximately HK$18.32 million as at 31 March 2012 to approximately HK$15.25 million as at 31 March 2013, mainly attributable to the consumption of the raw materials purchased during Track Record Period. The inventory turnover days as at 31 March 2013 remained stable compared to that as of 31 March 2012.

The inventories of the Group increased significantly from approximately HK$11.86 million as at 31 March 2011 to approximately HK$18.32 million as at 31 March 2012. The value of its inventories accounted for approximately 33.64% and 49.70% of its total current assets as at 31 March 2011 and 2012 respectively. The inventory turnover days increased significantly from 65.05 days for the year ended 31 March 2011 to 135.74 days for the year ended 31 March 2012. The increase in inventory turnover days for the year ended 31 March 2012 was due mainly to the increase in the balance amount of raw materials acquired and in store (the "**RM Amount**").

The increase in the RM Amount as at 31 March 2012 was primarily due to the combined effect of (i) the recovery and increase in sales for the year ended 31 March 2012, which led the Group to acquire more raw materials in order to produce the relevant products for such increase in sales in the relevant period of time; and (ii) the change in the purchase pattern of some of the Group's customers whereby such customers made bulk purchase of the Group's products and requested for the delivery of such products in separate quantities at different shipment dates throughout the year, that practically means: the production for the products to be delivered to such customers (the "**Bulk Production**") was spaced out at different intervals throughout the year, and the inventory of raw materials would be reduced gradually with the use of a certain amount of raw materials for the Bulk Production at each relevant interval of time during the year, as a result of which the Group's inventory turnover days for the year ended 31 March 2012 appear to have been high, as the quantity of raw materials in store increased and seemed to have accumulated throughout the year despite the increase in work-in-progress in the same period, as only a certain amount of the raw materials in store was used for Bulk Production at each relevant interval of time throughout the year. Moreover, as has been mentioned before, the Group as an established EMS provider has been providing integrated manufacturing services and continues to provide such quality services to its customers. Hence, the production of the Group's products usually takes a longer period of time in order to ensure delivery to customers of quality products that meet the specifications of customers and comply with the relevant and applicable laws and regulations. The longer production time contributes to the gradual and periodic but apparently slower pace in the use of raw materials which in turn seems to have resulted in and shown a longer period of inventory turnover days.

In the year ended 31 March 2012, the Group began to solicit bulk purchase orders instead of small purchase orders by giving discounts of approximately 5% to its customers for bulk purchase orders. In this respect, an increasing number of customers would request for the shipment of finished goods in separate quantities at fixed shipment dates at different periods throughout the year. In order to fix the production costs and minimise the risk with respect to the rise in the price of raw materials since the Group has fixed the selling price with such customers, the Group usually purchases all the requisite raw materials in anticipation of and/or for such bulk purchase orders in the first instance. As a result, the inventory balance for raw materials has been increased in the year ended 31 March 2012. For the years ended 31 March 2012 and 2013, the confirmed bulk purchase orders amounted to approximately HK$22.40 million and HK$46.26 million respectively, representing approximately 36.73% and 64.51% of the total sales revenue for the respective periods. The Group did not receive any deposit in relation to bulk purchase orders for the year ended 31 March 2012, while for the year ended 31 March 2013, the deposits received by the Group amounted to approximately HK$1.29 million. Such customer deposits were initially recognised as current liabilities on the consolidated statements of financial position of the Group when they were received from the customers who placed bulk purchase orders without fixing shipment dates. Once the goods related to these orders were delivered to the customers' premises, revenue was recognised and the liabilities previously so recognised would be eliminated. This purchase and sales pattern will continue in the future. Despite the longer inventory turnover days, the Directors are of the view that the change in the purchase pattern of some of the Group's customers would not have an adverse impact on the Group due to the following reasons: (i) the bulk purchase orders could secure the sales of the Group's products throughout the year; (ii) the Group will charge a deposit of 60% to the total sales of confirmed bulk purchase orders if no shipment date is fixed; and (iii) the Group's customers, who made confirmed bulk purchase orders, have been involved and engaging in business relationship with the Group for a steady period of time ranging from 1 to 15 years.

Set out below is a table illustrating the aging analysis of the inventories as of the dates indicated.

As at 31 March 2011

	Raw materials *HK$'000*	Working in progress *HK$'000*	Finished goods *HK$'000*	Total *HK$'000*
Within 30 days	1,480	4,196	688	6,364
31–60 days	454	—	—	454
61–90 days	606	—	—	606
91–180 days	1,208	—	—	1,208
Over 180 days	3,232	—	—	3,232
Total	6,980	4,196	688	11,864

As at 31 March 2012

	Raw materials *HK$'000*	Working in progress *HK$'000*	Finished goods *HK$'000*	Total *HK$'000*
Within 30 days	5,908	5,036	1,078	12,022
31–60 days	576	—	—	576
61–90 days	55	—	—	55
91–180 days	511	—	—	511
Over 180 days	5,156	—	—	5,156
Total	12,206	5,036	1,078	18,320

As at 31 March 2013

	Raw materials *HK$'000*	Working in progress *HK$'000*	Finished goods *HK$'000*	Total *HK$'000*
Within 30 days	5,080	3,642	38	8,760
31–60 days	330	—	—	330
61–90 days	314	—	—	314
91–180 days	821	—	—	821
Over 180 days	5,027	—	—	5,027
Total	11,572	3,642	38	15,252

Consumption subsequent to 31 March 2012 and up to 31 July 2013

	Raw materials	Working in progress	Finished goods	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	5,662	5,036	1,078	11,776
31–60 days	576	—	—	576
61–90 days	55	—	—	55
91–180 days	511	—	—	511
Over 180 days	5,156	—	—	5,156
Total	11,960	5,036	1,078	18,074

Consumption subsequent to 31 March 2013 and up to 31 July 2013

	Raw materials	Working in progress	Finished goods	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	1,894	3,642	38	5,574
31–60 days	175	—	—	175
61–90 days	141	—	—	141
91–180 days	901	—	—	901
Over 180 days	2,862	—	—	2,862
Total	5,973	3,642	38	9,653

The Group conducts physical inventory counts monthly during each financial year and a specific provision would be recognised if the estimated net realisable value of any inventory is below the corresponding cost of such inventory, as a result of, amongst other things, being obsolete or damaged. During the Track Record Period, the Group was not required to and did not make any inventory provisions because there is no indication of obsolete or damaged inventory with a net realisable value lower than the cost stated.

As at 31 July 2013, approximately HK$9.65 million or 63.29% of the inventory outstanding as at 31 March 2013 were utilised, and the remaining balance represented the raw materials only.

As at 31 July 2013, approximately HK$18.07 million or 98.66%, of the inventory outstanding as at 31 March 2012 were utilised, and the remaining balance represented the raw materials only. The raw materials do not wear out and become obsolete easily under normal storage conditions and the raw materials can be applied to manufacturing various types of models. Therefore, the Directors are of the view that such durable raw materials, notwithstanding aged over 180 days, are not obsolete and will be applied to future production activities. Up to the Latest Practicable Date, there has not been any significant drop in the market price of the Group's raw materials. Accordingly, having taken the consumption of inventories subsequent to 31 March 2012 and 2013 into account, the Directors believe that no write-down of inventories is considered necessary in respect of the balance as at 31 March 2012 and 2013.

TRADE RECEIVABLES ANALYSIS

The trade receivables as at the respective year-end represented the outstanding amounts receivable by us from our customers who have been granted with credit periods. The following table sets out the total trade receivables and trade receivable turnover days for the periods indicated.

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	8,122	5,756	10,041
31 to 60 days	1,099	749	397
61 to 90 days	482	957	2,946
91 to 180 days	14	1,537	1,096
Over 180 days	15	75	184
Total	9,732	9,074	14,664

	For the year ended 31 March		
	2011	**2012**	**2013**
Average trade receivable turnover days *(Note)*	41.70	56.27	60.42

Note:

Average trade receivable turnover days equals to the average trade receivables divided by revenue and multiplied by 365 days. Average trade receivables equals to the trade receivables at the beginning of the year plus trade receivables at the end of the year and divided by two.

Credit periods granted by the Group's customers are in general in the range of 0 to 90 days. The average trade receivable turnover days during the Track Record Period were within the credit periods granted by the Group to its customers.

The Group's trade receivables turnover days increased from approximately 42 days for the year ended 31 March 2011 to approximately 56 days for the year ended 31 March 2012, primarily because (i) pursuant to the discussion with some customers and in view of the credit-worthiness of the customers and the long-term business relationships, the management agreed to extend the credit terms for extra 1–3 months to 17 customers at their request, and (ii) certain customers slightly slowed down in settlement of trade debts. Of those 17 customers, there were 3 top five largest customers of the Group being granted extension of credit terms for 2 months. The Group did not grant any extension of credit terms to its customers for the year ended 31 March 2011. As at 31 March 2012, approximately HK$3.19 million representing approximately 35.11% of the Group's trade receivables accumulated from such as being granted extensions of credit terms. Such balances had been subsequently and fully settled as at the Latest Practicable Date.

The Group's trade receivables turnover days increased from approximately 56 days for the year ended 31 March 2012 to approximately 60 days for the year ended 31 March 2013. The increase was mainly due to two of the new customers of the Group, acquired during the year ended 31 March 2013, requested for a 90 days credit period rather than the 60 days credit period which the Group normally grants to its customers. As at 31 March 2013, the trade receivables for this new customer amounted to approximately HK$9.78 million. For the year ended 31 March 2013, the Group has continued to extend credit terms to some of its customers. As at 31 March 2013, approximately HK$4.07 million representing approximately 27.76% of the Group's trade receivables accumulated from such as being granted extensions of credit terms. As at the Latest Practicable Date, approximately HK$3.89 million or 95.45% of extended credit balances as at 31 March 2013 had been subsequently settled.

The Group started to grant extension of credit terms to some of its customers in the year ended 31 March 2012 and has continued after the Track Record Period on a case-by-case basis. For the normal credit period of 30 days to 60 days, customers would have credit period ranging from a period of 60 days to 150 days if they have granted the extension of credit terms. As the grant of extension of credit terms by the Group to such customers is on a case-by-case basis, the Group has resumed its normal credit terms for those customers being granted extension of credit terms in their next purchases with the Group, which occurred subsequently. Based on the subsequent settlements, repayment history and no significant change in the credit quality of these customers, the Directors consider that the trade receivables with the extension of credit terms in the amount of approximately HK$4.60 million as at the Latest Practicable Date are fully recoverable and therefore no impairment allowance is necessary in respect of these trade receivables. Given the average trade receivable turnover days of 41.70 days, 56.27 days and 60.42 days during the Track Record Period were within the normal credit periods of 0 to 90 days granted by the Group to its customers and the Group had not experienced any material difficulties in collecting payments from its customers during the Track Record Period, the Directors are of the view that the extension of credit terms to some of its customers has no material impact on the Group's working capital management.

As at the Latest Practicable Date, approximately 98.74% of the trade receivables outstanding as at 31 March 2013 were collected.

The Group had not experienced any material difficulties in collecting payments from its customers during the Track Record Period. Accordingly, no allowance for doubtful debts was recorded.

TRADE PAYABLES ANALYSIS

The following table sets forth the total amounts of trade payables as of the dates indicated.

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	2,633	3,333	2,506
31 to 60 days	1,679	1,939	295
61 to 90 days	227	299	690
91 to 180 days	11	484	37
Over 180 days	26	50	76
Total	4,576	6,105	3,604

	Year ended 31 March		
	2011	**2012**	**2013**
Average trade payable turnover days(1)	27.36	48.03	39.63

Note:

(1) Average trade payable turnover days equals to the average trade payables divided by cost of sales and multiplied by 365 days. Average trade payable equals trade payables at the beginning of the year plus trade payables at the end of the year and divided by two.

Credit periods granted by the Group's suppliers are in general in the range of 30 to 90 days. The average trade payable turnover days during the Track Record Period were either earlier or within the credit periods granted by the Group's suppliers.

As at 31 July 2013, approximately 95.70% of the trade payables as at 31 March 2013 have been paid.

The Group's trade payables turnover days decreased from approximately 48.03 days for the year ended 31 March 2012 to approximately 39.63 days for the year ended 31 March 2013. No significant changes in the trade payables turnover days were noted.

The Group's trade payables turnover days increased during the Track Record Period, from approximately 27.36 days during the year ended 31 March 2011 to approximately 48.03 days during the year ended 31 March 2012 due to the delay in the payments to certain major suppliers, which was the Group's effort to maintain a better capital management by making slower payments in the face of global economic downturn.

ACCRUALS ANALYSIS

The following table sets out the breakdown of the accrued charges as at the dates indicated:

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Provision for the Social Insurances	6,433	—	—
Provision for auditors' remuneration	250	400	650
Provision for delivery charges	—	18	26
Provision for costs of accounting software	152	38	38
Provision for PRC staff salaries	112	556	662
Other provisions	135	189	657
	7,082	1,201	2,033

The Group's accrued charges increased from approximately HK$1.20 million as at 31 March 2012 to approximately HK$2.03 million as at 31 March 2013, primarily driven by the increase in provision for auditor's remuneration and other provisions.

As at 31 March 2011 and 2012, the Group's accrued charges amounted to approximately HK$7.08 million and HK$1.20 million respectively. The decrease in accrued charges during the Track Record Period was primarily driven by the reversal of provision of the Social Insurances made in prior years, amounting to approximately HK$6.43 million, since the PRC Legal Adviser are of the opinion that the possibility of the Group being penalised for the unpaid Social Insurances basically does not exist. The amount was partially offset by the increase in the provision for PRC staff salaries, primarily resulting from (i) the increase in the PRC labour costs; and (ii) the settlement of monthly salaries of junior staff before 31 March 2011 due to timing difference, leading to the fact that the balance as at 31 March 2011 only represented the provision for monthly salaries of senior staff while that as at 31 March 2012 included the provision for monthly salaries of both senior staff and junior staff. There is no any labour dispute between the Group and its employees, including the junior staff, during the Track Record Period and up to the Latest Practicable Date.

DIRECTORS' ACCOUNT

Set out below is the Directors' account as of the Track Record Period:

	As at 31 March			As at 31 July
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to a director	(6,146)	(6,500)	(6,065)	(3,787)

As at 31 March 2011, the balance of amount due to a director was approximately HK$6.15 million. The movements of the Directors' account during the year from 1 April 2011 to ended 31 March 2012 are as follows:

	HK$'000
Balance as at 1 April 2011	(6,146)
Share capital paid for the Company	1
Repayment to the director	6,497
Reallocation of expenses	148
Dividend declared for the year ended 31 March 2012	(7,000)
Balance as at 31 March 2012	(6,500)

During the year from 1 April 2011 to 31 March 2012, the movements of the amount due to the director included the dividends of HK$7 million declared to Madam Cheng for the year ended 31 March 2012, payment of share capital paid for the Company of HK$1,000, reallocation of expenses of approximately HK$0.15 million and the repayment to the director of approximately HK$6.50 million.

As at 31 March 2012, the balance of amount due to a director was approximately HK$6.50 million. The movements of the Directors' account during the year from 1 April 2012 to 31 March 2013 are as follows:

	HK$'000
Balance as at 1 April 2012	(6,500)
Reallocation from deposits and prepayment from the director	567
Repayment to the director	8,857
Reallocation of expenses	11
Dividend declared for the year ended 31 March 2013	(9,000)
Balance as at 31 March 2013	(6,065)

During the year from 1 April 2012 to 31 March 2013, the movements of the amount due to a director included the dividends of HK$9 million declared to Madam Cheng for the year ended 31 March 2012, the repayment to Madam Cheng of HK$8.86 million, reallocation for expenses of approximately HK$0.01 million and reallocation for deposits and prepayment of approximately HK$0.57 million which primarily included the traveling expenses, meal allowance and mobile expenses.

As at 31 July 2013, the balance of amount due to a director was approximately HK$3.79 million which already included the dividend payment of HK$9 million payable to Madam Cheng declared on 31 March 2013. Pursuant to the Deed of Mutual Set-Off, Madam Cheng has conditionally agreed to bear total listing expenses amounting to approximately HK$5.77 million and the balance will be offset against the amount due to Madam Cheng. Accordingly, the Directors' account will be settled prior to the Listing. The movement of amount due to a director for the period from 1 April 2013 to 31 July 2013 is illustrated as follows:

	HK$'000
Balance as at 1 April 2013	(6,065)
Repayment to the director	2,278
Balance as at 31 July 2013	(3,787)

Set out below are the details of accounting entries that will be recognized prior to the Listing.

			HK$'000	*HK$'000*
Dr.		Amount due to a director	3,787	
Dr.		Cash and bank balance	1,983	
	Cr.	Equity		5,770

Being the set-off against the debt of the Company owing to Madam Cheng and Madam Cheng will pay the difference between the amount due a director and HK$5.77 million in cash.

PROPERTY, PLANT AND EQUIPMENTS

Net book values	Leasehold improvements *HK$'000*	Furniture & fixtures *HK$'000*	Office equipment *HK$'000*	Computer equipment *HK$'000*	Motor vehicles *HK$'000*	Mould *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
As at 31 March 2013	—	—	114	123	713	—	175	1,125
As at 31 March 2012	—	—	154	309	286	—	222	971
As at 31 March 2011	11	2	34	346	—	—	427	820

The net book values of Group's property, plant and equipments increased by approximately 18.41% from approximately HK$0.82 million as at 31 March 2011 to approximately HK$0.97 million as at 31 March 2012 and further increased to approximately HK$1.13 million as at 31 March 2013. The increase was primarily attributable to the additions but partially offset by the depreciation and disposals of property, plant and equipments incurred during the years ended 31 March 2012 and 2013.

The amount of the net book values of property, plant and equipments recorded in the Group's financial information for the Track Record Period appear to be low. Certain property, plant and equipments were acquired from Echo Co on 31 July 2005 based on its net book value of approximately HK$0.52 million at the acquisition date. The original cost of the property, plant and equipments was approximately HK$11.25 million and had been depreciated for approximately 5 years before it was acquired by Echo Electronics. The Directors are of the view that such property, plant and equipments are currently still in use and generating benefits to the Group at present and expected to continue to generate benefits to the Group in the future.

OTHER MAJOR FINANCIAL RATIOS ANALYSIS

Current ratio:

	As at 31 March		
	2011	**2012**	**2013**
Current assets/current liabilities	1.80	2.31	2.28

The current ratio of the Group increased from 1.80 as at 31 March 2011 to 2.31 as at 31 March 2012. This was mainly due to the increase in inventories and the drop in accrued charges led by the reversal of previously accrued provision for the Social Insurances. The current ratio decreased slightly from 2.31 times as at 31 March 2012 to 2.28 times as at 31 March 2013 despite of the increase in trade receivables, which was offset by the increase in bank borrowings and trade deposits received.

Quick ratio:

	As at 31 March		
	2011	**2012**	**2013**
(Current assets – inventories) /current liabilities	1.19	1.16	1.38

The quick ratio of the Group decreased from 1.19 as at 31 March 2011 to 1.16 as at 31 March 2012. This was mainly due to the decrease in cash and bank balances, partially offset by the drop in accrued charges led by the reversal of previously accrued provision for the Social Insurances.

The quick ratio of the Group increased from 1.16 as at 31 March 2012 to 1.38 as at 31 March 2013. This was mainly due to reversal of previously accrued provision for the Social Insurances and repayment to suppliers.

Return on equity:

	For the year ended 31 March		
	2011	**2012**	**2013**
Net Profit/Shareholders equity x 100%	68.12%	56.07%	41.68%

The return on equity of the Group decreased from approximately 68.12% for the year ended 31 March 2011 to approximately 56.07% for the year ended 31 March 2012 and decreased to approximately 41.68% for the year ended 31 March 2013. This was mainly due to an increase in the equity attributable to shareholder from 31 March 2011 to 31 March 2012 and 31 March 2012 to 31 March 2013.

Return on total assets:

	For the year ended 31 March		
	2011	**2012**	**2013**
Net Profit/Total assets x 100%	31.11%	32.47%	23.48%

The return on total assets of the Group increased from 31.11% for the year ended 31 March 2011 to 32.47% for the year ended 31 March 2012. This was mainly due to the increase in the net profit as a result of reversal of provision of the Social Insurances for the year ended 31 March 2012.

The return on total assets of the Group decreased from 32.47% for the year ended 31 March 2012 to 23.48% for the year ended 31 March 2013. This was mainly due to the decrease in other income as the income derived from reversal of provision of Social Insurances for the year ended 31 March 2012 was one-off and non-recurring in nature.

Capital adequacy ratio

1. Gearing ratio

	As at 31 March		
	2011	**2012**	**2013**
Total debt/Total equity x 100%	44.25%	32.35%	38.88%

The gearing ratio of the Group decreased from 44.25% as at 31 March 2011 to 32.35% as at 31 March 2012. The drop in gearing ratio was mainly due to repayments of bank borrowings and obligation under finance lease and an increase in the equity attributable to shareholders from 31 March 2011 to 31 March 2012.

The gearing ratio of the Group increased from 32.35% as at 31 March 2012 to 38.88% as at 31 March 2013. The increase in gearing ratio was mainly due to repayments of amount due to a increase in bank borrowings for the year ended 31 March 2013.

2. Debt to net worth

	As at 31 March		
	2011	**2012**	**2013**
a. Debt to equity ratio			
Net debt/(Total assets – Total liabilities) x 100%	14.27%	24.15%	33.47%

The debt to equity ratio of the Group increased from 14.27% as at 31 March 2011 to 24.15% as at 31 March 2012 and further increased to 33.47% as at 31 March 2013, which was primarily attributable to a drop in the cash and bank balances from 31 March 2011 to 31 March 2012 and increase in bank borrowings for the year ended 31 March 2013.

	For the year ended 31 March		
	2011	**2012**	**2013**
b. Interest coverage			
Profit before interest and tax/ interest	248.30	582.08	363.49

The interest coverage of the Group increased from approximately 248.30 for the year ended 31 March 2011 to approximately 582.08 for the year ended 31 March 2012. This was mainly due to repayments of borrowings which leads to decrease in interest expenses for the year ended 31 March 2012.

The interest coverage of the Group decreased from approximately 582.08 for the year ended 31 March 2012 to approximately 363.49 for the year ended 31 March 2013, mainly due to the interest expenses incurred from the new borrowings withdrawn for the year ended 31 March 2013.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, the Group has not entered into any off-balance sheet transactions.

INDEBTEDNESS

The following table sets forth the Group's indebtedness:

	As at 31 March			As at 31 July
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current liabilities				
Amount due to a director	6,146	6,500	6,065	3,787
Bank borrowings — secured	947	588	2,144	1,356
Obligation under finance leases	198	—	126	126
Total	7,291	7,088	8,335	5,269
Non-current liabilities				
Obligation under finance leases	—	—	388	346
Total	—	—	388	346

As at 31 July 2013, the Group had no significant capital commitments and no material contingent liabilities. Since 31 July 2013 and up to the date of the Prospectus, the Group also did not have any significant capital commitments and material contingent liabilities.

During the Track Record Period, the bank borrowings of the Group were mainly applied for the payment of income taxes, while certain of its plant and machinery and motor vehicles were leased by the Group under finance lease. For the two years ended 31 March 2011 and 2012, the total indebtedness decreased by approximately 2.78%, from approximately HK$7.29 million to approximately HK$7.09 million respectively. The decrease was mainly due to repayment of bank borrowings and obligation under finance leases during the year ended 31 March 2012. The total indebtedness increased by approximately 23.07% from approximately HK$7.09 million as at 31 March 2012 to approximately HK$8.72 million as at 31 March 2013 was due mainly to that a new tax loan was applied and drawn.

As of 31 July 2013, being the latest practicable date for the purpose of the indebtedness statement in the prospectus, the Group has indebtedness of approximately HK$5.62 million. The Group has obligation under a finance lease amounting to approximately HK$0.47 million, which was guaranteed by the Director, Madam Cheng and was secured by the relevant motor vehicle. The Group's income tax loan amounting to approximately HK$1.36 million, which was guaranteed by the Director, Madam Cheng. Madam Cheng's personal guarantees for the finance lease and the tax loan will be released prior to the Listing, which are subject to certain conditions, including the Listing becoming successful and the Company having provided corporate guarantee. In addition, an amount due to a director amounting to approximately HK$3.79 million. This amount will be settled to the extent of HK$5.77 million pursuant to the Deed of Mutual Set-off.

As at 31 July 2013, the balance of amount due to a director was approximately HK$3.79 million which already included the dividend payment of HK$9 million payable to Madam Cheng declared on 31 March 2013. Pursuant to the Deed of Mutual Set-Off, Madam Cheng has conditionally agreed to bear total listing expenses amounting to approximately HK$5.77 million and the balance will be offset against the amount due to Madam Cheng. Accordingly, the Directors' account will be settled prior to the Listing.

Set out below are the details of accounting entries will be recognized prior to the Listing.

			HK$'000	*HK$'000*
Dr.		Amount due to a director	3,787	
Dr.		Cash and bank balance	1,983	
	Cr.	Equity		5,770

Being the set-off against the debt of the Company owing to Madam Cheng and Madam Cheng will pay the difference between the amount due a director and HK$5.77 million in cash.

Prior to the Listing, all the Group's outstanding in relation to the amount due to a director will be fully settled by the capitalization of HK$5.77 million and the payment of the difference in cash. The Directors confirm that there was no material change in the Group's indebtedness since 31 July 2013 and up to the Latest Practicable Date.

As at 31 July 2013, the Group did not have any material contingent liabilities, guarantees or any litigation or claims of material importance pending or threatened against any members of the Group. The Directors have confirmed that there has not been any material change in the contingent liabilities of the Group since date of indebtedness.

As at the Latest Practicable Date, the Group has an unutilised banking facility amounting to HK$5 million and there are no restrictions to the drawdown of the banking facility as well as no financial covenants attached. This banking facility has an interest rate of 1.5% per annum below Hong Kong dollar besting lending rate with no fixed term but subject to periodic review and will mainly be used for the Group's working capital. This banking facility amounting to HK$5 million was guaranteed by the Director, Madam Cheng and secured by a property owned by Progress International Holdings Limited. Progress International Holdings Limited is beneficially owned by Madam Cheng and Mr. Lo Yan Yee as to 70% and 30% respectively. Madam Cheng's personal guarantee and charge over asset for the said banking facility will be released upon Listing which are subject to certain conditions, including the Listing becoming successful and the Company having provided corporate guarantee. The Group is still able to maintain this banking facility at the same terms following the release of the guarantee and security as the Company will provide a corporate guarantee as a replacement prior to the Listing.

There are no materials covenants relating to the outstanding debt of the Group that would restrict its ability to raise additional capital through debt or equity financing.

Except as described above and apart from intra-group liabilities and normal trade payables, as at 31 July 2013, the Group did not have any outstanding loan capital issued or agreed to issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

OPERATING LEASE COMMITMENT

The Group leases its office properties under non-cancellable operating lease commitments as at the respective years. Leases for the properties are negotiated for terms of two years.

At the end of reporting period, the Group had total future minimum lease payables operating leases falling due as follows:

	As at 31 March 2011	**As at 31 March 2012**	**As at 31 March 2013**	**As at 31 July 2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Within one year	2,082	2,280	814	2,999
In the second to fifth years inclusive	3,924	570	40	8,162
Total	**6,006**	**2,850**	**854**	**11,161**

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Credit Risk

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group has set the policies in place to ensure that transactions are made to customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of each individual trade debt and debt investments at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

Interest rate risk

The cash flow interest rate risk relates primarily to variable-rate borrowings. It is the Group's policy to keep its borrowings at fixed rates of interests so as minimize the fair value interest rate risk.

The Group has no significant interest-bearing assets except for bank borrowings and obligation under finance leases, details of which have been disclosed in Notes 23 and 24 to the Accountants' Report in Appendix I of this prospectus.

The Group has no significant interest rate risk during the Track Record Period.

CAPITAL MANAGEMENT POLICY

The primary objective of the Group's capital management is to ensure sufficient liquidity to support its financial obligations and execute its operating and business plans, so that it can continue to provide returns for Shareholders 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 obtain borrowings from financial institutions or related parties, issue new shares or sell assets.

The Group's finance department and the senior management review and analyse the Group's trade payables, trade receivables and cash on a monthly basis and its capital expenditure on a quarterly basis. The Group's senior management closely monitors the Group's trade receivables and has established procedures to manage and control the recoverability of the trade receivables. The Group may also obtain bank borrowings if required.

In order to realize the objective of the Company's capital management, the Company has implemented a budget management guideline to ensure the action plans are executed and the resources are rationally distributed in the assigned core business activities and capital expenditure. The Company prepares a budget at the beginning of every financial year, which is based on the past performances and focuses on the Company's strategic targets and action plans to forecast the amounts of income, expenditure, investment and operating results that will be generated by assigned resources in the year.

The budget contains business operating budget, capital expenditure budget and financial budget. Business operating budget refers to income and expenses directly related to the day-to-day business operating activities including the estimates on core business operating income, purchase or production costs and overhead, stock level and related selling expenses. Business operating budget reflects the development and expansion of core business operating activities.

The Group's capital expenditure represents additions to property, plant and equipment. The Group's future planned capital expenditure mainly include the purchase of additional plant, machineries and land and acquisition and investment in opportunities which the Group believes will facilitate the growth of its business. Capital expenditure budget is divided into a regular capital expenditure and strategic capital expenditure. The regular capital expenditure refers to fixed assets and intangible assets acquisition in order to maintain the existing business operations. The strategic capital expenditure refers to the substantive long-term investments and other non-current assets acquisition. The strategic capital expenditure budget should have a detailed feasibility study and report to facilitate the senior management of the Company in making the investment decision. The feasibility study and report should reflect the investment amount, investment period, internal rate of return as well as the fund arrangement.

The financial budget comprises estimated cash flow statement, estimated statement of comprehensive income and estimated statement of financial position. The financial budget reflects the revenue, expenditure, operating results, financial position and cash flow status of the Company in the following year. When deciding the annual dividend level, the Company will take into consideration expected cash flows, capital expenditure plans, financing requirements and appropriate financial flexibility.

DIVIDEND AND DIVIDEND POLICY

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Dividends	—	7,000	9,000

No dividend was declared and paid during the year ended 31 March 2011. For the year ended 31 March 2012, the Group declared dividends to its then shareholder Madam Cheng in an amount of HK$7 million. Such dividend was fully settled by offsetting with the Director's current account. For the year ended 31 March 2013, the Group declared an annual dividend in the sum of HK$9 million. The prospective investors of the Placing Shares will not be entitled to the aforementioned dividends. The declaration of annual dividend of HK$9 million is part of the reorganisation and details of which are set out in the sub-section headed "Directors' Account" in the section headed "Financial Information" in this prospectus. The Directors, having considered that declaration of the such dividend would not adversely affect our Group's operating cash flow and there will be net proceeds from the Placing to finance the Group's capital expenditure and business expansion, are of the view that such dividend declared is fair and reasonable and in accordance with the Group's capital management policy and dividend policy.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by the Group, future prospects and other factors that the Group may consider relevant. Shareholders will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subjected to the Group's discretion.

Dividends may be paid only out of the Group's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available for re-investment in the Group's operations. There will be no assurance that the Group will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. 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 the Group in the future.

RELATED PARTY TRANSACTIONS

Please refer to Note 30 to the Accountants' Reports in Appendix I of this prospectus for more details.

DISTRIBUTABLE RESERVES

As at 31 March 2013, there was no reserves available for distribution to the Shareholders of the Company.

PROPERTY INTERESTS

Disclosure of the reconciliation of the property interests of the Group and the valuation of such property interests under Rule 8.30 of the GEM Listing Rules is set out below.

Property interests rented in Hong Kong

Unit 5 on 22nd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories.

The Group leases the above property from parties which will become connected persons of the Company upon Listing. Details of this continuing connected transaction are set in the section headed "Connected Transactions" in this prospectus.

Property interests rented in the PRC

A 5-storey factory and a 6-storey dormitory in Dahe Industrial Zone, Huanguan South Road, Guanlan Town, Baoan District, Shenzhen, Guangdong Province, the PRC.

The Group leases the above property from the Independent Third Parties.

Property valuation

The property interests of the Group has been valued by DTZ, an independent property valuer, at no commercial value as at 28 July 2013. The text of its report, summary of value and valuation certificates are set out in Appendix III.

MATERIAL ADVERSE CHANGE

The Directors confirm that there was material adverse change in the financial or trading position or prospects of the Group since 31 March 2013, being the last date of the latest audited financial results as set out in "Accountant's Report" in Appendix I to this prospectus and up to the date of this prospectus. For details, please refer to the paragraph headed "Significant decline in net profit" in this section.

Except for the abovementioned, the Directors confirm that there is no material adverse change in both the pricing strategies and the mark-up percentage under the Group's cost-plus pricing model, which takes into account estimated raw material costs, estimated labour costs, estimated factory overhead and a mark-up, subsequent to the Track Record Period and up to the Latest Practicable Date.

WORKING CAPITAL

Taking into account the financial resources available to the Group, including the available credit facilities, internally generated funds and the estimated net proceeds from the Placing, the Directors believe that the Group has sufficient working capital for its present working capital requirements for at least the next 12 months from the date of this prospectus. Based on the aforementioned, the Sole Sponsor concurred with the view of the Directors that the Group will have sufficient working capital for its working capital requirements for at least 12 months from the date of this prospectus.

FACTORS AFFECTING GROSS AND NET PROFIT MARGINS OF THE GROUP

For the years ended 31 March 2011, 2012 and 2013, the gross profit margin of the Group was about 26.80%, 33.46% and 37.65% respectively, while the net profit margin of the Group was about 13.61%, 20.14% and 13.04% respectively. The factors, amongst others, affecting the gross and net profit margins of the Group are illustrated as follows:

The change in product mix

As each category of products of the Group yields a different margin, the change in the sales mix of the products causes variations in the gross and net profit margins. The major products of the Group are hair removers and fishing indicators which generated gross profit margins ranging from approximately 25.38% to 33.92% and approximately 11.49% to 24.21% respectively during the three years ended 31 March 2011, 2012 and 2013. The gross profit margin varies largely with the style, model and specification of the products, and thus the change in the gross profit margin of a particular product category is mainly resulted from the change in the sales mix within that product category. The gross profit margin of hair removers decreased from 29.63% for the year ended 31 March 2011 to 25.38% for the year ended 31 March 2012 33.92% for the year ended 31 March 2013, mainly due to the change in the sales mix of the product category in which proportionally more products with higher complexity were sold. The gross profit margin of fishing indicators increased from 16.68% for the year ended 31 March 2011 to 24.21% for the year ended 31 March 2012 and dropped to 11.49% for the year ended 31 March 2013, mainly due to the change in the sales mix of the product category in which proportionally more products with less complexity were sold.

If the sales of hair removers and fishing indicators had decreased by approximately 62.38% and approximately 15.45% respectively (being the respective ranges of fluctuations of sales of hair removers and fishing indicators during the Track Record Period), the gross and net profit margins were estimated to decrease by approximately 0.33% and approximately 2.70% respectively for the year ended 31 March 2011, increase by approximately 0.98% and decrease by approximately 0.13% respectively for the year ended 31 March 2012 and increase by approximately 1.00% and decrease by approximately 1.27% respectively for the year ended 31 March 2013, assuming other factors affecting the gross and net profit margins remain unchanged.

The following table illustrates the relevant calculation of the above attribution analysis.

	For the year ended 31 March 2011			For the year ended 31 March 2012			For the year ended 31 March 2013		
	Hair remover	**Fishing indicator**	**The Group**	**Hair remover**	**Fishing indicator**	**The Group**	**Hair remover**	**Fishing indicator**	**The Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Actual figures									
Sales	21,607	10,405	82,498	8,129	8,797	60,990	11,622	8,880	71,707
Gross profit	6,403	1,736	22,107	2,063	2,130	20,408	3,942	1,020	26,996
Gross profit margin	29.63%	16.68%	26.80%	25.38%	24.21%	33.46%	33.92%	11.49%	37.65%
Net profit			11,225			12,284			9,351
Net profit margin			13.61%			20.14%			13.04%
Effective tax rate			9.22%			15.44%			26.30%
Attribution analysis									
Range of fluctuation during the Track Record Period	62.38%	15.45%		62.38%	15.45%		62.38%	15.45%	
Decrease in sales	(13,478)	(1,608)	(15,086)	(5,071)	(1,359)	(6,430)	(7,250)	(1,372)	(8,622)
Decrease in gross profit *(note 1)*	(3,994)	(268)	(4,262)	(1,287)	(329)	(1,616)	(2,459)	(158)	(2,617)
Decrease in net profit *(note 2)*			(3,873)			(1,377)			(2,229)
(Decrease)/increase in gross profit margin *(note 3)*			(0.33)%			0.98%			0.99%
Decrease in net profit margin			(2.71)%			(0.15)%			(1.76)%

Notes:

(1) The decrease in gross profit is calculated by multiplying the decrease in sales by the gross profit margin, assuming the gross profit margin of an individual class of products apply to all products in that individual class.

(2) The decrease in net profit is calculated by multiplying the decrease in gross profit by the factor of (1-effective tax rate).

(3) Since both gross profit margins of hair removers and fishing indicators are lower than the overall gross profit margin of the Group for the years ended 31 March 2012 and 2013, the decrease in sales of hair removers and fishing indicators has led to an increase in gross profit margin.

Besides, the higher margin products of the Group are communicators, fire alarms and buzzers which generated gross profit margins ranging from approximately 32.08% to 48.75%, approximately 28.22% to 48.79% and approximately 39.01% to 48.78% respectively during the three years ended 31 March 2011, 2012 and 2013. The gross profit margin varies largely with the style, model and specification of the products, and thus the change in the gross profit margin of a particular product category is mainly resulted from the change in the sales mix within that product category. The gross profit margin of communicators, fire alarms and buzzers increased from 32.08%, 28.22% and 39.01% for the year ended 31 March 2011 to 42.73%, 42.70% and 47.37% for the year ended 31 March 2012 and further increased to 48.75%, 48.79% and 48.78% for the year ended 31 March 2013 respectively, mainly due to the change in the sales mix of the product category in which proportionally more products with higher complexity were sold. Besides, the Group has not increased the selling price of buzzers for long time until the year ended 31 March 2011. The adjustment on the selling price of buzzers for the year ended 31 March 2012 had a positive impact on the gross profit margin.

If the sales of communicators, fire alarms and buzzers had decreased by approximately 77.49%, approximately 53.58% and approximately 21.03% respectively (being the respective ranges of fluctuations of sales of communicators, fire alarms and buzzers during the Track Record Period), the gross and net profit margins were estimated to decrease by approximately 0.40% and approximately 1.13% respectively for the year ended 31 March 2011, decrease by approximately 1.42% and approximately 2.35% respectively for the year ended 31 March 2012 and decrease by approximately 1.03% and 2.12% respectively for the year ended 31 March 2013, assuming other factors affecting the gross and net profit margins remain unchanged.

The following table illustrates the relevant calculation of the above attribution analysis.

	For the year ended 31 March 2011				For the year ended 31 March 2012				For the year ended 31 March 2013			
	Communicator	**Fire alarm**	**Buzzer**	**The Group**	**Communicator**	**Fire alarm**	**Buzzer**	**The Group**	**Communicator**	**Fire alarm**	**Buzzer**	**The Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Actual figures												
Sales	3,245	3,288	5,789	82,498	5,759	3,088	6,603	60,990	3,135	4,744	5,215	71,707
Gross profit	1,041	928	2,258	22,107	2,461	1,319	3,128	20,408	1,528	2,314	2,544	26,996
Gross profit margin	32.08%	28.22%	39.01%	26.80%	42.73%	42.70%	47.37%	33.46%	48.75%	48.79%	48.78%	37.65%
Net profit				11,225				12,284				9,351
Net profit margin				13.61%				20.14%				13.04%
Effective tax rate				9.22%				15.44%				26.30%
Attribution analysis												
Range of fluctuation during the Track Record Period	77.49%	53.58%	21.03%		77.49%	53.58%	21.03%		77.49%	53.58%	21.03%	
Decrease in sales	(2,515)	(1,762)	(1,217)	(5,494)	(4,463)	(1,655)	(1,389)	(7,506)	(2,429)	(2,541)	(1,097)	(6,067)
Decrease in gross profit *(note 1)*	(807)	(497)	(475)	(1,779)	(1,907)	(707)	(658)	(3,271)	(1,184)	(1,240)	(535)	(2,959)
Decrease in net profit *(note 2)*				(1,617)				(2,787)				(2,521)
Decrease in gross profit margin				(0.40%)				(1.42%)				(1.03%)
Decrease in net profit margin				(1.13%)				(2.38%)				(2.65%)

Note:

(1) The decrease in gross profit is calculated by multiplying the decrease in sales by the gross profit margin, assuming the gross profit margin of an individual class of products apply to all products in that individual class.

(2) The decrease in net profit is calculated by multiplying the decrease in gross profit by the factor of (1-effective tax rate).

The extent to which the Group maintained a cost-plus product pricing model

The Group adopts a cost-plus model to determine the selling price of its products, and, therefore, the overall gross and net profit margins of the Group are affected by the mark-up margins applied in the cost-plus model. The Group develops the mark-up margins for its products by making reference to a number of factors, including, but not limited to, the sales volume of the order, the complexity, features and specifications of the product, the degree of the involvement of direct labour in the production process and the relationship with the customer. The Group's gross and net profit margins would be adversely affected if the Group was not able to adopt such product pricing model during the Track Record Period. The Group would lose its flexibility to adjust product prices, at the customers' expenses, to cover any increment in costs if fixed price model was adopted instead of cost-plus model. If the cost of sales had increased by approximately 32.80% (being the range of fluctuation of cost of sales during the Track Record Period) and the selling prices of its products had remained unadjusted, the gross and net profit margins would have been estimated to decrease by approximately 24.01% and 22.63% respectively for the year ended 31 March 2011, decrease by approximately 21.82% and 18.45% respectively for the year ended 31 March 2012 and decrease by approximately 20.45% and 15.07% respectively for the year ended 31 March 2013, assuming the sales quantities of the Group's products remain constant and other factors affecting the gross and net profit margins remain unchanged.

The price fluctuation of major production materials

Raw materials costs represented the major component of the cost of sales and accounted for approximately 69.63%, 65.76% and 71.83% respectively for the years ended 31 March 2011, 2012 and 2013. The gross and net profit margins of the Group are therefore also dependent on the price fluctuation of raw materials. If there is any upward adjustment to the price of raw materials and the Group is unable to pass on the increment in costs to its customers, the gross and net profit margins may be materially and adversely affected. The two principal raw materials used in the production are semiconductors and ICs, which accounted for more than 29.28% of total raw materials used for each of the years ended 31 March 2011, 2012 and 2013. If the average purchase prices of semiconductors and ICs had increased by approximately 3.51% and approximately 5.95% respectively (being the respective ranges of fluctuations of average purchase prices of semiconductors and ICs during the three years ended 31 March 2011, 2012 and 2013), the gross and net profit margins were estimated to decrease by approximately 0.81% and approximately 5.39% respectively for the year ended 31 March 2011 and decrease by approximately 0.72% and approximately 3.04% respectively for the year ended 31 March 2012 and decrease by approximately 0.63% and approximately 3.56% respectively for the year ended 31 March 2013, assuming other factors affecting the gross and net profit margins remain unchanged.

Cost of labour

Direct labour costs accounted for approximately 19.86%, 21.67% and 16.29% of the total cost of sales respectively for the years ended 31 March 2011, 2012 and 2013. The fluctuation in labour costs impacts the gross and net profit margins of the Group. If the cost of labour had increased by approximately 41.40% (being the range of fluctuation of cost of labour during the three years ended 31 March 2011, 2012 and 2013), the gross and net profit margins were estimated to decrease by approximately 6.02% and approximately 5.46% respectively for the year ended 31 March 2011, decrease by approximately 5.97% and approximately 5.05% respectively for the year ended 31 March 2012 and decrease by approximately 4.20% and approximately 3.10% respectively for the year ended 31 March 2013, assuming other factors affecting the gross and net profit margins remain unchanged.

SENSITIVITY ANALYSIS

The key factors, amongst others, affecting the net profit are average selling prices, cost of raw materials and cost of labour. The sensitivity analysis below illustrates the impact of the movements in: (i) the average selling price; (ii) the raw material price; and (iii) the cost of labour on the consolidated net profit attributable to the owners of the Company for each of the years ended 31 March 2011, 2012 and 2013.

The range of movements of average selling price, raw material price and cost of labour adopted in the following analysis (i.e. +/–50%) is provided merely for illustration purposes and may not give a true picture of the impact of movements on the Group due to its hypothetical nature. The estimated +/–50% movements represent management's assessment of reasonably possible changes in average selling price, raw material price and cost of labour over the period until the end of the next annual reporting period, which has take into consideration (i) the range of fluctuation of average selling price (i.e. 32.19%), average raw material price (i.e. 50.98%) and cost of labour (i.e. 41.40%) during the Track Record Period; and (ii) the range of fluctuation in prices of individual products and individual raw materials during the Track Record Period.

(i) Average selling price

The following table illustrates the sensitivity of the consolidated net profit attributable to owners of the Company for each of the years ended 31 March 2011 and 2012 to the changes in average selling price of the Group's major products, assuming that all other factors remain unchanged.

For the year ended 31 March 2011

	+/–10% change in average selling price	**+/–20% change in average selling price**	**+/–30% change in average selling price**	**+/–40% change in average selling price**	**+/–50% change in average selling price**
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*					
Major products:					
Hair remover	+/–1,962	+/–3,923	+/–5,885	+/–7,846	+/–9,808
Control board	+/–526	+/–1,052	+/–1,577	+/–2,103	+/–2,629
Security alarm	+/–814	+/–1,629	+/–2,443	+/–3,257	+/–4,072
Fishing indicator	+/–945	+/–1,889	+/–2,834	+/–3,778	+/–4,723
Massage toner	+/–619	+/–1,238	+/–1,857	+/–2,476	+/–3,095
Buzzer	+/–526	+/–1,051	+/–1,577	+/–2,102	+/–2,628
Communicator	+/–295	+/–589	+/–884	+/–1,178	+/–1,473
All products	+/–7,490	+/–14,979	+/–22,469	+/–29,958	+/–37,448

For the year ended 31 March 2012

	+/–10% change in average selling price	**+/–20% change in average selling price**	**+/–30% change in average selling price**	**+/–40% change in average selling price**	**+/–50% change in average selling price**
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*					
Major products:					
Hair remover	+/–687	+/–1,375	+/–2,062	+/–2,749	+/–3,437
Control board	+/–519	+/–1,039	+/–1,558	+/–2,077	+/–2,597
Security alarm	+/–364	+/–728	+/–1,091	+/–1,455	+/–1,819
Fishing indicator	+/–744	+/–1,488	+/–2,232	+/–2,975	+/–3,719
Massage toner	+/–617	+/–1,234	+/–1,851	+/–2,467	+/–3,084
Buzzer	+/–558	+/–1,117	+/–1,675	+/–2,234	+/–2,792
Communicator	+/–487	+/–974	+/–1,461	+/–1,948	+/–2,435
All products	+/–5,157	+/–10,314	+/–15,472	+/–20,629	+/–25,786

For the year ended 31 March 2013

	+/–10% change in average selling price	**+/–20% change in average selling price**	**+/–30% change in average selling price**	**+/–40% change in average selling price**	**+/–50% change in average selling price**
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*					
Major products:					
Hair remover	+/–857	+/–1,713	+/–2,570	+/–3,426	+/–4,283
Control board	+/–868	+/–1,736	+/–2,605	+/–3,473	+/–4,341
Security alarm	+/–220	+/–441	+/–661	+/–882	+/–1,102
Fishing indicator	+/–654	+/–1,309	+/–1,963	+/–2,618	+/–3,272
Massage toner	+/–1,080	+/–2,160	+/–3,240	+/–4,320	+/–5,400
Buzzer	+/–384	+/–769	+/–1,153	+/–1,537	+/–1,922
Communicator	+/–231	+/–462	+/–693	+/–924	+/–1,155
All products	+/–5,285	+/–10,570	+/–15,854	+/–21,139	+/–26,424

(ii) Raw material price

The following table illustrates the sensitivity of the consolidated net profit attributable to owners of the Company for each of the years ended 31 March 2011 and 2012 to the changes in average purchase price of major production materials used by the Group, assuming that all other factors remain unchanged.

For the year ended 31 March 2011

	+/–10% change in average raw material price	**+/–20% change in average raw material price**	**+/–30% change in average raw material price**	**+/–40% change in average raw material price**	**+/–50% change in average raw material price**
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*					
Major raw materials:					
Semiconductors	–/+754	–/+1,508	–/+2,262	–/+3,015	–/+3,769
ICs	–/+561	–/+1,121	–/+1,682	–/+2,242	–/+2,803
Connectors & switches	–/+292	–/+585	–/+877	–/+1,170	–/+1,462
PCBs	–/+310	–/+620	–/+931	–/+1,241	–/+1,551
Plastic parts	–/+335	–/+669	–/+1,004	–/+1,339	–/+1,674
All raw materials	–/+3,818	–/+7,635	–/+11,453	–/+15,270	–/+19,088

For the year ended 31 March 2012

	+/–10% change in average raw material price	**+/–20% change in average raw material price**	**+/–30% change in average raw material price**	**+/–40% change in average raw material price**	**+/–50% change in average raw material price**
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*					
Major raw materials:					
Semiconductors	–/+321	–/+642	–/+964	–/+1,285	–/+1,606
ICs	–/+384	–/+768	–/+1,152	–/+1,536	–/+1,920
Connectors & switches	–/+184	–/+368	–/+552	–/+736	–/+920
PCBs	–/+201	–/+401	–/+602	–/+802	–/+1,003
Plastic parts	–/+285	–/+570	–/+855	–/+1,141	–/+1,426
All raw materials	–/+2,257	–/+4,513	–/+6,770	–/+9,026	–/+11,283

For the year ended 31 March 2013

	+/–10% change in average raw material price	+/–20% change in average raw material price	+/–30% change in average raw material price	+/–40% change in average raw material price	+/–50% change in average raw material price
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*					
Major raw materials:					
Semiconductors	(462)	(924)	(1,386)	(1,848)	(2,310)
ICs	(288)	(575)	(863)	(1,150)	(1,438)
Connectors & switches	(151)	(303)	(454)	(605)	(757)
PCBs	(221)	(443)	(664)	(886)	(1,107)
Plastic parts	(155)	(310)	(465)	(620)	(775)
All raw materials	(2,367)	(4,734)	(7,101)	(9,468)	(11,835)

Note: The above sensitivity analysis assumes the Group was no longer able to pass on the increments in costs of materials to its customers and has not considered the adjustment of selling price to respond to the raw material price fluctuation. The Directors believe the actual fluctuation will be less than the above illustration as the Group will adjust the selling price of its products when there is significant change to raw material pricing.

(iii) Cost of labour

The following table illustrates the sensitivity of the consolidated net profit attributable to owners of the Company for each of the years ended 31 March 2011 and 2012 to the changes in cost of direct labour of the Group, assuming that all other factors remain unchanged.

For the year ended 31 March 2011

	+/–10% change in cost of labour	+/–20% change in cost of labour	+/–30% change in cost of labour	+/–40% change in cost of labour	+/–50% change in cost of labour
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*	–/+1,089	–/+2,178	–/+3,267	–/+4,356	–/+5,445

For the year ended 31 March 2012

	+/–10% change in cost of labour	+/–20% change in cost of labour	+/–30% change in cost of labour	+/–40% change in cost of labour	+/–50% change in cost of labour
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*	–/+743	–/+1,487	–/+2,230	–/+2,974	–/+3,717

For the year ended 31 March 2013

	+/–10% change in cost of labour	+/–20% change in cost of labour	+/–30% change in cost of labour	+/–40% change in cost of labour	+/–50% change in cost of labour
Approximate changes in consolidated net profit attributable to owners of the Company *(HK$'000)*	–/+537	–/+1,073	–/+1,610	–/+2,147	–/+2,683

SIGNIFICANT DECLINE IN NET PROFIT

The Directors consider the Group's financial performance for the year ending 31 March 2014 will be significantly affected by the increase in the administrative and other expenses after the Listing:

The administrative and other expenses will increase after the Listing due to (i) the charge of one-off listing expenses of approximately HK$3.24 million; and (ii) that the fair value of the Pre-IPO Share Options granted will be charged to the Group's income statement over the vesting periods of the options, which is estimated that approximately HK$0.89 million will be charged to income statement for the year ending 31 March 2014. The estimated expenses in relation to the Listing and the grant of the Pre-IPO Share Options are non-recurring in nature. In addition, there will be (i) an increase in salaries and professional costs for the period from September 2013 to 31 March 2014 which may amount to approximately HK$0.67 million arising from the appointment of the new Directors prior to the Listing and the engagement of the legal adviser and the compliance adviser after the Listing; (ii) the annual audit fee which may amount to approximately HK$0.40 million; (iii) the printing expenses which amount to approximately HK$0.10 million; (iv) the annual listing fee which amount to HK$0.10 million; and (v) the increase in the advertising expenses which may amount to approximately HK$0.50 million according to the Group's future plans.

Based on the aforementioned, the Directors are of the opinion that there is no fundamental deterioration in the commercial and operational viability in the Company's business despite the increase in the Directors' fee, professional fees and non-recurring expenses of the listing fees and expenses that would be incurred from the issue of Pre-IPO

Share Options after the Listing. Accordingly, the shareholders and prospective investors should be informed that the financial results of the Group for the year ending 31 March 2014 will materially be affected by the increase in administrative and other expenses that may amount to approximately HK$5.90 million, which is estimated to represent approximately 48.84% and 64.17% of the Group's net profits for the year ended 31 March 2011 and 2012, respectively.

Given the expected increase in administrative and other expenses after the Listing, the Group's net profit for the year ending 31 March 2014 will significantly decline as compared with the prior financial years.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Placing on the Group's net tangible assets as at 31 March 2013 as if the Placing had taken place on that date. The unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of the Group's net tangible assets had the Placing been completed as at 31 March 2013 or at any future date.

The unaudited pro forma adjusted consolidated net tangible assets are calculated based on the Group audited consolidated net assets attributable to owners of the Company as at 31 March 2013, as shown in the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus, and is adjusted as described below.

	Audited consolidated net tangible assets attributable to owners of the Company as at 31 March 2013	**Estimated net proceeds from the Placing**	**Unaudited pro forma adjusted consolidated net tangible assets**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on placing price of HK$0.60 per Share	22,434	34,358	56,792	0.28

Notes:

1. The audited consolidated net tangible assets attributable to owners of the Company as at 31 March 2013 is based on the consolidated net assets attributable to owners of the Company of HK$22.43 million as at 31 March 2013 extracted from the accountants' report set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Placing are based on the Placing Shares of HK$0.60 per share, being the stated placing price, after deduction of the outstanding underwriting fees of approximately HK$1,080,000 and the remaining related expenses payable by the Company of approximately HK$562,000 out of the total related expenses amounted to HK$9,800,000.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 200,000,000 shares in issue immediately after the Placing and the Capitalisation Issue become unconditional but takes no account of any Shares which may fall to be 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 the Company.

4. No adjustment have been made to the unaudited pro forma adjusted net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2013.

DISCLOSURE REQUIRED UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that there are no circumstances which, had they been required to comply with Rules 17.15 to 17.21 in Chapter 17 of the GEM Listing Rules, would have given rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

SOLE BOOKRUNNER

Tanrich Capital

JOINT LEAD MANAGERS

Tanrich Capital

Convoy Investment Services Limited

UNDERWRITERS

Convoy Investment Services Limited

Tanrich Securities Company Limited

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

Pursuant to the Underwriting Agreement (as described as material contract in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business" in Appendix V to this prospectus), the Company is offering the Placing Shares for placing with professional and institutional and individual investors at the Placing Price subject to the terms and conditions of the Underwriting Agreement and this prospectus.

Subject to, among other matters, the Listing Division granting the approval for the listing of, and permission to deal in, the Shares already in issue and to be issued as mentioned in the prospectus on GEM the Placing Shares pursuant to any exercise of the options under the Share Option Schemes at or before 6:00 p.m. on the Business Day before or on the date of this prospectus (as the case may be (or such later date or dates as Tanrich Capital as the Joint Lead Manager (on behalf of the Underwriters) may agree in writing with the Company), the Underwriters have severally agreed to as agents of the Company to procure subscribers for, or failing which they shall subscribe for the Placing Shares being offered on the terms and conditions of the Underwriting Agreement and the Placing Letter.

Grounds for termination

The obligations of the Underwriters under the Underwriting Agreement to subscribe for or procure subscribers to subscribe for the Placing Shares are subject to the absolute right of Tanrich Capital (for itself and on behalf of the Underwriters) to terminate the Underwriting Agreement by giving a written notice to the Company if any of the following events occur at any time prior to 8:00 a.m. on the Listing Date (which is expected to be on 11 October 2013):

(1) if it has come to the notice of Tanrich Capital:

(i) any matter or event showing any of the warranties to be untrue, inaccurate or misleading in any material aspect when given or repeated or there has been a breach of any of the warranties or any other provision of the Underwriting Agreement by any party to the Underwriting Agreement other than the Underwriters which, in any such cases, is considered, in the absolute opinion of Tanrich Capital (for itself and on behalf of the Underwriters), to be material in the context of the Placing; or

(ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the absolute opinion of Tanrich Capital (for itself and on behalf of the Underwriters) in the context of the Placing; or

(iii) any statement contained in this prospectus reasonably considered to be material by Tanrich Capital which is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the absolute opinion of Tanrich Capital (for itself and on behalf of the Underwriters) to be material; or

(iv) any event, act or omission which gives rise or is likely to give rise to any liability of any of the Company, the executive Directors and the Controlling Shareholder pursuant to the indemnities contained in the Underwriting Agreement; or

(v) any breach by any party to the Underwriting Agreement other than the Underwriters of any provision of the Underwriting Agreement which is considered in the absolute opinion of Tanrich Capital (for itself and on behalf of the Underwriters), to be material; or

(vi) any adverse change or a prospective adverse change in the business, results of operation, financial or trading position, or prospects of the Group as a whole the effect of which is, in the absolute opinion of Tanrich Capital (for itself and on behalf of the Underwriters), so material and adverse as to make it impracticable or inadvisable to proceed with the Placing; or

(2) if there develops, occurs, exists or comes into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC, or any relevant jurisdiction; or

(ii) any change (whether or not permanent) in local, national or international stock market conditions; or

(iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on GEM due to exceptional financial circumstances or otherwise; or

(iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC or elsewhere; or

(v) any change in the business or in the financial or trading position of the Group or otherwise; or

(vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC or elsewhere; or

(vii) a general moratorium on commercial banking business activities in Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC or elsewhere declared by the relevant authorities; or

(viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, pandemic, act of terrorism, earthquake, strike or lock-out; or

(ix) any litigation or claim of any third party being threatened or instigated against any member of the Group; or

(x) a breach of any of the warranties or of any of the other obligations imposed upon or undertakings given by the Company under the Underwriting Agreement;

which, individually or in the aggregate, in the sole and absolute opinion of the Tanrich Capital (for itself and on behalf of the Underwriters):

(a) is or will or is likely to be materially adverse to the business, financial condition or prospects of the Company and/or the Group taken as a whole; or

(b) has or will have or is likely to have a material adverse effect on the success of the Placing; or

(c) makes or will make or is likely to make it inappropriate, inadvisable or inexpedient to proceed with the Placing.

Undertakings

Under the Underwriting Agreement,

(a) the Controlling Shareholder undertakes to and covenants with the Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and the Stock Exchange that, inter alia:

(i) she shall not and shall procure that the relevant registered holder(s) of the Shares shall not in the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholder is made in this prospectus and ending on the date which is 6 months from the Listing Date (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 Shares in respect of which she is shown by this prospectus to be the beneficial owner; and

(ii) she shall not and shall procure that the relevant registered holder(s) of the Shares shall not in the period of 6 months commencing on the date immediately following the date on which the First Six-Month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, she would cease to be a Controlling Shareholder.

(b) The Controlling Shareholder also undertakes to and covenants with the Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and the Stock Exchange that,

(i) at any time during the relevant periods specified in paragraphs (a) (i) and (ii) above, in the event that she pledges or charges any of her direct or indirect interest in the Shares 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, she must immediately inform the

Company and the Sponsor and Tanrich Capital (on behalf of the Underwriters) in writing of such pledge and charge, the number of the Shares so being pledged or charged and other details as required under Rule 17.43(1) to (4) of the GEM Listing Rules and in the event that she becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest, immediately inform the Company, the Sponsor and Tanrich Capital (on behalf of the Underwriters) in writing of such disposal or such intention of disposal and of the number of the Shares affected.

(c) The Company has undertaken to and covenanted with the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Underwriters, and each of the Controlling Shareholder and the executive Directors named in the Underwriting Agreement jointly and severally has undertaken to and covenanted with the Sponsor, the Sole Bookrunner, the Joint Lead Managers and Underwriters to procure that, save with the prior written consent of Tanrich Capital as the Joint Lead Manager (on behalf of the Underwriters) (such consent not to be denied or unreasonably withheld or delayed) and in compliance with the GEM Listing Rules and the applicable laws, the Company shall not, save pursuant to the Placing and the issue of the Placing Shares, the grant of any options under the Share Option Schemes, the issue of Shares pursuant to the Capitalisation Issue or the exercise of any options granted or to be granted under the Share Option Schemes or any consolidation, sub-division or capital reduction of Shares or by way of scrip dividend schemes or other similar schemes in accordance with the articles of association of the Company and the GEM Listing Rules or otherwise approved by the Stock Exchange, within the period of six months immediately after the Listing Date (a) save as permitted under the GEM Listing Rules (including but not limited to, Rule 17.29 of the GEM Listing Rules) and the applicable laws or regulations, allot or issue or agree to allot or issue any Shares or any other securities in the Company (including warrants or other convertible securities (and whether or not of a class already listed)) or grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for, or otherwise convert into, or exchange for, any Shares or any other securities of the Company; and (b) purchase any Shares or any other securities of the Company.

Commission and expenses

The Company will pay the Sole Bookrunner and the Underwriters a commission of 3% on the aggregate Placing Price of all the Placing Shares now being offered, out of which the Underwriters will, as the case may be, pay any sub-underwriting commissions, fees and expenses. The Sponsor will, in addition, receive a combined sponsorship financial advisory fee and documentation fee in relation to the Placing. The aggregate fee and commission, together with the Stock Exchange listing fees, brokerage, the Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other charges and expenses relating to the Placing are estimated to amount to approximately HK$ 10.88 million.

Underwriters' interests in the Company

Save for its obligations under the Underwriting Agreement and as disclosed in this prospectus, none of the Underwriters or any of their respective holding companies, or any of their respective subsidiaries was beneficially interested, directly or indirectly, in any shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Sole Sponsors' interests in the Company

None of the Sole Sponsor or its associates expect to have accrued any material benefit as a result of the successful listing of the Shares, other than the following: (i) the respective financial advisory and documentation fees to be paid to the Sole Sponsor; (ii) the interests under compliance adviser agreement entered into between Tanrich Capital and the Company on 27 September 2013; (iii) certain associates of the Sole Sponsor, whose ordinary business involve the trading and dealing in securities, may be involved in the trading and dealing in the securities of the Company; (iv) taking up underwriting obligations under the Underwriting Agreement; and (v) by way of underwriting commissions for the Sole Sponsor and/or its fellow subsidiaries, holding companies or affiliates by acting as one of the Underwriters.

Save as disclosed above, the Sole Sponsor has no shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Compliance adviser

On 27 September 2013, the Company entered into an agreement with Tanrich Capital pursuant to which the Company has conditionally appointed Tanrich Capital as the Company's compliance adviser pursuant to the requirement of Rule 6A.19 of the GEM Listing Rules. In accordance with Rule 6A.19 of the GEM Listing Rules, the appointment is for a term commencing on the Listing Date and ending on the date on which the Company distributes its annual report for the second full financial year commencing after the Listing Date pursuant to Rule 18.03 of the GEM Listing Rules, unless terminated earlier in accordance with the terms thereof.

During the term of the appointment, Tanrich Capital shall act as the Company's compliance adviser and shall, among other things, guide and advise the Group with respect to compliance with the Listing Rules and all other guidelines in discharge of the duties under Rule 6A.23 and Rule 6A.24 of the GEM Listing Rules.

PLACING PRICE

The Placing Price of HK$0.60 per Share plus a 1% brokerage, a 0.003% SFC transaction levy and a 0.005% Stock Exchange trading fee make up total price payable in cash on subscription.

The level of indication of interests in the Placing and the basis of allocation of the Placing Shares will be announced on the GEM website at *www.hkexnews.hk* and the Company's website at *www.echogroup.com.hk* on 10 October 2013.

THE PLACING

The Placing comprises 60,000,000 Placing Shares conditionally offered by the Company. The Company is initially offering 60,000,000 Placing Shares for subscription or purchase by way of private placements to professional, institutional and individual investors at the Placing Price under the Placing.

The Placing will involve the selective marketing of Shares to professional, institutional and individual investors in Hong Kong. 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 Shares will represent approximately 30% of the Company's enlarged issued share capital immediately after the completion of the Placing and the Capitalisation Issue.

The Placing is sponsored by the Sole Sponsor and lead managed by Tanrich Capital. The Placing is fully underwritten by the Underwriters on a several basis, and being subject to the terms and conditions of the Underwriting Agreement.

Pursuant to the Placing, it is expected that the Underwriters or certain of their respective affiliates or selling agents will conditionally place on behalf of the Company the Placing Shares at the Placing Price payable by the investors acquiring the Placing Shares plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. The Placing Shares will be placed with selected professional, institutional and individual investors in Hong Kong and other jurisdictions to the extent that the relevant securities laws and requirements are complied with. Professional and institutional investors generally include brokers, dealers and fund managers whose business involves dealings in shares and other securities and corporate entities which regularly invest in shares and securities.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, among other things:

(a) Listing

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 in this prospectus (including any Shares which fall to be issued upon the exercise of the options which may be granted under the Share Option Schemes) on GEM; and

(b) Underwriting Agreement

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated at any time prior to 8:00 a.m. on the Listing Date in accordance with the terms thereof. Details of the Underwriting Agreement, its conditions and grounds for termination are set out in the section headed "Underwriting" in this prospectus.

If the conditions referred to above are not fulfilled on or before the 30th day from the date of this prospectus, the Placing will lapse and the subscription or purchase money will be returned to the placees or the Underwriters, without interest.

BASIS OF ALLOCATION

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell the 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, institutional and individual shareholder base to the benefit of the Company and the Shareholders as a whole. The Company, the Directors, the Sole Bookrunner, the Joint Lead Managers and the Underwriters will take relevant steps to identify and reject multiple applications or suspected multiple applications. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Friday, 11 October 2013.

Shares will be traded in board lots of 4,000 Shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Listing Division for the listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the Listing of and permission to deal in the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 September 2013

The Directors
Echo International Holdings Group Limited
Tanrich Capital Limited

Dear Sirs,

We set out below our report on the financial information of Echo International Holdings Group Limited (formally known as Gold Treasure Hung Holdings Limited) (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**"), comprising the consolidated statements of financial position of the Group as at 31 March 2011, 2012 and 2013, the statements of financial position of the Company as at 31 March 2011, 2012 and 2013, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated statements of cash flows of the Group for each of the years ended 31 March 2011, 2012 and 2013 (the "**Track Record Period**"), together with the notes thereto (the "**Financial Information**"), prepared on the basis of presentation set out in Note 3 below, for inclusion in the prospectus of the Company dated 30 September 2013 (the "**Prospectus**") in connection with the listing of shares of the Company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "**GEM**").

The Company was incorporated in the Cayman Islands on 21 December 2010 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 group reorganisation (the "**Reorganisation**"), as more fully explained in the paragraph headed "Reorganisation" in Appendix V to the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group as set out in Note 2. The Reorganisation became effective on 14 March 2013.

The Company has adopted 31 March as its financial year end date. No statutory audited financial statements have been prepared for the Company as there are no statutory requirements for the Company to prepare audited financial statements.

No statutory audited financial statements of Gold Treasure Hung Group Limited ("**Gold Treasure BVI**") have been prepared as there are no statutory requirements for Gold Treasure BVI to prepare audited financial statements.

The statutory audited financial statements of Echo Electronics Company Limited ("**Echo Electronics**") for the years ended 31 March 2011 and 2012 were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and were audited by HLB Hodgson Impey Cheng, Certified Public Accountants registered in Hong Kong.

The statutory audited financial statements of Yi Gao Tech Electronics (Shenzhen) Co., Limited ("**Yi Gao Tech**") for the period from the date of its incorporation on 26 May 2011 to 31 December 2011 and the year ended 31 December 2012 were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the People's Republic of China ("**PRC**") and were audited by 深圳正聲會計師事務所 ("**Shenzhen Fairsong**"), certified public accountants registered in the PRC.

BASIS OF PREPARATION

For the purpose of this report, the directors of the Company have prepared the Financial Information for the Track Record Period based on the audited financial statements or unaudited financial statements with no adjustments made thereon in accordance with HKFRSs issued by the HKICPA and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and the Hong Kong Companies Ordinance. The Financial Information for the Track Record Period were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

RESPONSIBILITY OF THE DIRECTORS

The directors of the Company are responsible for the contents of the Prospectus, including the preparation of the Financial Information that gives a true and fair view in accordance with the basis set out in Note 3. The directors of the Company are responsible for the presentation of the Financial Information that give a true and fair view in accordance with HKFRSs and the disclosure requirements of the GEM Listing Rules and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information of the company that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITY OF REPORTING ACCOUNTANTS

For the Financial Information for the Track Record Period, it is our responsibility to form an independent opinion on the Financial Information based on our examination and to report our opinion to you. We examined the relevant audited financial statements or, where appropriate, the relevant unaudited financial statements of the Group for the Track Record Period, and carried out such procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information for the Track Record Period, for the purpose of this report and prepared on the basis of presentation and preparation set out in Note 3 below, give a true and fair view of the consolidated state of affairs of the Group as at 31 March 2011, 2012 and 2013 and of the state of affairs of the Company as at 31 March 2011, 2012 and 2013 and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

I. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	Notes	**For the year ended 31 March 2011** *HK$'000*	**For the year ended 31 March 2012** *HK$'000*	**For the year ended 31 March 2013** *HK$'000*
Revenue	5	82,498	60,990	71,707
Cost of sales		(60,391)	(40,582)	(44,712)
Gross profit		22,107	20,408	26,995
Other revenue and gains	7	40	6,979	118
Selling and distribution expenses		(1,011)	(1,271)	(708)
Administrative and other expenses		(8,721)	(11,564)	(13,683)
Finance costs	8	(50)	(25)	(35)
Profit before taxation	9	12,365	14,527	12,687
Taxation	10	(1,140)	(2,243)	(3,337)
Profit for the year		11,225	12,284	9,350
Other comprehensive income for the year, net of tax:				
Exchange differences on translating of foreign operation		—	144	177
Total comprehensive income for the year		11,225	12,428	9,527
Profit for the year attributable to owners of the Company		11,225	12,284	9,350
Total comprehensive income for the year attributable to owners of the Company		11,225	12,428	9,527
Earnings per share				
Basic and diluted (HK cents)	12	8.0	8.8	6.7

The accompanying notes form an integral part of Financial Information.

Consolidated Statements of Financial Position

	Notes	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000
Non-current assets				
Property, plant and equipments	15	820	971	1,125
Current assets				
Inventories	16	11,864	18,320	15,252
Trade receivables	17	9,732	9,074	14,664
Amounts due from related companies	18	80	113	113
Deposits and prepayments	19	8,650	7,560	7,449
Cash and bank balances	20	4,940	1,797	1,215
		35,266	36,864	38,693
Current liabilities				
Trade payables	21	4,576	6,105	3,604
Accrued charges		7,082	1,201	2,033
Trade deposits received		512	171	1,133
Amount due to a director	22	6,146	6,500	6,065
Bank borrowings	24	947	588	2,144
Obligation under finance leases	25	198	—	126
Current tax liabilities		147	1,363	1,891
		19,608	15,928	16,996
Net current assets		15,658	20,936	21,697
Total assets less current liabilities		16,478	21,907	22,822
Non-current liabilities				
Obligation under finance leases	25	—	—	388
Net assets		16,478	21,907	22,434
Capital and reserves				
Share capital	26	10	79	100
Reserves	27	16,468	21,828	22,334
Total equity		16,478	21,907	22,434

The accompanying notes form an integral part of Financial Information.

Statements of Financial Position

	Notes	**As at 31 March 2011** *HK$'000*	**As at 31 March 2012** *HK$'000*	**As at 31 March 2013** *HK$'000*
Non-current assets				
Investment in subsidiaries	23	—	—	99
Current assets				
Amount due from a director	22	—	1	1
Deposits and prepayments	19	7,441	6,613	6,390
		7,441	6,614	6,391
Current liability				
Amount due to a subsidiary	23	8,528	9,237	10,009
Net current liabilities		(1,087)	(2,623)	(3,618)
Net liabilities		(1,087)	(2,623)	(3,519)
Capital and reserves				
Share capital	26	—	1	100
Reserves	27	(1,087)	(2,624)	(3,619)
Total equity		(1,087)	(2,623)	(3,519)

The accompanying notes form an integral part of Financial Information.

Consolidated Statements of Changes in Equity

	Share capital *HK$'000*	Capital reserve *HK$'000* *Note 27(a)*	Exchange reserve *HK$'000* *Note 27(b)*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 April 2010	10	—	—	5,243	5,253
Profit for the year	—	—	—	11,225	11,225
Total comprehensive income for the year	—	—	—	11,225	11,225
As at 31 March 2011 and 1 April 2011	10	—	—	16,468	16,478
Profit for the year	—	—	—	12,284	12,284
Other comprehensive income for the year	—	—	144	—	144
Total comprehensive income for the year	—	—	144	12,284	12,428
Effect of the Reorganisation	68	(68)	—	—	—
Dividend paid	—	—	—	(7,000)	(7,000)
Issue of share	1	—	—	—	1
As at 31 March 2012 and 1 April 2012	79	(68)	144	21,752	21,907
Profit for the year	—	—	—	9,350	9,350
Other comprehensive income for the year	—	—	177	—	177
Total comprehensive income for the year	—	—	177	9,350	9,527
Effect of the Reorganisation	21	(21)	—	—	—
Dividend paid	—	—	—	(9,000)	(9,000)
As at 31 March 2013	100	(89)	321	22,102	22,434

The accompanying notes form an integral part of Financial Information.

Consolidated Statements of Cash Flows

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Profit before taxation	12,365	14,527	12,687
Adjustments for:			
Interest income	(3)	(2)	(2)
Gain on disposal of property, plant and equipments	—	(87)	—
Reversal of provision for social insurance	—	(6,433)	—
Interest expenses	50	25	35
Depreciation of property, plant and equipments	1,159	685	616
Operating cash flows before movements in working capital	13,571	8,715	13,336
(Increase)/decrease in inventories	(2,202)	(6,456)	3,068
(Increase)/decrease in trade receivables	(614)	658	(5,590)
(Increase)/decrease in deposits and prepayments	(7,349)	1,090	111
Decrease/(increase) in amounts due from related companies	997	(33)	—
Decrease in amount due to a related party	(317)	—	—
Increase in accrued charges	2,167	552	832
Increase/(decrease) in trade deposits received	321	(341)	962
Increase/(decrease) in trade payables	99	1,529	(2,501)
Cash generated from operations	6,673	5,714	10,218
Income tax paid	(1,135)	(1,027)	(2,812)
Net cash generated from operating activities	5,538	4,687	7,406

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Investing activities			
Interest received	3	2	2
Proceeds from disposal of property plant and equipments	—	87	—
Purchase of property, plant and equipments	(652)	(836)	(129)
Net cash used in investing activities	(649)	(747)	(127)
Financing activities			
Decrease in amount due to a director	(5,056)	(6,645)	(9,435)
Proceeds from bank borrowings	1,134	1,002	2,595
Repayment of bank borrowings	(855)	(1,361)	(1,039)
Repayment of obligation under finance leases	(584)	(198)	(116)
Interest paid	(50)	(25)	(35)
Net cash used in financing activities	(5,411)	(7,227)	(8,030)
Net decrease in cash and cash equivalents	(522)	(3,287)	(751)
Effect of foreign currency exchange rate changes	—	144	169
Cash and cash equivalents at the beginning of the year	5,462	4,940	1,797
Cash and cash equivalents at the end of the year	4,940	1,797	1,215
Analysis of the cash and cash equivalents			
Cash and bank balances	4,940	1,797	1,215

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated as exempted company with limited liability in the Cayman Islands on 21 December 2010. Its ultimate controlling shareholder is Ms. Cheng Yeuk Hung ("**Madam Cheng**"). The registered office of the Company is located at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands and its principal place of business in Hong Kong is located at Room 2205, 22/F., 9 Hoi Shing Road, Tsuen Wan, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are engaged in the manufacturing and trading of electronic products and accessories.

2. REORGANISATION

In preparation for the listing of the Company's shares on the Growth Enterprises Market of the Stock Exchange Limited ("**GEM**"), the Group underwent the Reorganisation, as a result of the Company became a holding company of the subsidiaries comprising the Group. The Reorganisation included the following principal steps:

(a) on 26 May 2011, Echo Electronics established Yi Gao Tech with total investment amount of HK$5,710,000 (including registered capital of HK$4,000,000) for the purpose of undergoing transformation of the Processing Factory into a foreign owned enterprise;

(b) on 27 June 2011, Madam Cheng, Mr. Lo Yan Yee and Ms. Cheng transferred 6,000, 3,000 and 1,000 shares respectively in Echo Electronics (Mr. Lo Yan Yee and Ms. Cheng held the 3,000 and 1,000 shares in Echo Electronics on trust for Madam Cheng) to Gold Treasure BVI and in consideration of and in exchange for which, Gold Treasure BVI allotted and issued 10,000 new shares, credited as fully paid at par value, to Madam Cheng;

(c) on 29 June 2011, Echo Electronics contributed registered capital of HK$800,000 into Yi Gao Tech;

(d) on 10 August 2011, Echo Electronics contributed registered capital of HK$1,000,000 in kind into Yi Gao Tech;

(e) on 12 December 2011, Echo Electronics contributed registered capital of HK$2,200,000 in cash into Yi Gao Tech;

(f) on 10 February 2012, the transformation of the Processing Factory into Yi Gao Tech was completed; and

(g) on 14 March 2013, the Company acquired the entire issued share capital of Gold Treasure BVI by allotment of 9,900,000 new shares to Madam Cheng.

Upon the completion of the Reorganisation on 14 March 2013, the Company became the holding company of the companies now comprising the Group:

The direct and indirect interests in the following subsidiaries held by the Company during the Track Record Period and at the date of this report are as follows:

Name of subsidiary	Place and date of registration/and operation	Issued and fully paid share capital/ registered capital at the date of this report	Percentage to equity and voting power attributable to the Company as at 31 March 2011	2012	2013	At the date of this report	Principal activities
			%	%	%	%	
Directly held:							
Gold Treasure BVI *(Note(a))*	The British Virgin Islands ("BVI") 6 December 2010	US$10,000	100	100	100	100	Investment holding
Indirectly held:							
Echo Electronics *(Note(b))*	Hong Kong 24 December 2003	HK$10,000	100	100	100	100	Trading of electronic product and accessories
Yi Gao Tech *(Note(c))*	The PRC 20 April 2011	HK$4,000,000	NA	100	100	100	Manufacturing and trading of electronic product and accessories

As at the date of this report, no statutory audited financial statement have been prepared for the Company since its date of incorporation as there are no statutory requirements for the Company to prepare audited financial statements.

Notes:

(a) Gold Treasure BVI was incorporated on 6 December 2010. No statutory audited financial statements for the four months ended 31 March 2011, years ended 31 March 2012 and 2013 have been prepared by the Company.

(b) The statutory audited financial statements for the years ended 31 March 2011 and 2012 were prepared in accordance with HKFRSs and were audited by HLB Hodgson Impey Cheng, Certified Public Accountants registered in Hong Kong.

(c) The statutory audited financial statements of Yi Gao Tech for the period from the date of its incorporation on 26 May 2011 to 31 December 2011 and year ended 31 December 2012 were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in PRC and were audited by Shenzhen Fairsong, certified public accountants registered in the PRC.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with HKFRSs, which collective term includes HKFRSs, Hong Kong Accounting Standards ("**HKAS**") and related interpretations promulgated by the HKICPA. The Financial Information also complies with the applicable disclosure requirement of the GEM Listing Rule and the disclosure requirement of the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised HKFRSs during the Track Record Period. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs to the Track Record Period except for those new and revised HKFRSs that are not effective during the Track Record Period.

The HKICPA has issued the following new and revised standards, amendments and interpretations that are not yet effective. The Group has not early applied these standards, amendments or interpretations during the Track Record Period.

Amendments to HKFRSs	Annual Improvements 2009–2011 Cycle[1]
HKFRS 1 (Amendments)	Government Loans[1]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities — Transition Guidance[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (2011)	Employee Benefits[1]
HKAS 27 (2011)	Separate Financial Statements[1]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[2]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-financial Assets[2]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[2]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]
HK(IFRIC) — Int 21	Levies[2]

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2014
3 Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are describe below:

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK(SIC) — Int 12 *Consolidation — Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) — Int 13 *Jointly Controlled Entities — Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these standards are applied at the same time.

The directors anticipate that the application of these five standards will have no impact on the Group's consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009–2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 16 Property, Plant and Equipment; and
- amendments to HKAS 32 Financial Instruments: Presentation.

HKAS 16 (Amendments)

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

HKAS 32 (Amendments)

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements.

(b) Basis of presentation

The Financial Information is presented in Hong Kong Dollar ("**HK$**"), rounded to the nearest thousand except when otherwise indicated, which is the presentation currency and the functional currency of the Company.

The measurement basis used in the preparation of the Financial Information is the historical cost basis except that certain financial instruments are stated at fair value as explained below. Historical cost is generally based on the fair value of the consideration of given in exchange for assets.

The Financial Information comprises such information of the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence.

All significant intra-group transactions and balances have been eliminated on consolidation.

(c) Merger accounting for common control combination

The Financial Information incorporates the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or business are consolidated using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The consolidated statements of comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(e) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statements of comprehensive income as follows:

(i) Sales of goods

Revenue is recognised when goods are recognised on the transfer of risks and rewards of ownership, which generally considers with the time when goods are delivered to customers and title has passed. Revenue is recognised after deduction of any trade discounts.

(ii) Subcontracting income

Revenue from the provision of subcontracting service is recognised when the service are provided.

(iii) Interest income

Interest income from bank deposits is accrued on a timing basis, by reference to the principal outstanding and at the interest rate applicable.

(f) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the Track Record Period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(g) Foreign currencies

The functional currency of the Company and its Hong Kong subsidiary is Hong Kong dollars ("**HK$**"). The functional currency of the PRC subsidiary is RMB. The Financial Information is presented in HK$ which is the Group's presentation currency. This is also the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

In preparing the Financial Information of each individual Group entities, transactions in currencies other than that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the Track Record Period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the Financial Information and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the Track Record Period except for differences arising on the retranslation of non-monetary items in respect of which gain and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are recognised directly in other comprehensive income.

For the purpose of presenting Financial Information, the asset and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign translation reserve (attributable to non-controlling interests as appropriate).

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Retirement benefit costs

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the Track Record Period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statements of comprehensive income as they become payable in accordance with the rules of the MPF Scheme.

As stipulated by the rules and regulations of the PRC, the Company's subsidiary registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The costs of employee retirements are recognised as expenses in the consolidated statements of comprehensive income in the period in which they are incurred.

(j) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form in integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted to use.

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Track Record Period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(l) Property, plant and equipments

Property, plant and equipments are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised in the consolidated statements of financial position so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method.

An item of property, plant and equipments is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipments is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Office equipment	3–4 years
Computer equipment	3–4 years
Motor vehicles	3–4 years
Mould	3–4 years
Plant and machinery	3–4 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(m) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average basis and, in the case of work in progress and finished goods, includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price for inventories less the estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the Track Record Period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the Track Record Period in which the reversal occurs.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal and constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at the end of each of reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligations.

(o) Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on effective basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables (including trade receivable, amounts due from related companies and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Financial liabilities and equity instruments

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including trade payables, amount due to a director, bank borrowings and obligation under finance leases) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense as recognised on an effective interest basis.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset expire, or when financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated statements of comprehensive income.

Financial liabilities are removed from the Group's consolidated statements of financial position when the obligations specified in the relevant contract are discharged cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated statements of comprehensive income.

(p) Impairment of assets

(i) Financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of within 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that other assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated statements of comprehensive income in the year in which the reversals are recognised.

(q) Related parties transactions

A party is considered to be related to the Group if:

(1) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's executive directors, being the chief operating decision maker, for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(s) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(t) Share-based payment arrangements

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) 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 distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the end of the reporting period to ensure inventories are shown at the lower of cost and net realisable value.

(b) Impairment of trade receivables

The Group estimates impairment losses for bad and doubtful debts resulting from inability of the customers to make the require payments. The estimate is based on the aging of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial conditions of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) Income taxes

Determining income tax provisions involve judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(d) Share-base-payment

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

5. REVENUE

The principal activities of the Group are manufacturing and trading of electronic products and accessories. The amount of each significant category of turnover recognised during the Track Record Period is as follows:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Sale of electronic products	76,580	56,861	70,458
Subcontracting income	5,918	4,129	1,249
Total	82,498	60,990	71,707

6. SEGMENT INFORMATION

Information reported internally to the directors of the Group (chief operating decision maker) for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group currently operates in one business segment in the manufacturing and trading of electronic products and accessories. A single management team reports to the chief operating decision makers, the directors, who comprehensively manages the entire business. Accordingly, the Group does not have separately reportable segment.

Revenue from major products and services

The Group's revenue from its major products and services during the Track Record Period as follows:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Starter	4,482	966	836
Security alarm	8,970	4,302	2,992
Hair remover	21,607	8,129	11,622
Buzzer	5,789	6,603	5,215
Massage toner	6,819	7,295	14,653
Fishing indicator	10,404	8,797	8,880
Charger board	1,705	1,185	2,019
Control board	5,791	6,142	11,781
Fire alarm	3,292	3,088	4,743
Communicator	3,245	5,759	3,135
Others	4,476	4,595	4,582
	76,580	56,861	70,458
Subcontracting income	5,918	4,129	1,249
Total	82,498	60,990	71,707

Geographical information

The Group operates in two principal geographical areas — manufacturing in the PRC and trading business in Hong Kong.

The Group's geographical segments are classified according to the location of customers. There are four customer-based geographical segments. Segment revenue from external customers by the location of customer during the Track Record Period is as follows:

	Revenue from external customers		
	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	11,173	11,137	12,213
Asian Countries, other than Hong Kong	4,856	2,941	5,623
European Countries	46,561	32,609	37,649
United States	17,198	11,760	13,508
Others	2,710	2,543	2,714
	82,498	60,990	71,707

The Group's geographical segments are also classified by the location of assets, information about its non-current assets by geographical location are detailed below:

	Non-current assets		
	As at 31 March 2011	**As at 31 March 2012**	**As at 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	393	335	582
PRC	427	636	543
	820	971	1,125

Information about major customers

The Group's customer base includes 2, 2 and 2 customers with whom transactions have individually exceeded 10% of the Group's revenue during the years ended 31 March 2011, 2012 and 2013. No other single customer contributed 10% or more to the Group's revenue.

Revenue from major customers amounted to 10% or more of the Group's revenue, are set out below:

	Revenue from external customers		
	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Customer A	28,426	15,424	19,263
Customer B	9,918	7,601	8,880
	38,344	23,025	28,143

7. OTHER REVENUE AND GAINS

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	3	2	2
Reversal of provision for social insurance	—	6,433	—
Gain on disposal of property, plant and equipments	—	87	—
Income from design and development fee	35	340	—
Sundry income	2	117	116
	40	6,979	118

8. FINANCE COSTS

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Interests on:			
— Bank borrowings wholly repayable within five years	13	22	19
— Obligation under finance leases	37	3	16
	50	25	35

9. PROFIT BEFORE TAXATION

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Staff costs including directors' remuneration *(Note 13)*	14,176	14,262	13,296
Contribution to retirement schemes	2,121	845	1,518
	16,297	15,107	14,814
Less: staff costs recognised in costs of inventories	(98)	(384)	(612)
Total staff costs	16,199	14,723	14,202
Depreciation of property, plant and equipments	1,159	685	616
Auditors' remuneration	250	150	250
Operating lease rental expenses	2,171	2,367	2,573
Cost of inventories sold	60,391	35,271	32,117

10. TAXATION

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Current tax			
— Hong Kong	1,140	1,728	2,419
— PRC	—	515	918
	1,140	2,243	3,337

Hong Kong Profit Tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

PRC subsidiary is subjected to PRC Enterprise Income Tax at 25%.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands during the Track Record Period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	12,365	14,527	12,687
Tax at the applicable tax rate	2,040	2,397	2,093
Tax effect of non-deductible expenses for tax purpose	180	278	443
Unrecognised temporary difference	60	573	741
Effect of different tax rate of group entities operating in jurisdictions other than Hong Kong	—	44	60
Deduction from offshore activities *(Note)*	(1,140)	(1,049)	—
	1,140	2,243	3,337

Note: Echo Electronics, a wholly-owned subsidiary of the Company entered into a processing agreement to begin its manufacturing business of electronics products in the PRC. Echo Electronics was entitled to tax concessions under the processing agreement before transformation of processing factory into a foreign owned enterprise.

11. DIVIDENDS

Prior to the Reorganisation, Gold Treasure BVI had declared and paid a dividend in the amount of HK$7,000,000 and HK$9,000,000 to its then shareholders during the years ended 31 March 2012 and 2013 respectively.

No dividend was declared and paid during the year ended 31 March 2011.

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

12. EARNINGS PER SHARE

For the purpose of this report, the calculation of the basic earnings per share attributable to owners of the Company is based on i) the Profit attributable to owners of the Company for the Track Record Periods and ii) the weighted average number of share (comprising 10,000,000 shares in issue and 130,000,000 shares to be issued under the capitalization issue as described in Appendix V "Statutory and General Information" to the Prospectus) as if theses 140,000,000 shares were outstanding throughout the Trade Record Periods.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existences during the Track Record Period.

13. DIRECTORS' EMOLUMENTS

Pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, the aggregate amounts of emoluments paid by the companies now comprising the Group to the directors of the Company during the Track Record Period are as follows:

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Directors' fees	—	—	—
Salaries, allowances and benefits in kind	975	1,022	1,026
Discretionary bonus	—	—	—
Retirement scheme contributions	45	48	51
	1,020	1,070	1,077

Details for the emoluments of each director of the Company during the Track Record Period are as follows:

For the year ended 31 March 2011

	Directors' fees	Salaries, allowance and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive director:					
Mr. Lo Yan Yee	—	260	—	12	272
Madam Cheng	—	260	—	12	272
Mr. Cheng Kwing Sang, Raymond	—	260	—	12	272
Mr. Lo Ding To	—	195	—	9	204
Independent non-executive director					
Mr. Ang Chuk Pai	—	—	—	—	—
Mr. Chan Chung Yin, Victor	—	—	—	—	—
Mr. Lam Wai Yuen	—	—	—	—	—
	—	975	—	45	1,020

For the year ended 31 March 2012

	Directors' fees	Salaries, allowance and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive director:					
Mr. Lo Yan Yee	—	240	—	12	252
Madam Cheng	—	240	—	12	252
Mr. Cheng Kwing Sang, Raymond	—	240	—	12	252
Mr. Lo Ding To	—	302	—	12	314
Independent non-executive director					
Mr. Ang Chuk Pai	—	—	—	—	—
Mr. Chan Chung Yin, Victor	—	—	—	—	—
Mr. Lam Wai Yuen	—	—	—	—	—
	—	1,022	—	48	1,070

For the year ended 31 March 2013

	Directors' fees	Salaries, allowance and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive director:					
Mr. Lo Yan Yee	—	240	—	12	252
Madam Cheng	—	240	—	12	252
Mr. Cheng Kwing Sang, Raymond	—	240	—	12	252
Mr. Lo Ding To	—	306	—	15	321
Independent non-executive director					
Mr. Ang Chuk Pai	—	—	—	—	—
Mr. Chan Chung Yin, Victor	—	—	—	—	—
Mr. Lam Wai Yuen	—	—	—	—	—
	—	1,026	—	51	1,077

There were no amounts paid during the Track Record Period to the directors in connection with their retirement from employment with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

Mr. Chang Kwing Sang, Raymond was also the chief executive officer of the Company.

14. SENIOR MANAGEMENT EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Track Record Period are analysed as follows:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Director	272	—	—
Non-directors	1,476	1,968	2,080
	1,748	1,968	2,080

Details of the remuneration of the above non-director, highest paid employees during the Track Record Period as follows:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and other benefits	1,428	1,910	2,005
Retirement schemes contributions	48	58	75
	1,476	1,968	2,080

The number of these non-directors, highest paid employees whose remuneration fell within the following band is as follows:

	Number of individuals		
	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
Nil to HK$1,000,000	4	5	5

The number of the senior management of the Group are within the following band:

	Number of individuals		
	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
Nil to HK$1,000,000	1	2	2

During the Track Record Period, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the Track Record Period.

15. PROPERTY, PLANT AND EQUIPMENTS

The Group

	Leasehold improvements	Furniture & fixtures	Office equipment	Computer equipment	Motor vehicles	Mould	Plant and Machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
As at 1 April 2010	2,095	205	1,335	90	650	32	3,807	8,214
Additions	—	—	26	495	—	—	131	652
As at 31 March 2011 and 1 April 2011	2,095	205	1,361	585	650	32	3,938	8,866
Additions	—	—	161	140	293	—	242	836
Disposal	—	—	—	—	(402)	—	—	(402)
As at 31 March 2012 and 1 April 2012	2,095	205	1,522	725	541	32	4,180	9,300
Additions	—	—	9	6	622	—	122	759
Exchange realignment	—	—	1	—	2	—	8	11
As at 31 March 2013	2,095	205	1,532	731	1,165	32	4,310	10,070
Accumulated depreciation								
As at 1 April 2010	1,766	196	1,293	89	625	32	2,886	6,887
Provided for the year	318	7	34	150	25	—	625	1,159
As at 31 March 2011 and 1 April 2011	2,084	203	1,327	239	650	32	3,511	8,046
Provided for the year	11	2	41	177	7	—	447	685
Written off on disposal	—	—	—	—	(402)	—	—	(402)
As at 31 March 2012 and 1 April 2012	2,095	205	1,368	416	255	32	3,958	8,329
Provided for the year	—	—	50	192	197	—	177	616
As at 31 March 2013	2,095	205	1,418	608	452	32	4,135	8,945
Net book values								
As at 31 March 2013	—	—	114	123	713	—	175	1,125
As at 31 March 2012	—	—	154	309	286	—	222	971
As at 31 March 2011	11	2	34	346	—	—	427	820

Note: The net book value of the Group's property, plant and equipments which was held under finance lease as at 31 March 2011, 2012 and 2013 were approximately HK$334,000, nil and HK$451,000 respectively *(Note 25)*.

16. INVENTORIES

The Group

Inventories in the consolidated statements of financial position comprise:

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Raw materials	6,980	12,206	11,572
Work-in-progress	4,196	5,036	3,642
Finished goods	688	1,078	38
	11,864	18,320	15,252

17. TRADE RECEIVABLES

The Group

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Trade receivables	9,732	9,074	14,664

The Company normally allows a credit period ranging from 0 to 90 days. The aging analysis of trade receivables, based on the invoice date, and net of allowance for doubtful debts, is as follows:

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
0 to 30 days	8,122	5,756	10,041
31 to 60 days	1,099	749	397
61 to 90 days	482	957	2,946
91 to 180 days	14	1,537	1,096
Over 180 days	15	75	184
Total	9,732	9,074	14,664

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for the which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Aging of trade receivables that are past due but not impaired.

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Overdue by:			
0 to 30 days	3,540	1,065	3,722
31 to 60 days	32	890	70
61 to 90 days	11	1,156	60
91 to 180 days	6	17	33
Over 180 days	12	57	184
Total	3,601	3,185	4,069

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

18. AMOUNTS DUE FROM RELATED COMPANIES

The Group

Name of company	Maximum outstanding balance during the year *HK$'000*	As at 31 March 2011 *HK$'000*	Maximum outstanding balance during the year *HK$'000*	As at 31 March 2012 *HK$'000*	Maximum outstanding balance during the period *HK$'000*	As at 31 March 2013 *HK$'000*
Progress International Holdings Limited *(Note)*	116	80	113	113	113	113
Treasury International Electronics Limited *(Note)*	1,161	—	396	—	—	—
		80		113		113

Note: Mr. Lo Yan Yee and Madam Cheng are directors of the Company who also have controlling interest in the above companies.

The amounts due from related companies are unsecured, interest free and recoverable on demand.

The directors of the Company confirmed that such amounts due from related companies (except for rental deposits of HK$36,000 paid to Progress International Holdings Limited) will be settled prior to the Listing.

19. DEPOSITS AND PREPAYMENTS

	The Company			The Group		
	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Prepaid listing expenses	7,441	6,613	6,390	7,441	6,613	6,390
Other deposits and prepayments	—	—	—	1,209	947	1,059
	7,441	6,613	6,390	8,650	7,560	7,449

Prepaid listing expenses advanced to independent third parties, which are short-term and non-trading in nature.

As at 31 March 2013, deposits and prepayments mainly include payments of approximately HK$4,839,000 in relation to listing fee pre-paid to a third party that has agreed to manage and settle the listing fee on behalf of the Company. The prepayments are refundable, short-term and non-trade nature.

20. CASH AND BANK BALANCES

The Group

Included in the cash and bank balances at the year ended 31 March 2011, 2012 and 2013 were amounts in RMB of approximately nil, RMB428,000 and RMB206,000 (equivalent to approximately nil, HK$525,000 and HKD255,000 respectively) which were not freely convertible into other currencies.

21. TRADE PAYABLES

The Group

The aging analysis of trade payables is as follows:

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	2,633	3,333	2,506
31 to 60 days	1,679	1,939	295
61 to 90 days	227	299	690
91 to 180 days	11	484	37
Over 180 days	26	50	76
Total	4,576	6,105	3,604

The average credit period on purchase of certain goods is generally within 30 days to 90 days.

22. AMOUNT DUE FROM/TO A DIRECTOR

The Group and the Company

The amount due from/to a director is unsecured, interest free and recoverable/repayable on demand.

The amount mainly represents dividend payable and repayment to the director. The director confirmed that such amount due from/to a director will be settled prior to the Listing.

23. INVESTMENT IN SUBSIDIARIES/AMOUNT DUE TO A SUBSIDIARY

The Company

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Unlisted shares, at cost	—	—	99

The detail of the Company's subsidiaries during the year are stated in Note 2.

The amount due to a subsidiary is unsecured, interest free and repayable on demand.

24. BANK BORROWINGS

The Group

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Bank borrowings — secured			
— Within one year	947	588	2,144
Less: Amount due within one year shown under current liabilities	(947)	(588)	(2,144)
Amount due after one year	—	—	—

An analysis of the carrying amounts of the total borrowings by the type and currency is as follows:

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
At fixed interest rate			
Hong Kong dollar ("HK$")	947	588	2,144

The contractual fixed interest rates per annum in respect of bank borrowings were as follows:

	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000
Bank borrowings	2.25%	3.25%	3.25%

The fair values of the short-term borrowings approximate their carrying amounts.

For the years ended 31 March 2011, 2012 and 2013, the above bank borrowings were secured by unlimited personal guarantee provided by Madam Cheng.

The directors of the Company confirmed that such security and guarantee provided by Madam Cheng will be released upon the Listing.

25. OBLIGATION UNDER FINANCE LEASES

The Group

The Group leased certain of its plant and machinery under finance lease. Interest rate underlying all obligations under finance lease is fixed at respective contract rates at 3.75% per annum.

	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000
Minimum lease payments under finance leases			
— within one year	203	—	143
— in more than one year and not more than five years	—	—	442
	203	—	585

	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000
Present value of minimum lease payments under finance leases			
— within one year	198	—	126
— in more than one year and not more than five years	—	—	388
	198	—	514
Less: amount due within one year shown under current liabilities	(198)	—	(126)
	—	—	388

As at 31 March 2011 and 31 March 2013, the Group's obligations under finance leases are secured by the lessor's title to the leased assets, which have a carrying amount of HK$334,000 and HK$451,000 respectively *(Note 15)*.

Finance leases obligations are denominated in Hong Kong dollars.

26. SHARE CAPITAL

The Group

For the purpose of the preparation of the consolidated statements of financial position, the balance of share capital of the Group as at 31 March 2011 represents the issued share capital of the Company, Echo Electronics and Gold Treasure BVI prior to the completion of Reorganisation.

As at 31 March 2012, the share capital of the Group represents the issue share capital of the Company and Gold Treasure BVI prior to the completion of Reorganisation.

As at 31 March 2013, the share capital of the Group represents the issue share capital of the Company after the completion of Reorganisation.

The Company

The Company was incorporated in the Cayman Islands on 21 December 2010 as an exempted company with limited liability under the Companies Law, Charter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands with an initial authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each. On 23 June 2011, the authorised share capital of the Company was increased by HK$10,000,000 by the creation of 1,000,000,000 new shares of HK$0.01 each of which 100,000 new shares of HK$0.01 each were allotted and issued fully paid at par value to Madam Cheng on 24 June 2011. On 24 June 2011, the Company repurchased all the 10 issued shares of US$1 each at a price of US$10 and cancelled 50,000 shares of US$1 each in the authorised share capital of the Company. On 14 March 2013, the Company acquired the entire issued share capital of Gold Treasure BVI by allotment of 9,900,000 new shares to Madam Cheng.

27. RESERVES

The Company

	Accumulated loss *HK$'000*
As at 21 December 2010 (the date of incorporation)	—
Loss for the period	(1,087)
As at 31 March 2011 and 1 April 2011	(1,087)
Loss for the year	(1,537)
As at 31 March 2012 and 1 April 2012	(2,624)
Loss for the year	(995)
As at 31 March 2013	(3,619)

The Group

The movement of reserves of the Group during the Track Record Period was shown in the consolidated statements of changes in equity on page I–6.

(a) Capital reserve

The capital reserve of the Group represents the capital contributions by Madam Cheng, a director and controlling shareholder of the Company, to the subsidiaries directly held by Madam Cheng before the Reorganisation. The additions during the Track Record Period represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies by the owners of the subsidiaries, which were consolidated from the effective date of acquisition.

(b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of bank borrowings, obligation under finance leases and equity attributable to owners of the Company (comprising issued share capital and reserves).

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as raising and repayment of bank borrowings.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated by dividing the total borrowings with total equity. The Group's overall strategy remains unchanged during the Track Record Period. The gearing ratio at 31 March 2011, 2012 and 2013 were as follows:

	As at 31 March 2011	**As at 31 March 2012**	**As at 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Total borrowings *(Note 1)*	7,291	7,088	8,723
Total equity	16,478	21,907	22,434
Gearing ratio *(%)*	44.25%	32.35%	38.88%

Note:

1. Total borrowings include amount due to a director (Note 22), bank borrowings (Note 24) and obligation under finance leases (Note 25).

29. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000
Financial assets			
Loan and receivables (including cash and bank balances)			
— Trade receivables	9,732	9,074	14,664
— Amounts due from related companies	80	113	113
— Cash and bank balances	4,940	1,797	1,215
Financial liabilities			
Amortised costs			
— Trade payables	4,576	6,105	3,604
— Amount due to a director	6,146	6,500	6,065
— Bank borrowings	947	588	2,144
— Obligation under finance leases	198	—	514

The Company

	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000
Financial assets			
Loan and receivables (including cash and bank balances)			
— Amount due from a director	—	1	1
Financial liabilities			
Amortised costs			
— Amount due to a subsidiary	8,528	9,237	10,009

(b) Financial risk management objectives and policies

The directors of the Company monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group's major financial instruments include trade receivables, trade payables, amounts due from related companies, amount due from/to a director, cash and bank balances, bank borrowings and obligation under finance leases. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Company has set the policies in place to ensure that transactions are made to customers with an appropriate credit history. In addition, the Company reviews the recoverable amount of each individual trade debt and debt investments at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivables.

The credit risk on bank balances is limited because the counter parties are banks with high credit ratings. The Group has no significant concentration of credit risks, with exposure spread over a number of counter parties.

Fair value measurements

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 March 2011, 2012 and 2013.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

Interest rate risk

The cash flow interest rate risk relates primarily to variable-rate borrowings. It is the Company's policy to keep its borrowings at fixed rates of interests so as minimise the fair value interest rate risk.

The Company has no significant interest-bearing assets except for bank borrowings and obligation under finance leases, details of which have been disclosed in Notes 24 and 25.

The Company has no significant interest rate risk during the Track Record Period.

Currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar ("**HKD**"), United Stated dollars ("**USD**") and Renminbi ("**RMB**"). HKD are pegged to the USD and the foreign exchange exposures between them are considered limited, therefore, the Group is mainly exposed to the effects of fluctuation in RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	As at 31 March 2011	**As at 31 March 2012**	**As at 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Liabilities			
RMB	7,029	—	—

Sensitivity analysis on foreign exchange risk management

The Group is mainly exposed to the effects of fluctuation in RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign currency rates. A negative number below indicates a decrease in profit where the Hong Kong dollars strengthen the relevant currency, there would be an equal and opposite impact on the profit, and the balance below would be positive.

	As at 31 March 2011	**As at 31 March 2012**	**As at 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Profit or loss#	351	—	—

This is mainly attributable to the exposure outstanding on payables denominated in RMB not subject to cash flow hedge at year end.

Liquidity risk

The Group has laid down an appropriate liquidity risk management framework for the management of the short, medium and long-term funding and liquidity management requirements, which is reviewed regularly by the Directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and maintains a conservative level of long-term funding to finance its short-term financial assets.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue to those liabilities except where the Group are entitled and intends to repay the liability before its maturity.

The Group

As at 31 March 2011

	Weighted average interest rate	On demand or within one year	More than one year but less than two years	More than two years but less than five years	Total undiscounted cash flow	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade payables	—	4,576	—	—	4,576	4,576
Amount due to a director	—	6,146	—	—	6,146	6,146
Bank borrowings	2.25%	960	—	—	960	947
Obligation under finance leases	3.75%	203	—	—	203	198
		11,885	—	—	11,885	11,867

As at 31 March 2012

	Weighted average interest rate	On demand or within one year	More than one year but less than two years	More than two years but less than five years	Total undiscounted cash flow	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade payables	—	6,105	—	—	6,105	6,105
Amount due to a director	—	6,500	—	—	6,500	6,500
Bank borrowings	3.25%	601	—	—	601	588
		13,206	—	—	13,206	13,193

As at 31 March 2013

	Weighted average interest rate	On demand or within one year *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities						
Trade payables	—	3,604	—	—	3,604	3,604
Amount due to a director	—	6,065	—	—	6,065	6,065
Bank borrowings	3.25%	2,179	—	—	2,179	2,144
Obligation under finance lease	2.75%	143	143	299	585	514
		11,991	143	299	12,433	12,327

The Company

As at 31 March 2011

	Weighted average interest rate	On demand or within one year *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities						
Amount due to a subsidiary	—	8,528	—	—	8,528	8,528

As at 31 March 2012

	Weighted average interest rate	On demand or within one year *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities						
Amount due to a subsidiary	—	9,237	—	—	9,237	9,237

As at 31 March 2013

	Weighted average interest rate	On demand or within one year *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities						
Amount due to a subsidiary	—	10,009	—	—	10,009	10,009

30. NON-CASH TRANSACTION

During the years ended 31 March 2012 and 31 March 2013, the declared dividend of HK$7,000,000 and HK$9,000,000 respectively was settled and offset by the directors'/shareholder's current account.

During the year ended 31 March 2013, the Group acquired HK$630,000 motor vehicle under finance lease.

31. MATERIAL RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, during the Track Record Period, the Group had entered into transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Significant related party transactions

Particulars of significant related party transactions during the Track Record Period, the Group entered into the following transactions with related party:

Nature of related party transactions	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Rental paid to Progress International Holdings Limited	216	216	236
Sales to Treasury International Electronics Limited	539	—	—

Note: In the opinion of the Directors, the above transactions are entered into the term agreed by both companies, with reference to the terms for the similar transactions in the market are carried out in the ordinary course of the Group's business.

The Director confirmed that the rental will continue to be paid to Progress International Holdings Limited but there will not be any sales to Treasury International Electronic Limited after listing. For details of the aforesaid, please refer to the section headed "Connected Transactions" in this prospectus.

(b) Key management personnel remuneration

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employees, as disclosed in Notes 13 and 14 to the consolidated financial statements, is as follows:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Salaries and allowances	975	1,022	1,026
Retirement scheme contributions	45	48	51
	1,020	1,070	1,077

32. OPERATING LEASE ARRANGEMENTS

The Group as leases

The Group leases its office properties under operating lease arrangements. Leases for the properties are negotiated for terms of two years.

At the end of reporting period, the Group had total future minimum lease payables under non-cancellable operating leases falling due as follows:

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Within one year	2,082	2,280	814
In the second to fifth years inclusive	3,924	570	40
	6,006	2,850	854

33. CAPITAL COMMITMENT

The Group did not have any significant capital commitments as at 31 March 2011, 2012 and 2013.

34. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 March 2011, 2012 and 2013.

35. EVENT AFTER THE REPORTING PERIOD

Saved as disclose elsewhere in the Prospectus, the Group's subsequent events included the following:

(a) The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme on 27 September 2013.

(b) Mr. Lo Yan Yee, Mr. Cheng Kwing Sang, Raymond and Mr. Lo Ding To were appointed as executive director of the Company on 27 September 2013. Mr. Lam Wai Yuen, Mr. Ang Chuk Pai and Mr. Chan Chung Yin, Victor were appointed as independent non-executive director on 27 September 2013.

II. 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 2013.

Yours faithfully
HLB Hodgson Impey Cheng
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' report prepared by HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong, the reporting accountants of the Company set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The Unaudited Pro Forma Financial Information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 7.31 of the GEM Rules and with reference to AG 7, "Presentation of Pro Forma Financial Information for Inclusion in Investment Circulars" is for illustration purposes only, and is set forth here to illustrate the effect of the Placing on our net tangible assets as of 31 March 2013 as if it had taken place on 31 March 2013.

The unaudited pro forma statement of adjusted net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of 31 March 2013 or any future date following the Placing. It is prepared based on our consolidated net assets as of 31 March 2013 as derived from out consolidated financial statements set forth in the accountants' report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the accountants' report as set forth in Appendix I to this prospectus.

	Audited consolidated net tangible assets attributable to owners of the Company as at 31 March 2013	**Estimated net proceeds from the Placing**	**Unaudited pro forma adjusted consolidated net tangible assets**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on placing price of HK$0.60 per Share	22,434	34,358	56,792	0.28

Notes:

1. The audited consolidated net tangible assets attributable to owners of the Company as at 31 March 2013 is based on the consolidated net assets attributable to owners of the Company of HK$22.43 million as at 31 March 2013 extracted from the accountants' report set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Placing are based on the Placing Shares of HK$0.60 per share, being the stated placing price, after deduction of the outstanding underwriting fees of approximately HK$1,080,000 and related expenses payable by the Company of approximately HK$562,000.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 200,000,000 shares in issue immediately after the Placing and the Capitalisation Issue become unconditional but takes no account of any Shares which may fall to be 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 the Company.

4. No adjustment have been made to the unaudited pro forma adjusted net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2013.

B. LETTERS FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The followings is the text of a reporting received from the independent reporting accountants, HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所 Hodgson Impey Cheng

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 September 2013

The Board of Directors
Echo International Holdings Group Limited

INDEPENDENT REPORTING ACCOUNTANTS ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN AN INVESTMENT PROSPECTUS

TO THE DIRECTORS OF ECHO INTERNATIONAL HOLDINGS GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Echo International Holdings Group 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 pro forma net tangible asset statement as at 31 March 2013 and related notes as set on pages II-1 to II-2 of the prospectus dated 30 September 2013 issued by the Company (the "**Prospectus**"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are set out in Appendix II of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the placing on the Group's financial position as at 31 March 2013 as if the listing by way of placing had taken place at 31 March 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 March 2013, 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 "**GEM Rules**") and with reference to AG 7, 'Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars' issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420, 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus', issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 7.31 of the GEM Rules and with reference to AG 7, 'Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars' 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 pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2013 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 accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Yours faithfully
HLB Hodgson Impey Cheng
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of values of the property interests held by the Group as at 31 July 2013.

DTZ 戴德梁行
a UGL company

16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

30 September 2013

The Directors
Echo International Holdings Group Limited
Unit 5, 22/F, Cable TV Tower
No. 9 Hoi Shing Road
Tsuen Wan
New Territories

Dear Sirs,

INSTRUCTION, PURPOSE & DATE OF VALUATION

In accordance with your instructions for us to carry out market valuations of the properties held by Echo International Holdings Group Limited (the "Company") or its subsidiaries (hereinafter referred to as the "Group") in Hong Kong and the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the value of the properties as at 31 July 2013 (the "date of valuation").

DEFINITION OF MARKET VALUE

Our valuation of each of the properties represents its market value which in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the properties, we have complied with the requirements set out in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market made by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

VALUATION ASSUMPTIONS

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Unless otherwise stated, in the course of our valuation of the property situated in the PRC, we have relied on the advice given by the Group or the Group's legal adviser, ETR Law Firm, on the PRC laws, regarding the title to the property in the PRC and the Group's interest in the property in the PRC.

TITLE INVESTIGATION

We have caused searches to be made at the Land Registry in respect of the Hong Kong property. We have not been able to conduct title searches of the property in other jurisdictions but we have made reference to the copies of the title documents which have been made available to us by the Group. However, we have not searched the original documents to verify ownership or to verify any amendments to any documents of the property. All documents and leases have been used for reference only and all dimensions, measurements and areas are approximate.

METHOD OF VALUATION

All the property interests are held by the Group under leases. They are considered to have no commercial value due to the prohibitions against assignment of the properties or otherwise due to lack of substantial profit rents.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Group and its legal adviser on the PRC laws and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of land and buildings, building specifications, particulars of occupancy, floor areas and all other relevant matters.

Dimensions, measurements and areas included in this valuation report are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided. We were also advised by the Group that no material facts have been omitted from the information supplied.

SITE INSPECTION

Our DTZ Hong Kong Office valuer Edmond Pang and Shenzhen Office valuer Eva Yin inspected the exterior and, wherever possible, the interior of the properties in July 2013. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services.

We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited

K.B. Wong
CREA, MHKIS MRICS, RPS(GP)
Senior Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has over 27 years' experience in valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUATIONS

	Property	Market value in existing state as at 31 July 2013
Group I — Property leased to the Group in Hong Kong		
1.	Unit 5 on 22nd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories	No commercial value
Group II — Property leased to the Group in the PRC		
2.	A 5-storey factory and a 6-storey dormitory in Dahe Industrial Zone, Huanguan South Road, Guanlan Town, Bao'an District, Shenzhen, Guangdong Province, the PRC	No commercial value

VALUATION CERTIFICATE

Group I — Property leased to the Group in Hong Kong

	Property	Description and tenancy particulars	Market value in existing state as at 31 July 2013
1.	Unit 5 on 22nd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories	The property comprises a unit on the 22nd floor of a 41-storey industrial building completed in 1992. The property has a gross floor area and a saleable area of approximately 2,848 sq.ft. (264.59 sq.m.) and 1,946 sq.ft. (180.79 sq.m.) respectively and is currently occupied by the Group as an ancillary office. The property is leased to the Group for a term of 2 years from 1 June 2010 to 31 May 2012 at a monthly rent of HK$18,000, and renewed for a further term of 2 years from 1 June 2012 to 31 May 2014 at a monthly rent of HK$20,000 inclusive of rates and exclusive of management fees.	No commercial value

VALUATION CERTIFICATE

Group II — Property leased to the Group in the PRC

	Property	Description and tenancy particulars	Market value in existing state as at 31 July 2013
2.	A 5-storey factory and a 6-storey dormitory in Dahe Industrial Zone, Huanguan South Road, Guanlan Town, Bao'an District, Shenzhen, Guangdong Province, the PRC (中國廣東省深圳市寶安區觀瀾鎮環觀南路大和工業區一座五層高廠房及一座六層高宿舍)	The property comprises an industrial complex erected on an irregular-shaped site having a site area of approximately 5,058.79 sq.m.. The industrial complex comprises a 5-storey plant, a 6-storey dormitory, a gatekeeper room and an electricity distribution room. According to the tenancy agreement, the property has a gross floor area of approximately 125,185 sq.ft. (11,630 sq.m.). The property is currently leased to the Group for industrial use for a term of 4 years commencing on 1 July 2013 and expiring on 30 June 2017 at monthly rents of RMB186,080 and RMB200,036 for the first two years and the last two years respectively. All rents are inclusive of tax. We have been provided with a legal opinion regarding the property issued by the Group's PRC legal adviser which contains, inter-alia, the following information: i. The landlord is an independent third party to the Group. ii. The landlord has the legal rights to the property and is entitled to lease the property. iii. The tenant has legally obtained the use rights of the leased property which complies with the permitted use. iv. The tenancy agreement is legal, valid and binding on the landlord and the tenant. v. The tenancy agreement should be registered.	No commercial value

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 21 December, 2010 under the Companies Law. The Memorandum of Association (the "**Memorandum**") and 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 from time to time unpaid on the Shares and that the objects for which the Company is established are unrestricted and shall include the business of an investment company, and that the Company shall have full power and authority to carry out any object and shall have and be capable of from time to time and at all times exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it necessary for the attainment of its objects and whatever else may be considered by it as incidental or conductive thereto or consequential thereon provided that the Company shall only carry on the business for which a licence is required under the laws of the Cayman Islands when so licensed under the terms of such laws.

(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 adopted on 27 September 2013. 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 associates 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 associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his 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 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 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 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 associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his 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) will 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 in every year will 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 may by ordinary resolution appoint another in his place. 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 their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have 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 of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

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 installments 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 authorized 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 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.

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 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 shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall 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, 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 holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be 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 (1999 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 16 August 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(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 (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. 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 THE COMPANY

1. Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 21 December 2010. On 13 January 2012, the Company changed its name from Gold Treasure Hung Holdings Limited to its current name. The Company has established, and registered under Part XI of the Companies Ordinance, its principal place of business in Hong Kong at Room 2205, 22/F, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance. Madam Cheng has been appointed as the authorized representative of the Company for acceptance of service of process and notices on behalf of the Company in Hong Kong. The address for acceptance of service of process in Hong Kong of the Company is Room 2205, 22/F, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, Hong Kong.

The Company is incorporated in the Cayman Islands and is subject to the laws of the Cayman Islands. Its constitutive documents are comprised of the Memorandum of Association and the Articles. A summary of certain parts of its constitution and relevant aspects of Cayman Islands company law is set out in Appendix IV to this prospectus.

2. Changes in share capital of the Company

As at the date of incorporation of the Company, the Company had an authorized share capital of US$50,000 divided into 50,000 shares of US$1 each. On the same date, the one subscriber's share in the Company then held by the subscriber, namely Offshore Incorporations (Cayman) Limited, was transferred to Madam Cheng at the consideration of US$1 and 9 new shares were issued to Madam Cheng for cash at par value.

On 23 June 2011, the authorized share capital of the Company was increased by HK$10,000,000 by the creation of 1,000,000,000 new shares of HK$0.01 each, of which 100,000 new shares of HK$0.01 each were allotted and issued fully paid at par value to Madam Cheng on 24 June 2011. On 24 June 2011, the Company repurchased all the 10 issued shares of US$1 each at a price of US$10 and cancelled 50,000 shares of US$1 each in the authorised share capital of the Company.

Pursuant to the share swap agreement dated 14 March 2013 between Madam Cheng and the Company, Madam Cheng transferred 10,000 shares in Gold Treasure BVI to the Company and in consideration of and in exchange for which, the Company allotted and issued 9,900,000 new Shares, credited as fully paid, to Madam Cheng. Immediately following the above transfer, allotment and issue, the Company became wholly owned by Madam Cheng.

Assuming that the Placing becomes unconditional and the issue of Shares under the Placing and the Capitalisation Issue are made, but taking no account of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Schemes, immediately after the listing of the Shares on GEM the authorised share capital of the Company will remain HK$10,000,000 divided into 1,000,000,000 Shares and the issued share capital will be HK$2,000,000 divided into 200,000,000 Shares, all fully paid or credited as fully paid and 800,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Schemes, there is no present intention to issue any of the authorised but unissued share capital of the Company and no issue of Shares which would effectively alter the control of the Company will be made without the prior approval of members in a general meeting.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions of the sole Shareholder passed on 27 September 2013

Pursuant to the written resolutions of the sole Shareholder passed on 27 September 2013:

(a) the Company approved and adopted the Articles;

(b) conditional on the same conditions as stated in the sub-section headed "Conditions of the Placing" in the section headed "Structure and conditions of the Placing":

   (i) the Placing was approved and the Directors were authorised to allot and issue the Placing Shares; and

   (ii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto;

(c) conditional on the share premium account of the Company being credited as a result of the issue of Placing Shares pursuant to the Placing, the Directors were authorised to capitalise the amount of HK$1,300,000 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 130,000,000 Shares for allotment and issue to persons whose names appear on the register of members of the Company at the close of business on 26 September 2013, pro rata to their then existing shareholdings in the Company;

(d) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than pursuant to Shares issued as a result of rights issue, scrip dividend scheme or upon the exercise of the options to be granted pursuant to the Share Option Scheme or similar arrangement, Shares with an aggregate nominal value not exceeding (i) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued pursuant to the Placing and the Capitalisation Issue as mentioned herein and (ii) the aggregate nominal amount of Shares repurchased under the authority granted to the Directors as referred to in paragraph (e) below, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by its articles of association or any applicable law of the Cayman Islands to be held, or the revocation, variation or renewal by an ordinary resolution of the Shareholders in a general meeting, whichever is the earlier; and

(e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares on GEM or other stock exchange on which Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose with an aggregate nominal value of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued pursuant to the Placing and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Share Option Scheme), until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by its articles of association or any applicable law of the Cayman Islands to be held, or the revocation, variation and renewal by an ordinary resolution of the Shareholders in a general meeting, whichever is the earlier.

4. Reorganisation

The companies in the Group underwent a reorganisation in preparation for the listing of the Shares on GEM which involved the following:

(a) on 26 May 2011, Echo Electronics established Yi Gao Tech with total investment amount of HK$5,710,000 (including registered capital of HK$4,000,000) for the purpose of undergoing transformation of the Processing Factory into a foreign owned enterprise;

(b) on 27 June 2011, Madam Cheng, Mr. Lo Yan Yee and Ms. Cheng transferred 6,000, 3,000 and 1,000 shares respectively in Echo Electronics (Mr. Lo Yan Yee and Ms. Cheng held the 3,000 and 1,000 shares in Echo Electronics on trust for Madam Cheng) to Gold Treasure BVI and in consideration of and in exchange for which, Gold Treasure BVI allotted and issued 10,000 new shares, credited as fully paid at par value, to Madam Cheng;

(c) on 29 June 2011, Echo Electronics contributed registered capital of HK$800,000 into Yi Gao Tech;

(d) on 10 August 2011, Echo Electronics contributed registered capital of HK$1,000,000 in kind into Yi Gao Tech;

(e) on 12 December 2011, Echo Electronics contributed registered capital of HK$2,200,000 in cash into Yi Gao Tech;

(f) on 10 February 2012, the transformation of the Processing Factory into Yi Gao Tech was completed; and

(g) on 14 March 2013, the Company acquired the entire issued share capital of Gold Treasure BVI by allotment of 9,900,000 new shares to Madam Cheng.

5. Changes in share capital of subsidiaries

The Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed "Reorganisation" in this Appendix, there has been no other change to the share capital of any of the subsidiaries of the Company within the two years immediately prior to the date of this prospectus.

6. Repurchase by the Company of its own securities

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) on GEM by a company with a primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to written resolutions of the Sole Shareholder passed on 27 September 2013, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares 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, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued pursuant to the Placing and the Capitalisation Issue, such mandate to expire at the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by its articles of association or applicable laws of the Cayman Islands to be held, or when revoked, varied or renewed by ordinary resolution of the Shareholders, whichever shall first occur.

Under the GEM Listing Rules and the Companies Ordinance, the shares which are proposed to be purchased by a company must be fully paid up.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders as a whole for the Company to have general authority from Shareholders to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

(c) Funding of repurchases

Repurchases by the Company must be funded out of funds legally available for such purpose in accordance with its memorandum and articles of association, the applicable laws and regulations of the Cayman Islands and the GEM Listing Rules. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Subject to the foregoing, any repurchases by the Company may be made out of its profits or share premium or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject the Companies Law, out of capital and in the case of any premium payable on a repurchase, out of either or both of its profits or its share premium account, or subject to the Companies Law, out of capital.

(d) Impact on repurchase

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

(e) Directors' intention to sell Shares

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell Shares to the Company or its subsidiaries.

(f) Directors' undertaking

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

(g) Connected parties

No connected person has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so.

(h) Share repurchases made by the Company

No repurchase of Shares has been made by the Company within six months prior to the date of this prospectus.

(i) Takeovers Code

If as a result of a securities repurchase a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. The Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

(j) Share capital

Exercise in full of the Repurchase Mandate, on the basis of 200,000,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue, but taking no account of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme could accordingly result in up to 20,000,000 Shares being repurchased by the Company during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the paragraph headed "Written resolutions of the Sole Shareholder passed on 27 September 2013" in this Appendix.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) Deed of Non-competition;

(b) Deed of Mutual Set-off;

(c) a share swap agreement dated 14 March 2013 between Madam Cheng and the Company, pursuant to which Madam Cheng agreed to sell the entire issued share capital of Gold Treasure BVI in consideration of the Company allotting and issuing 9,900,000 Shares to Madam Cheng;

(d) a deed of indemnity dated 27 September 2013 between the Company and the Controlling Shareholder, details of which are set out in the sub paragraph headed "Indemnity in relation to the social insurances" under paragraph F of this Appendix;

(e) a deed of indemnity dated 27 September 2013 between the Company and the Controlling Shareholder, details of which are set out in the sub paragraph headed "Indemnity in relation to taxation and others" under paragraph F of this Appendix; and

(f) the Underwriting Agreement.

2. Intellectual property rights

(a) Trademark

As at the Latest Practicable Date, the Group has applied for the registration of the following trademark:

Trademark	Registered Owner	Class	Trademark number	Date of Registration	Expiry Date
	Echo Electronics	9, 40 and 42	302037285	21 September 2011	20 September 2021

(b) Domain name

As at the Latest Practicable Date, the Group has registered the following domain names:

Domain Name	Registered Owner	Expiry Date
echo.com.hk	Echo Electronics Company Limited	1 October 2017
echogroup.com.hk	Echo Electronics Company Limited	23 February 2014

Save as aforesaid, there are no other trademarks, patents or other intellectual or industrial property rights which are material in relation to the Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of interests

(a) Save as disclosed herein and in the sub-paragraph headed "Summary of material contracts" in this Appendix, none of the Directors or the experts named in the sub-paragraph headed "Qualifications of experts" in this Appendix has any direct or indirect interest in the promotion of the Company or in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus.

(b) Save as disclosed in the sub-paragraph headed "Summary of material contracts" in this Appendix, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group.

2. Particulars of service agreements

Each of the executive Directors has entered into a service agreement with the Company for an initial term of one year, commencing from the Listing Date, renewable automatically for successive terms of one year with an annual remuneration of HK$90,000. Either party has the right to give not less than three months' written notice to terminate the respective service agreement. In addition, each of these Directors will be entitled to a discretionary bonus to be calculated based on, among others, individual performance. Each of these Directors will also be reimbursed for all reasonable out-of-pocket expenses properly recurred by him/her in the performance of his duties as a Director.

Pursuant to the letter of appointment from the Company to each of the non-executive Directors and the independent non-executive Directors dated 27 September 2013, the appointment of each of the aforesaid Directors was for an initial term of one year commencing from the Listing Date with a director's fee of HK$90,000 per annum respectively. Either party has the right to give to the other party not less than three months' written notice to terminate the respective appointment letter.

3. Directors' remuneration

Remuneration and benefits in kind of approximately HK$1.02 million, HK$1.07 million and HK$1.08 million in aggregate were paid and granted by the Group to the Directors for the three years ended 31 March 2011, 2012 and 2013 respectively.

Under the current arrangements, the Directors will be entitled to receive remuneration which, for the financial year ending 31 March 2014, is expected to amount to approximately HK$1.45 million, excluding the discretionary bonuses payable to the Directors.

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to, among others, the relevant Director's experience, workload and the time devoted to the Group.

4. Interests and/or short positions of Directors in the Shares, underlying shares or debentures of the Company and its associated corporations

Immediately following completion of the Placing and the Capitalisation Issue (but without taking into account any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Schemes), the Directors will have the following interests and/or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV the SFO) which will have to be notified to the 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 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 pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, will be required to be notified to the Company and the Stock Exchange once the Shares are listed:

(i) Long positions in the Shares

Name of Director	**Company/ associated corporation**	**Capacity**	**Number of Shares**	**Approximate percentage of interest**
Madam Cheng	Company	Personal	140,000,000	70%
Mr. Lo Yan Yee	Company	Interest of spouse	140,000,000	70%

(ii) Long position in underlying Shares or equity derivatives of the Company

Name	**Capacity**	**Description of equity derivatives**	**Number of underlying Shares**
Mr. Lo Yan Yee (executive Director)	Personal	Options	5,700,000
	Interest of spouse	Options	5,700,000
			11,400,000
Madam Cheng (executive Director)	Personal	Options	5,700,000
	Interest of spouse	Options	5,700,000
			11,400,000
Mr. Cheng Kwing Sang, Raymond (executive Director)	Personal	Options	5,600,000
Mr. Lo Ding To (executive Director)	Personal	Options	3,000,000

Save as disclosed above, immediately following completion of the Placing and the Capitalisation Issue (but without taking into account any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Schemes), none of the Directors will have any interests and/or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the 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 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 pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors.

5. Interests and/or short position of substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors, immediately following the completion of the Placing and the Capitalisation Issue (but without taking into account any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Schemes), there are no other persons (not being a Director or chief executive of the Company) will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

6. Agency fees or commission

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 the Company or any of its subsidiaries.

7. Disclaimers

Save as disclosed in this prospectus,

(a) none of the Directors or chief executive of the Company has any interest and/or short position in the shares, underlying shares, listed or unlisted derivatives of or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, will be required to be notified to the Company and the Stock Exchange once the Shares are listed;

(b) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;

(c) none of the Directors or the experts named in the paragraph headed "Qualifications of experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(d) none of the Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(e) taking no account of any Shares which may be taken up under the Placing, the Directors are not aware of any person who immediately following the completion of the Placing and the Capitalisation Issue will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group; and

(f) none of the experts named in the paragraph headed "Qualifications of experts" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or is an officer or servant or in employment of an officer or servant of the Group.

D. PRE-IPO SHARE OPTION SCHEME

1. Summary of terms

The purpose of the Pre-IPO Share Option Scheme is to recognise and reward the contribution of certain Directors to the growth and development of our Group and the listing of the Shares on the GEM. The principal terms of the Pre-IPO Share Option Scheme adopted by a resolution in writing passed by the sole Shareholder on 27 September 2013 are similar to the terms of the Share Option Scheme except that:

(i) the classes of eligible participants are different from that provided in paragraph E2(2);

(ii) the subscription price for Shares under the Pre-IPO Share Option Scheme is determined at the discretion of the Directors and is not required to be subject to the restrictions under paragraph E2(3);

(iii) the general scheme limit, the individual limit applicable to each proposed grantee and the restrictions on grant of options to a connected person as referred to in paragraphs E2(5), E2(6) and E2(7), respectively, do not apply;

(iv) the rules of the Pre-IPO Share Option Scheme were adopted unconditionally by a resolution in writing passed by the sole Shareholder on 27 September 2013, but the exercise of any option granted thereunder is conditional upon the Listing Division granting listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme within 30 days after the date of this prospectus, failing which such options granted and the Pre-IPO Share Option Scheme shall forthwith lapse, and the exercise period of options granted may not commence earlier than the first day immediately following the expiry of six month after the Listing Date;

(v) the Directors may only grant options under the Pre-IPO Share Option Scheme at any time within a period commencing from 27 September 2013 and ending on 30 September 2013; and

(vi) any offer of option made by the Directors under the Pre-IPO Share Option Scheme shall be open for acceptance for a period of up to the earlier of 21 days from the relevant offer date or 30 September 2013.

Application has been made to the Listing Division for the listing of, and permission to deal in the 20,000,000 Shares to be allotted and issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

On 27 September 2013, options to subscribe for an aggregate of 20,000,000 Shares (representing 10% of the issued share capital of the Company as at the Listing Date without taking into account any shares which may fall to be allotted and issued upon the exercise of any options which may be granted under the Share Option Schemes) at HK$0.60 per share, representing 100% of the Placing Price were granted by us to our Directors (except for the independent non-executive Directors) under the Pre-IPO Share Option Scheme and all of those options were outstanding as at 30 September 2013. Such options, if exercised in full, will represent approximately 9.09% of the share capital of the Company immediately after completion of the Placing and the Capitalisation Issue and as enlarged by the issue of Shares pursuant to the exercise of all options granted under the Pre-IPO Share Option Scheme, but without taking into account any Shares which may fall to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme. A nominal consideration of HK$1 had been paid by each grantee on acceptance of the options so granted. The options so granted are personal to the relevant grantees and shall not be transferable or assignable. The Directors confirm that no further option has been or will be granted under the Pre-IPO Share Option Scheme prior to 30 September 2013 and after the Listing Date.

Assuming that all of the outstanding options granted under the Pre-IPO Share Option Scheme were exercised in full on the Listing Date, the shareholding interest of the public would be changed from 30% to approximately 27.27% of the total issued share capital of the Company immediately after completion of the Placing. Assuming the Company has been listed and that all of the outstanding options granted under the Pre-IPO Share Option Scheme were exercised in full after 1 April 2012 but before 31 March 2013, the earnings per share of the Company would be changed from approximately HK cents 4.68 to approximately HK cents 4.25.

2. OUTSTANDING OPTIONS GRANTED UNDER THE PRE-IPO SHARE OPTION SCHEME

Particulars of the outstanding options which have been granted under the Pre-IPO Share Option Scheme as at 30 September 2013 are set out below:

Name of grantees (relationship with the Group)	Address of grantees	Exercise price per Share *(HK$)*	Number of underlying Shares under the options	Approximate percentage of shareholding held upon exercise of all the options *(Note 2)*
Mr. Lo Yan Yee (executive Director)	Flat D, 48/F, Block 2 Ocean Pointe, 8 Sham Tsz Street Sham Tseng, N.T., Hong Kong	0.60	5,700,000	2.59%
Madam Cheng (executive Director)	Flat D, 48/F, Block 2 Ocean Pointe, 8 Sham Tsz Street Sham Tseng, N.T., Hong Kong	0.60	5,700,000	2.59%
Mr. Cheng Kwing Sang, Raymond (executive Director)	Flat A, 1/F, Tower 1 8 Lung Tang Road Royal Sea Crest, Tsing Lung Tau, N.T., Hong Kong	0.60	5,600,000	2.55%
Mr. Lo Ding To (executive Director)	Flat D, 48/F, Block 2 Ocean Pointe, 8 Sham Tsz Street Sham Tseng, N.T., Hong Kong	0.60	3,000,000	1.36%
		Total:	20,000,000	9.09%

E. SHARE OPTION SCHEME

1. Definitions

For the purpose of this paragraph D, the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date"	27 September 2013, the date on which the Share Option Scheme is conditionally adopted by the Shareholders by way of written resolution
"Board"	the board of Directors or a duly authorized committee of the board of Directors
"Group"	the Company and any entity in which the Company, directly or indirectly, holds any equity interest
"Scheme Period"	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof

2. Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme:

(1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants or advisers of the Group and to promote the success of the Group.

(2) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant an employee (full-time or part-time), a director, consultant and adviser of the Group, or any substantial shareholder of the Group, options to subscribe at a price calculated in accordance with paragraph (3) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(3) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

(4) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

(5) Maximum number of Shares

(aa) Subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from the commencement of the Scheme Period (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue upon completion of the Placing and the Capitalization Issue. Therefore, it is expected that the Company may grant options in respect of up to 20,000,000 Shares to the participants under the Share Option Scheme.

(bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the Listing Rules in this regard.

(cc) the Company may seek separate approval of the Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, and such other information required under the Listing Rules.

(dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of the Company, if this will result in such 30% limit being exceeded.

(6) Maximum entitlement of each Eligible Person

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, the Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(7) Grant of options to certain connected persons

(aa) Any grant of an option to a Director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(bb) Where any grant of options to a substantial shareholder of the Company or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million, such further grant of options is required to be approved by Shareholders at a general meeting of the Company, with voting to be taken by way of poll. The Company shall send a circular to the Shareholders containing all information as required under the Listing Rules in this regard. All connected persons of the Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

(8) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(9) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(10) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment. Prior to the grantee (or the grantee's nominee, if applicable) being registered on the Company's register of members, the grantee shall not have any voting rights, or rights to participate in any dividend or distribution (including those arising on a liquidation of the Company), in respect of the Shares to be issued upon the exercise of the option.

(11) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(12) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (13) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at the date of grant), the legal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (16), (17) and (18) occurs prior to his death or within such period of 6 months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(13) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of the Group at the date of grant and he subsequently ceases to be an employee of the Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with the Group.

(14) Rights on cessation of employment for other reasons

In the event that the grantee is an employee of the Group when an Offer is made to him and he subsequently ceases to be an employee of the Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (13) above, the option (to the extent not already exercised) shall lapse on the expiry of 3 months after the date of cessation of such employment (which date will be the last actual working day with the Company or the relevant member of the Group whether salary is paid in lieu of notice or not).

(15) Effects of alterations to share capital

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices; and/or the method of exercise of the option, as the auditors or independent financial adviser of the Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable (no such certification is required in case of adjustment made on a capitalisation issue), provided that any alteration shall give a grantee the same proportion of the issued share capital of the Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a share to be issued at less than its nominal value.

(16) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or as the case may be, his legal personal representatives) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 1 month after the date on which the offer becomes or is declared unconditional.

(17) Rights on winding-up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

(18) Rights on compromise or arrangement

In the event of a compromise or arrangement between the Company and the Shareholders or its creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company pursuant to the Companies Law, the Company shall give notice thereof to all the grantees (or as the case may be, his legal personal representatives) on the same day as it gives notice of the meeting to the Shareholders or its creditors to consider such a compromise or arrangement and the options shall become exercisable on such date until the earlier of 2 months after that date and the date on which such compromise or arrangement is sanctioned by the court of the Cayman Islands and becomes effective.

(19) Lapse of options

An option shall lapse automatically on the earliest of:

(aa) the expiry of the period referred to in paragraph (8) above;

(bb) the date on which the grantee commits a breach of paragraph (11) above;

(cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraph (12), (13), (14), (16), (17) and (18) above; and

(dd) subject to (17) above, the date of the commencement of the winding-up of the Company;

(ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty; and

(ff) where the grantee is a substantial shareholder of any member of the Group, the date on which the grantee ceases to be a substantial shareholder of such member of the Group.

(20) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(21) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Share Option Scheme is adopted by Shareholders in general meeting and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by Shareholders in general meeting.

(22) Alteration to the Share Option Scheme

(aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme to the advantage of the grantees of the options relating to matters governed by Rule 23.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.

(bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.

(23) Termination to the Share Option Scheme

The Company 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 options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(24) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on the fulfillment of the following:

(i) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise;

(ii) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, (i) the Shares in issue and to be issued as mentioned in this prospectus, and (ii) any Shares to be issued pursuant to the exercise of Options under the Share Option Scheme; and

(iii) the commencement of dealings in the Shares on the Stock Exchange.

3. Present status of the Share Option Scheme

Application has been made to the Listing Committee for listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

F. OTHER INFORMATION

1. Indemnities in relation to taxation and others

The Controlling Shareholder (the "Indemnifier") has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its subsidiaries) whereby conditional on the conditions set out in the section headed "Structure and conditions of the placing" in this prospectus having been fulfilled, the Indemnifier has given indemnities in connection with, among other matters:

(a) any taxation falling on any member of the Group in respect of any income, profits gains, transactions or things earned, accrued, received, entered into or occurring on or before the Listing Date;

(b) any liabilities of whatever nature that may arise out of or from or as a result of or in connection with the business and/or operation of any member of the Group, whether in the ordinary course of the business of the Group or otherwise, on or before the Listing Date;

(c) all of any of the liabilities in connection with any tax, duty, excise, customs, charges, fees or expenses that may arise or be incurred in the PRC or Hong Kong or the United States or the European Countries in the context and/or course of, or in relation to, the operation and/or business of the Group on or before the Listing Date;

(d) all or any liabilities, damages, costs, charges, fees, expenses and interest (collectively, "liabilities") that may arise or be payable under or in connection with any legal action or proceedings of whatever nature and irrespective of where instituted and whether on going or otherwise of which any member of the Group is involved or is a party of whatever capacity thereto (i) to the extent that such liabilities are not covered by the relevant insurance policies taken out by the Group or any member of the Group; or (ii) to the full extent of such liabilities in the event that neither the Group nor any member of the Group has taken out any insurance policy to cover such liabilities, provided that such legal action or proceedings are commenced, or the cause of action for any subsequent legal action or proceedings that are commenced before or after the Listing Date occurs, before the Listing Date,

save and except that the Indemnifier shall be under no liability under the deed of indemnity:

(i) to the extent that provision has been made for such taxation in the audited consolidated accounts of the Company or the audited accounts of the relevant member of the Group as at 31 March 2013 (the "Accounts");

(ii) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or regulations or practice by the Hong Kong Inland Revenue Department or the tax authorities of the PRC, the European Union (or any member thereof), the United States of America or any other tax or government authorities in any part of the world coming into force after the date thereof or to the extent that such claim arises or is increased by an increase in rates of taxation after the date thereof with retrospective effect;

(iii) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any member of the Group which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Listing Date;

(iv) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the Indemnifier, otherwise than in the ordinary course of business after the date thereof or carried out, made or entered into pursuant to a legally binding commitment created before the Listing Date; and

(v) to the extent of any provision or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising after 31 March 2013.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands and other jurisdiction in which the companies comprising the Group are incorporated.

2. Indemnity in relation to the Social Insurances

The Controlling Shareholder (the "Indemnifier") has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for its subsidiaries) whereby conditional on the conditions set out in the section headed "Structure and conditions of the Placing" of this prospectus having been fulfilled, the Indemnifier has given indemnities in connection with, among other matters, any amount of social insurance in the PRC which any member of the Group, the Processing Factory or Yi Gao Tech is required to pay arising from an event at any time on or before the date on which the Shares first commence to trade on the GEM, save:

(i) such payment would not have arisen but for any act, transaction, omission of or transactions voluntarily effected by any of member of the Group (other than pursuant to a legally binding commitment created before the Listing Date) on or after the Listing Date and otherwise than carried out in the ordinary course of business after the Listing Date;

(ii) to the extent that such claim arises as a result of any change in the laws, rules, interpretation or practice by the relevant authority or competent court coming into force after the date of the deed; and

(iii) to the extent that adequate provision or reserve has been made in the Accounts in respect of such social insurance liabilities or to the extent that payment or discharge of such social insurance liabilities have been taken into account in the Accounts or to the extent that such Social Insurance liabilities have been discharged prior to 31 March 2013.

3. Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group.

4. Sponsor

The Sponsor has made an application on behalf of the Company to the GEM Listing Committee for the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein, including any Shares that may be issued under any Shares falling to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

5. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, the Company will appoint Tanrich Capital as its compliance adviser to provide advisory services to the Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year ending 31 March 2016.

6. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US$2,174 (or approximately HK$16,960) and are payable by the Company.

7. Promoter

The Company has no promoter for the purposes of the GEM Listing Rules.

8. Qualifications of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
Tanrich Capital	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng	Certified Public Accountants
Patrick Mak & Tse	Legal advisers to the Company as to the Hong Kong Law
DTZ Debenham Tie Leung Limited	Property valuer
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
廣東廣信君達律師事務所 (ETR Law Firm)	Legal advisers to the Company as to the PRC Law
GDT CPA Limited	Certified Public Accountants
Roma Appraisals Limited	Valuer
Simons & Wiskin	Legal advisers to the Company as to the US Law
Watson Farley & Williams LLP	Legal advisers to the Company as to the EU Law

9. Consents of experts

Each of Tanrich Capital, HLB Hodgson Impey Cheng, Patrick Mak & Tse, DTZ Debenham Tie Leung Limited, Conyers Dill & Pearman (Cayman) Limited, 廣東廣信君達律師事務所 (ETR Law Firm), GDT CPA Limited, Roma Appraisals Limited, Simons & Wiskin and Watson Farley & Williams LLP has given and has not withdrawn its respective written consent to the issue of this prospectus with copies of their reports, valuation certificate, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

10. Material Adverse Change

Save as disclosed in this prospectus, the Directors confirm that there has been no material adverse change in the Group's financial or trading position or prospects since 31 March 2013 (being the date to which the Company's latest audited consolidated financial statements were made up).

11. 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 Ordinance so far as applicable.

12. Miscellaneous

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus,

(i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of member of the Group;

(iii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iv) no commission has been paid or payable (except commission to the Underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of the Company or any of its subsidiaries.

(b) the Company has no founder shares, management shares or deferred shares;

(c) the Company has no outstanding convertible debt securities or debentures;

(d) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 24 months immediately preceding the date of this prospectus;

(e) all necessary arrangements have been made to enable the Shares to be admitted into CCASS; and

(f) the principal register of members of the Company will be maintained in the Cayman Islands and a branch register of members of the Company will be maintained in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with, and registered by Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office.

13. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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 the sub-paragraph headed "Consents of experts" under the paragraph headed "Other Information" in Appendix V to this prospectus, and copies of the material contracts referred to in the sub-paragraph headed "Further information about the business" under the paragraph headed "Summary of material contracts" of Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Patrick Mak & Tse, 16/F, Nan Fung Tower, 173 Des Voeux Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum of Association and the Articles;

2. the accountants' report from HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong, the text of which is set out in Appendix I to this prospectus;

3. the audited financial statements as have been prepared for the companies comprising the Group for the three financial years ended 31 March 2011, 2012 and 2013;

4. the letter from HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong on the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

5. the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by DTZ, the text of which is set out in Appendix III to this prospectus;

6. copies of the material contracts referred to in the sub-paragraph headed "Summary of material contracts" under paragraph headed "Further Information about the business" set out in Appendix VI to this prospectus;

7. the service agreements with the executive Directors and the appointment letters with independent non-executive Directors, referred to in the sub-paragraph headed "Particulars of service agreements" under the paragraph headed "Disclosure of interests" in Appendix V to this prospectus;

8. the written consents referred to in the sub-paragraph headed "Consents of experts" under the paragraph headed "Other information" in Appendix VI to this prospectus;

9. the legal opinion issued by the PRC Legal Adviser, 廣東廣信君達律師事務所 (ETR Law Firm);

10. the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus;

11. the Companies Law;

12. the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme;

13. the legal opinion issued by Patrick Mak & Tse, the legal advisers to the Company as to the Hong Kong Law;

14. the legal opinion issued by Simons & Wiskin the legal advisers to the Company as to the U.S. law; and

15. the legal opinion issued by Watson Farley & Williams LLP, the legal advisers to the Company as to the EU Law.

毅高（國際）控股集團有限公司